Enhancing capacities on digital G2P and G2B transfers and digital international remittances in Lao PDR
About this report

This report was commissioned by the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) in the context a technical cooperation project on Supporting the Digital Adaptation of MSMEs During and After the COVID-19 Pandemic in Cambodia and Lao PDR. The report was prepared by consultant, Mr. Cedric Javary under the direction of Alberto Isgut from ESCAP.
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<th>Description</th>
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<td>AML/CFT</td>
<td>Anti-Money Laundering /Counter Financing of Terrorism</td>
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<tr>
<td>APB</td>
<td>Agriculture Promotion Bank</td>
</tr>
<tr>
<td>BCEL</td>
<td>Banque pour le Commerce Lao Public</td>
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<tr>
<td>BoL</td>
<td>Bank of Lao PDR</td>
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<tr>
<td>CLM /CLMV</td>
<td>Cambodia, Laos, Myanmar /+Viet-Nam</td>
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<td>CRVS</td>
<td>Civil Registration &amp; Vital Statistics</td>
</tr>
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<td>DFS</td>
<td>Digital Financial Services</td>
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<td>FIR</td>
<td>Financial Inclusion Roadmap 2018–2025</td>
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<td>FX</td>
<td>Foreign Exchange</td>
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<td>G2P/G2B</td>
<td>Government-to-People /Government-to-Businesses</td>
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<tr>
<td>GoL</td>
<td>Government of Lao PDR</td>
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<tr>
<td>KYC</td>
<td>Know-Your-Customer</td>
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<tr>
<td>LAK</td>
<td>Laotian kip, national currency of Laos</td>
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<td>LDB</td>
<td>Lao Development Bank</td>
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<td>MAF</td>
<td>Ministry of Agriculture and Forestry</td>
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<td>MFI</td>
<td>Microfinance Institution</td>
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<td>MLSW</td>
<td>Ministry of Labour &amp; Social Welfare</td>
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<tr>
<td>MNO</td>
<td>Mobile Network Operator</td>
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<tr>
<td>MoF</td>
<td>Ministry of Finance</td>
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<td>MPT</td>
<td>Ministry of Post &amp; Telecoms</td>
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<td>MSME</td>
<td>Micro- Small- and Medium-Enterprise</td>
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<td>MTOs</td>
<td>Money Transfer Operators</td>
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<tr>
<td>NSSF</td>
<td>National Social Security Fund</td>
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<td>NSPS</td>
<td>National Social Protection Strategy</td>
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<tr>
<td>PSP</td>
<td>Payments Services Provider</td>
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<tr>
<td>PSO</td>
<td>Payments Systems Operator</td>
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<tr>
<td>SOB</td>
<td>State-owned Bank</td>
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<tr>
<td>THB</td>
<td>Thai baht, national currency of Thailand</td>
</tr>
<tr>
<td>USD</td>
<td>US Dollar</td>
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<td>WB</td>
<td>World Bank</td>
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Executive Summary

Over the past few years, the Government of the Lao People’s Democratic Republic has made significant inroads into establishing the necessary blueprints for digital identification and financial payments infrastructure, the need for which has been accelerated in the wake of the COVID-19 pandemic and its resulting economic fallout for industries and overseas migrant remittances. Beyond the issue of fiscal space available for targeted COVID-19 support policies to the Lao population, which is out of the scope of this report, the GoL faces several challenges with providing targeted cash relief support to the people (G2P) and businesses (G2B) most affected by the economic and social disruptions associated with the global pandemic:

● The GoL’s traditional poverty reduction strategies rely on geographic poverty zoning, which is irrelevant in the current crisis. In addition, there is no centralized database of vulnerable people, and public safety net coverage remains too sparse to serve as an adequate support channel.

● There is no digitized official ID system of individuals with a unique identifier that would enable the reconciliation of different databases and registries to select particular groups in need of help, and to later ensure no leakages in the payments of relief or social transfers.

● The possibilities to channel payouts to beneficiaries are still constrained by limited and shallow access to formal financial services by the Lao population, and the lack of bank interoperability further complicates their distribution. Digital Financial Services are only scaling up in 2020, and the extent to which they will reach out to the unbanked is still unclear.

Lao PDR is also affected by a very low level of international remittances in relation to GDP – only 1.5%, compared to 5.9% for Cambodia, 4.3% for Myanmar and 6.5% for Viet-Nam – and remittances are at risk of halving in 2020 as Lao migrant workers in Thailand either returned to Laos or struggle with underemployment in Thailand.

The modernization of GoL information systems is evolving at an uneven pace. Public Finance Management reform has led the way and initiated the main use case for digital financial services with the digitization of tax payments to a broadened base of MSMEs and individuals, harnessing the capabilities of the banking system. GoL payments are also outsourced transparently to the banking system, as well as to Payments Services Providers to cater to districts that lack banking infrastructure. The Civil Registration and Vital Statistics program is currently undergoing a major overhaul to establish a robust identification system centered around the concept of a lifetime Unique Identifier for each Lao citizen, but its rate of progress was outpaced by the urgent needs ensuing from the COVID-19 crisis. Lastly, the registry of the social security contributory regime needs to be centralized because the current reliance on decentralized provincial databases leads to inefficiencies that hamper the implementation of national-scale interventions.

The financial sector is advancing towards the digital age but has not yet reached the stage of offering all strata of the population a basic transactional account with zero maintenance fees and pay-as-you-go commissions. BoL traditionally has overseen and operated all interbank infrastructures (cheque clearing, credit bureau, large value payments…), and over the last five years it has embraced market-economy principles by allowing private stakeholders to join the interoperable retail payments system. Thus far, however, BoL has been unable to mobilize the banks and new PSPs to create win-win conditions for interoperability. In addition, the divergence between the inshore and offshore THB/LAK exchange rates and difficulties in

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operationalizing cooperation between Thai and Lao banks impede official systems from being able to offer a competitive alternative to agile and tech-savvy informal brokers.

This report recommends several pathways to build an enabling and inclusive system for G2P/G2B transfers, including:

- Encourage the establishment of no-frills zero-maintenance digital accounts, leveraging QR code technology for seamless electronic payments, banking agents and cardless ATMs for the conversion of electronic money to cash and vice versa. Interoperability will be a catalyst in consumer adoption; hence it needs to be developed from the perspective of the banks and PSPs, which have a direct relationship with customers. Develop the footprint of banking agents so that physical touch points are ubiquitous, numbering in the tens of thousands. MoF should continue to move GoL financial transactions towards the digital space.

- Lower customer identification requirements for financial services with sensitivity to context so that the existing official IDs, when not up to standard, are not a factor of exclusion of remote areas and poor people from the financial sector. Harness — to the extent possible — the current formal identification of mobile phone users — i.e. through their SIM cards carrying the mobile number — for financial transactions so that mobile numbers can become a proxy for a digital official ID and an account number.

- Support partnerships between Thai and Lao financial institutions to create a simple product for formal, yet convenient and affordable, cross-border transfers and assist them to market it effectively to Lao migrant workers. Involve the Lao recruitment agencies into the process.

- Provide digital and financial literacy and adequate consumer protection so that customers can trust these innovative services, while ensuring their safety and privacy.
1. Diagnostic: an environment not conducive for large scale G2P/G2B transfers and under-developed cross-border remittances

1.1 What means to target and verify people most in need of cash relief?

1.1.1 Poverty targeting policies and their implementation

GoL has a longstanding commitment to poverty eradication and a tradition of implementing public policies to target the poor. This targeting has been done through a geographical zoning of impoverished areas that allows the identification of priority districts for focused GoL interventions. Up until now, this approach has been perfectly coherent and effective, considering Lao’s geography as a land-locked country with mountainous terrain that impedes connections to major commercial arteries and reduces the surface of arable lands. The country also inherited grave inequalities between large swathes of terrain along the Eastern border, which was home to the battlefields of the American war until 1974 and suffered from bombings, while the West and the North were spared most of these devastations.

To analyze the evolution of poverty at national and provincial levels and also to determine the level of the national poverty line, the GoL, with support from the World Bank, conducts annual Lao Consumption and Expenditure Surveys (LECS).

Thus, GoL poverty reduction policies have centered around determining the priority districts in need of GoL special attention. The criteria for poverty graduation in the succession of GoL decrees on the subject have thus been determined for the trypptic Households – Villages – Districts. GoL Decree No. 348/GOL on Poverty Graduation and Development, dated 16.11.2017, extends the tradition. The 70 per cent rule prevails: a village is considered graduating if 70 per cent of its households have been lifted out of poverty, and a district is no longer considered impoverished if 70 per cent of its villages have graduated.

Poverty Graduation at the household level refers to the achievement of basic livelihood conditions, including access to food that provides more than 2,100 calories of energy per person per day, adequate clothing, permanent housing, the ability to afford basic health care and education, as well as access to basic public services. More precisely, according to Article 4 of The GoL Decree 348 establishes the conditions for families to graduate from poverty:

1. Have safe and strong housing.
2. Have assets and equipment necessary for their livelihoods and income generation.
3. Have labor, stable income or employment.
4. School age family members receive lower secondary school education.
5. Have access to clean water and stable sources of energy.
6. Have access to primary public health services.

This doctrine implies that guaranteeing a minimum level of income to sustain oneself is not a policy goal in itself. Therefore, developing social cash transfers to bridge the gap between actual revenues or production and the consumption level for a decent healthy life is not part of the traditional policy toolbox. Social transfers are only considered in the case of natural disasters, and until recently would be offered in kind rather than in cash.
The main form of support is to facilitate the provision of the equipment and assets for production through subsidized loans from the State-Owned Banks, and first among them is the Nayobay, the bank for social policies, modelled after the Viet-Nam Bank for Social Policies (VBSP). In terms of outreach, Figure 1 shows that Nayobay was still the second most prominent banking lender in Laos in 2014.

**Figure 1: Savings and Credit market shares of banks by outreach**

![Savings and Credit market shares of banks by outreach](image)

**Source:** ESCAP based on Finscope 2014

The COVID-19 crisis therefore finds the GoL unable to identify the victims of the economic fallout among the population. Additionally, unlike VBSP, Nayobay does not operate nationwide and is not addressing other poverty factors with schemes such as student loans. In addition, the list of poor households does not seem to be centralized at the national level because poverty reduction is not tackled at the household level, but instead at the local authority level.

Lastly, people migrating to find economic opportunities typically fall through the cracks of the poverty zoning system, all the more as these migrations have very different frequencies and durations, including: seasonal migrations (typically from farming communities in the dry November – April season), sporadic or long lasting moves, and movement either domestic or abroad (most often Thailand) depending on opportunities often brokered by relatives, friends or community members.

### 1.1.2 Verifying the identity of a beneficiary

Surveying the condition of vulnerable groups and providing cash relief is a two-stage process, which often characterized by significant time lags. Recording an official ID in the survey stage is essential to ensure the payout is later channeled to the right person. For transparency reasons, the distribution of the payout should be outsourced to a third-party with no prior knowledge of the beneficiaries.

Several official ID documents coexist, with the time validity in parentheses:

- Family book (lifelong)
Enhancing Capacities on digital G2P and G2B transfers and digital international remittances in Lao PDR

- National ID card (10 years)
- Passport (5 years)
- Driving license (10 years)

It is estimated that one-quarter of all adults hold a valid national ID card issued by the Ministry of Home Affairs. The most common form of ID in Laos is the Family book, managed by the Ministry of Public Security (MPS) and the Ministry of Home Affairs (MoHA). Family books are multigenerational and record the full names, date and place of birth, and occupations of family members. The address is logged in the form of province /district /village /number of unit (or block) /registered house number. The name of the heads of household and their occupation are also provided.

However, the Family Book presents several shortcomings in practice:

- The information is still only hand-written.
- This document is often outdated: a quarter of the beneficiaries of the WB Reducing Rural Poverty & Malnutrition (RRPM) project do not have any registration on a family book to ascertain their identity.
- The family book number should be unique: it is proposed by the village authority, endorsed/recorded by the District Office Home Affairs (DOHA), which then reports and transfers all the data to the MOHA in Vientiane via its provincial office (POHA). The family book number is often an incremental number in each village, but there are instances of duplicated numbers, for example in the cases of villages that have been regrouped or resettled.
- The ID picture in the family book is not meant to be updated.
- Young adults will remain only with the Family book of their parents until they marry and officially register the marriage with local authorities: if they are domestic migrants the original family book cannot be presented, and the ID picture on it may be considerably outdated.

It is unclear if the registries for the family book and the national ID card are effectively centralized, as records are mainly held at the provincial level, and their level of digitization is unknown, as is the method used to register life events at the village level.

There are two concurrent issues:

- The lack of a unique identifier for any individual, which makes it extremely difficult to look up an individual’s data across multiple registries in an automated or semi-automated manner.
- The lack of an official ID at hand, due to cases in which:
  - Information on the official ID is either outdated or an individual is simply not registered on any official ID.

Domestic migrant workers with residences in their original family book registered to their parent’s homes.

1.2 Financial inclusion at a reasonably good level, but shallow

According to Finscope’ Laos 2014, 47 per cent of adults were using at least one service from a formal financial service provider and 36 per cent had a bank account, which places Laos favorably compared to its regional peers. For example, Finscope Cambodia 2015 reported 17

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1 The Finscope national surveys of financial inclusion cited were carried-out by Finmark Trust in collaboration with UNCDF. Country reports available at [https://finmark.org.za/national_surveys](https://finmark.org.za/national_surveys)
per cent of adults with a bank account and Finscope Myanmar pegged account owners at only 17 per cent of the population in 2013 (though this number rose to 25 per cent in 2018). This is due in large part to the large footprint of the four State-Owned Banks that dominate the retail market (see Figure 1), offering a public service at extremely low fees (no opening and maintenance fees for a passbook savings account; likewise for withdrawals and deposits at the branch counter).

However, this financial inclusion is very shallow: only 12 per cent of adults use more than two types of formal financial services. When comparing Lao PDR with neighboring countries, there is a steep imbalance between the widespread use of formal and informal savings accounts but very low comparative use of remittances. Transactions services are somewhat in the middle since account deposits and withdrawals fall in the scope of that category.

**Figure 2: Regional comparison of the dimensions of financial inclusion**

The opposition to Cambodia is particularly striking: remittances are used twice as much in Cambodia than in Laos, in spite of the fact that bank account ownership is half that of Lao. This shows the transformational effect of agent-banking in Cambodia, spearheaded by Wing, which developed an extensive network of 8,000-plus agents enabled convenient and safe over-the-counter (OTC) fund transfers, which do not use any type of account (bank account or digital wallet) as a pivot, neither on the sending nor the receiving end.
1.3 Good penetration of online channels but digital skills of users in question

The GSMA Mobile Connectivity Index\(^2\) offers an interesting benchmark for Laos versus its ASEAN peers, particularly when compared with Cambodia and Myanmar (together the CLM countries).

The Index value for Laos in 2018 stood at 45.7 (out of a maximum of one hundred) — the lowest in ASEAN. But looking at the different dimensions (Figure 3), Laos rates highly on Consumer Readiness, but lacks affordability and infrastructure (Figure 3). However, the infrastructure dimension needs to be qualified: Laos loses out because of its very low penetration of 4G, implying low mobile download/upload speeds, but the coverage of 2G data is 94 per cent of the population.

**Figure 3: GSMA Mobile Connectivity Index CLMV, 2019**


The high consumer readiness score (64.5 in 2019) is explained by a widespread mobile ownership of 74 per cent of the population and high gender equality scores.

The Digital status of Laos in 2020 from Hootsuite/WeAreSocial\(^3\) indicates 79 per cent mobile phone connections and 43 per cent social media penetration for the whole population, which drives up internet adoption in the country.

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Enhancing Capacities on digital G2P and G2B transfers and digital international remittances in Lao PDR

Figure 4: Status of Digital of Lao PDR

![Image of digital status in Laos]


Certainly, the lack of apps and content in local language limits the extension of services beyond social media, with Facebook and Whatsapp being nearly universal in the country.

Figure 5: Penetration of Facebook in Lao PDR

![Image of Facebook penetration in Laos]

Source: Hootsuite/WeAreSocial, 2020.
A comparison of top popular apps by number of downloads and usage between Laos, Cambodia and Thailand (Figure 6), gives a compelling view of the usage of mobile internet in these three countries. Thailand has six homegrown apps in its top 15, versus two in Cambodia and one in Laos. Mobile banking comprises the majority of local apps, even five apps in Thailand, followed by e-commerce.

Figure 6: Popularity ranking of apps Laos /Cambodia /Thailand (for iPhone)


Government systems to administer a large safety net not yet in place

1.3.1 Legislation and Government of Laos policies

There is already ample legislation granting welfare support to different categories of the Lao population:

The Labour Law (December 2013) includes benefits for formal economy workers: temporary wage continuation in case of sickness, maternity, employment injury, and occupational diseases; severance pay for which employers are liable; and benefits from contributions to the NSSF.

The Social Security Law (voted in 2013, amended in July 2018) established a compulsory contributory social security system based on the National Social Security Fund (NSSF), which merged the State social security system with the private sector system and offered voluntary participation in the social security to informal workers and the self-employed. The Social Security Law provides details on the benefits established in the Labour Law and establishes the principles for the pension system. Of relevance to the COVID-19 crisis, the law offers

4 Source www.similarweb.com. Only iPhone apps rankings available for these 3 countries: unfortunately, not available for Myanmar and Viet-Nam, and not encompassing Android apps.
unemployment benefits, amounting to 60 per cent of the average insurable earnings within the last six months prior to unemployment with a duration as follows:

<table>
<thead>
<tr>
<th>Duration of benefits</th>
<th>Contributions to NSSF</th>
</tr>
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<tbody>
<tr>
<td>3 months</td>
<td>Between 1 and 2 years</td>
</tr>
<tr>
<td>6 months</td>
<td>Between 3 and 5 years</td>
</tr>
<tr>
<td>9 months</td>
<td>Between 6 and 11 years</td>
</tr>
<tr>
<td>12 months</td>
<td>For 12 years and more.</td>
</tr>
</tbody>
</table>

The Law on Persons with Disabilities stipulates benefits for people with disabilities who are poor, homeless or old, and dictates the creation of a welfare fund for persons with disabilities; the Prime Ministerial Decree on Social Welfare defines social welfare as short-term in-kind assistance, as well as long-term regular cash benefits. Beneficiary categories are set to include orphans, people with disabilities, older adults, victims of trafficking, and victims of disasters.

The Prime Ministerial Decree on the National Health Insurance (2012) provides the legal blueprint for the integration of diverse healthcare schemes into a single system and to expand long-term health care services for all, while the Prime Ministerial Decree on Free Maternity for All and Free Health Services for Children Under 5 aims to expand hospital care coverage for mothers and infants nationwide.

1.3.2 Limited coverage

In practice, the coverage of the Lao population under the public safety net remains limited. The Labour force survey of 2017 accounted for a total of 274,000 workers covered under the NSSF, an additional 16,000 under the National Health Insurance Fund and 11,000 benefitting from private schemes. This implies that only roughly 5 per cent of the working age population (15+ years) of Laos benefits from social protection coverage, with large disparities between urban and rural populations (10 per cent versus 3 per cent, respectively) as well as by province, with 13 per cent of workers covered in Vientiane compared to only 1 per cent in Huaphan or Saravane. However, there are minimal gender disparities.

In 2020, 184,747 public sector employees and 117,509 private sector employees (out of 127,515 contributors) are eligible for the unemployment benefits. For around 50 per cent of registered private sector enterprises, contributions are currently not being paid on behalf of workers, and the voluntary NSSF contribution meant for the self-employed reaches only 10,000 workers.

However, the number of beneficiaries is still significantly larger than contributors: NSSF records a total of 732,535 covered members, or 2.3 covered members for 1 beneficiary. The covered members for the Health Insurance Benefit comprise the “Dependent spouse who is not insured person and children not older than eighteen years old or twenty-three years old

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for those studying and unmarried”⁷. That brings coverage under health insurance to some 11% of the Lao population as a whole.

1.3.3 Difficulties of implementation

Even for Lao citizens who are listed under a social security contributory regime, it is not easy to retrieve their individual records to determine their rights to compensation. NSSF contributors are issued a Social Security card with a unique ID number, indicating the name and date of birth of the beneficiary.

**Figure 7: Lao Social Security cards public (in yellow) & private (in blue) sectors**

The various cards use different structures:

Public sector cards put the individual’s name and surname together, indicate gender and the term of employment.

Private sector cards can be used by dependents, while the public sector card is strictly personal. In both cases the card must be presented with a valid official ID document for treatment at health centers.

An interview with NSSF administrative management revealed that public and private sector health insurance schemes are managed on separate MISs (management information systems), but more importantly each is operated on a distinct database at the provincial level, which are not interconnected; these databases track the contribution history of covered members. This lack of interconnectedness makes back-office processes much slower, and since the validity of any claim requires checking the contribution history, the risk of duplicated records is probably high.

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1.4 **Very low level of formal incoming int’l remittances compared to peer countries**

1.4.1 **The CLM countries’ similar migration patterns**

Lao PDR is a country with a surprisingly low level of remittances compared to its neighbors, particularly Cambodia and Myanmar whose overseas migrant workers dominantly reside in Thailand with a high percentage of undocumented migrants, a pattern similar to Laos.

<table>
<thead>
<tr>
<th>Table 1: Personal remittances, received (current US$ million)</th>
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<tr>
<td><strong>Country</strong></td>
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<tr>
<td>Cambodia</td>
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<tr>
<td>Lao PDR</td>
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<tr>
<td>Myanmar</td>
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<tr>
<td>Viet-Nam</td>
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</tbody>
</table>

*Source: ESCAP based on data from World Bank*

In spite of a relatively large proportion of international migrant workers in the Lao workforce (estimated at 12 per cent of the total working age population), the volume of formal remittances relative to GDP remains modest, although it has doubled over the past two decades (Figure 8). According to a bilateral remittance flows analysis by the World Bank in 2017, two-thirds of incoming formal remittances originate in Thailand (see Figure 9).

**Figure 8: International personal remittances to/from Laos**

*Source: ESCAP based on data from World Bank*
Figure 9: Bilateral remittance flows to/from Laos 2017

Source: ESCAP based on data from World Bank.
Note: this dataset is an estimated reconstruction by the World Bank. Even if volumes do not match, the share of each country seems realistic to most observers.

UNDESA estimates 900,000 Laotians living abroad. In 2019, there were at least 280,962 registered Lao migrants in Thailand\(^8\) which is the main destination by far due to language and cultural proximity with Laos, as well as migrant’s family ties. The actual number could be double if undocumented migrants, many of which are seasonal, are included. The provinces of emigration are naturally the ones bordering Laos with a higher prevalence in the South. Emigration to Thailand from the North is anecdotal; migrant workers from the North are mostly domestic.

An extensive survey\(^9\) of migrant workers in Thailand in 2017 (450 Laotians interviewed) identified that 88 per cent remitted money to their families back home. Table 2 shows that one-third of those remitting use formal channels, mostly Money Transfer Operators (MTOs such as Moneygram or Western Union) and only 3 per cent do so through banks.

The size of the transfers ($163 ≈ THB 5,000 on average per transfer) and the fees do not seem to influence the choice of channel for the remittances. Remittance avenues seem to be more affected by the distribution channel available on the receiving end. As shown in Table 2, the destination province appears to be the major element of differentiation, which is likely owing to the limited ways available for families to collect the transfers in remote agricultural areas. The administrative status of the Lao worker, whether fully authorized or partially or totally undocumented, only somewhat affects the pattern of channels used. For instance, 21 per cent of undocumented migrants send money home through MTOs but not through banks, a similar figure to migrants with temporary documents. But even for fully documented migrant workers,

\(^8\) According to the TRIANGLE in ASEAN Quarterly Brief Note (ILO, 2020c); it cites UNDESA estimate of 900,000.
banks still represent a minor channel with a mere 7 per cent compared to 56 per cent for brokers.

**Table 2: Remittance channels of Lao migrant workers in Thailand**

<table>
<thead>
<tr>
<th>Channel used by Lao migrants in Thailand remitting home</th>
<th>%</th>
<th>$ Amount transferred monthly</th>
<th>$ Fee per transfer</th>
<th>Province</th>
<th>Champassak</th>
<th>Savannakhet</th>
<th>Khammuanee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Money transfer organization (e.g. Western Union, MoneyGram)</td>
<td>31.9%</td>
<td>142.05</td>
<td>2.84</td>
<td>42%</td>
<td>42%</td>
<td>12%</td>
<td></td>
</tr>
<tr>
<td>Hundi or broker system</td>
<td>57.7%</td>
<td>175.95</td>
<td>3.17</td>
<td>44%</td>
<td>53%</td>
<td>76%</td>
<td></td>
</tr>
<tr>
<td>Hand carry by others (e.g. friends, family or colleagues)</td>
<td>6.1%</td>
<td>175.34</td>
<td>4.00</td>
<td>8%</td>
<td>4%</td>
<td>6%</td>
<td></td>
</tr>
<tr>
<td>Bank</td>
<td>3.3%</td>
<td>146.11</td>
<td>2.83</td>
<td>5%</td>
<td>1%</td>
<td>5%</td>
<td></td>
</tr>
<tr>
<td>Other channel</td>
<td>0.0%</td>
<td>-</td>
<td>0.00</td>
<td>2%</td>
<td>1%</td>
<td>1%</td>
<td></td>
</tr>
<tr>
<td>Hand carry by self</td>
<td>1.0%</td>
<td>80.36</td>
<td>0.00</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td></td>
</tr>
</tbody>
</table>

*Source: ESCAP based on data from ILO, Risks and rewards: Outcomes of labour migration in South-East Asia, 2017.*

### 1.4.2 Mass unemployment of Lao workers in Thailand to halve official remittances inflows

In the absence of official year-to-date remittance data, the impact of the COVID-19 crisis on remittance flows is gauged at the proportion of Lao migrant workers abroad who have repatriated to Laos.

The World Bank estimated a drop by half in the volume of formal remittances for 2020: assuming an average monthly remittance of 1 million kips (107.8 USD), the repatriation of 100,000 migrant workers as of May implies a loss of 133 million USD over a year.

In 2019 there were at least 280,962 registered Lao migrants in Thailand.10 By the 3rd of July 2020, 130,532 Lao migrants had returned from abroad,11 equivalent to roughly one-fourth of all Lao migrant workers, legal and illegal, present in Thailand.12 Of those remaining, the loss of income must have been substantial, with no relief cash transfers from the Thai Government provided for Lao migrant labour, but there is no concrete datapoint that can hint to the extent of the loss. Hospitality and Food is the main sector of employment (32%) and also the sector of the Thai economy which suffered the most; followed by manufacturing at 24%, declined year-on-year by 7.4%; only agriculture (employing 20% of Lao migrant workers) remained stable.13

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10 ILO, **TRIANGLE in ASEAN Quarterly Brief Note**, 2020c. Numbers vary, with UNDESA estimating the figure closer to 300,000 (cite, 2019).
11 According to the Lao National Taskforce Committee for COVID-19 Prevention and Control in the Ministry of Health, which managed immigration check points, quarantine centers, and coronavirus tests for returned migrants.
12 The IOM survey of 40 returning migrants workers in August 2020 indicated that 45% of them were ‘regular’ migrants (i.e. ‘legal’, documented under an MoU). By extending this share to all returnees it would indicate that ¼ of the stock of legal Lao migrant workers in Thailand returned to Laos with the COVID-19 crisis.
Table 3: Sectors of employment of Lao migrant workers to Thailand (ILO, 2017)

<table>
<thead>
<tr>
<th>Sector of employment</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hospitality &amp; Food</td>
<td>32%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>24%</td>
</tr>
<tr>
<td>Agriculture</td>
<td>16%</td>
</tr>
<tr>
<td>Domestic work</td>
<td>14%</td>
</tr>
<tr>
<td>Construction</td>
<td>11%</td>
</tr>
<tr>
<td>Fisheries</td>
<td>4%</td>
</tr>
</tbody>
</table>


2 Challenges stemming mostly from lack of a unified strategic vision and coordination, and infrastructure investments

2.1 How to develop effective digital identities while architecture is still in the design phase?

A key enabler of a G2P/G2B environment is the presence of a digital identity system to compare individuals’ credentials across different databases/registries and to verify individuals’ identities at the time of the cash payment. Having the entire population registered in a functional and effective Civil Registration & Vital Statistics (CRVS) system greatly simplifies the onboarding of beneficiaries into any form of social transfers program. The incorporation of digital identities into a CRVS significantly enhances the authentication of individuals, in real time.

Laos currently lags behind in terms of effective and comprehensive CRVS: registration at birth remains infrequent (in 2018, only 39 per cent of births were registered), with similarly low records at death. The civil registries remain largely paper-based and decentralized, in the hands of the Ministry of Public Security; it maintains two forms of identification, the Family book – deemed universal – and the National ID Card.

Reform is underway, set in motion by the amendment to the Family Registration Law in 2009 and the establishment of the Ministry of Home Affairs (MOHA) in 2011, when the Department of Citizen Management was mandated to register births and deaths. A CRVS Strategy 2016-2025 has been developed and approved.

A unique identification number (UIN), assigned at birth, underpins the new architecture of Laos CRVS; it allows data stored in the national civil register to be linked with management information systems belonging to other ministries (for example, family books, national identity cards, district health information software [DHIS2], civil service, social registry, pensions, social security, passports, transportation or driver’s licenses, taxes, health care, finance, 

education, voter rolls, and immigration; see Figure 10 below). A centralized comprehensive Civil Management Information System (CMIS) has been designed, and a newly established 25-million USD World Bank project will finance the roll-out of the CMIS, starting with the first large-scale social transfers program in Laos, the RRPM. CRVS is implemented already with a G2P agenda (see the ‘Social Registry’ under MAF in Figure 10, lower right corner).

Figure 10: Interconnectivity of the CMIS (source WB)

The questions are (a) When this new architecture will be operational at scale? (b) If and how current citizens will be added to the existing CMIS. The systems currently rolled out tackle the issuance of new ID documents, but there is no mention on how the stock of citizen’s records will be transferred onto the new systems.

An interim system is therefore needed to provide this identity verification online.

2.2 Modernizing GoL systems of social protection & redistribution

GoL is modernizing its poverty reduction approach and seeks to extend the public safety net, hence the approval by GoL on the 1st of April 2020 of the National Social Protection Strategy (NSPS) through Prime Minister Decree N°224. It lays out the vision that “by 2030, Lao people have access to basic social protection services, consisting of health insurance, social security, and social welfare, in an equitable, adequate, effective and sustainable way.” Its overall goal is that “By 2025, the social protection system is further developed by the extension of Social protection coverage to vulnerable populations, expansion of the contributory system to include as many people as possible, and by developing a non-contributory and social welfare system.” The Ministry of Labour & Social Welfare (MLSW) is tasked with the implementation of the NSPS.
To attain this goal, the NSPS aims at further developing and strengthening the Health Insurance system, the Social Security system and the Social Welfare system. With regards to the latter, which is of particular importance here, the NSPS has the following goals:

- To be more systematic and effective in providing social welfare, benefits or services to children with special needs for the protection of vulnerable, disabled people, elderly people and poor workers who cannot help themselves.
- To provide emergency welfare to people who are affected by disasters.
- And to contribute to poverty reduction, human resource development and socio-economic development.

Associated activities are structured around four domains of intervention:

- Setup centers or associations at the local level
- Collect and compile data
- Develop and revise relevant legislations
- Provide benefits

These 4 domains of intervention are called upon for the support to the different vulnerable groups:

- Children of up to 3 years-old in the poorest families (activity 1)
- Poor, disabled, and vulnerable people (activity 2)
- Elderly persons (activity 3)
- Victims of disasters (activity 4)

This requires a new system of follow-up of vulnerable populations to be created ex-nihilo. The only pre-existing piece in this context is a database of roughly 8,900 survivors of Unexploded Ordinances (UXO), across nine provinces of Lao PDR, which is maintained by the national UXO Clearance Committee.

2.3 Financial operators not yet harnessing operational efficiency for universal access

GoL offered through NSSF a financial compensation to insured workers furloughed due to the lockdown imposed in April and May. The NSSF had compensated 15,901 NSSF contributing workers by the end of August, but at great pains because workers were paid in cash in many instances and/or could not produce sufficient proof of identification. For example, one Vientiane factory had no other solution but to bring its roughly 400 workers to the NSSF headquarters and organize a distribution of cash-on-hand out of a name list.

Section 1.2 showed that bank accounts are accessible but have not led to the widespread usage of diverse transactional services. Opening up the market to non-banks harnessing Digital Financial Services offers the best hope of achieving universal financial inclusion and to encourage domestic banks to be less complacent and focus more on properly serving retail customers. Digital accounts can dramatically reduce maintenance costs and offer a very cost-effective avenue of financial inclusion to large swathes of the Lao population.

2.3.1 Regulation has opened payments to non-banks, but still few licensed

The National Payments System (NPS) Law (N° 32/NA) was passed by the National Assembly on the 7th of November 2017, after two to three years of preparation. It underpins the whole digital payments ecosystem, and includes integrated landmark innovations:
The introduction of two new licensing categories: Payments Systems Operators (PSOs) who operate payments infrastructures, and Payments Services Providers (PSPs), who offer retail payments services. PSPs do not have to be banks, which previously enjoyed a monopoly over payments services. PSPs are also not bound to use PSOs infrastructures; they are free to use their own systems.

The concept of e-money (article 19) which can be delivered only in exchange for cash, and exists, therefore, only in pre-paid form. E-money is allowed only in the Lao kip currency and is operated by a PSP.

The concept of agents, which are independent entities for the distribution of the services of the PSPs.

A direct consequence of the enactment of the NPS Law was the creation within BoL of the Payments Systems Department (BoL/PSD) to develop the secondary regulation, establish standards, deliver PSO and PSP licenses, and monitor the payments ecosystem. But it is only with BoL’s Decision N°288 of 26 March 2020 which established the PSP licensing framework, that non-banks were allowed to receive operating licenses, with the following highlights:

- Creation of two types of payments services: e-money and money transfers/payments. Money transfers comprise account-to-account transfers (whether bank accounts of e-money accounts) and over the counter (OTC) transfer services, whereby the recipient and/or the sender do not have an account.
- Precise capital requirements of PSPs by type of services offered.
- List of input documents in the license application.

So far, there are three non-banks licensed as PSPs:

- Star Fintech Sole Company Ltd., fully owned subsidiary of mobile network operator (MNO) Unitel, operating the digital wallet U-Money.
- Lao Mobile Money Company Sole Company Ltd., fully owned subsidiary of Lao Telecom, operating the digital wallet M-Money.
- New Money company.

However, only U-Money has reached a critical mass pushed by the mass-marketing machine of Unitel. Although no data is available on M-Money, based on the number of downloads of their respective apps on Google Playstore only U-Money has attained critical mass: U-Money app downloads stands at more than 100,000 — ten times more than the M-Money app which currently has upwards of 10,000.

2.3.2 An innovative industry but lacking capital and not yet open to regional and global players

The range of actors involved in the digital finance space is definitively narrow and can be classified basically under the following categories:

- State-Owned Enterprises (SOEs): by virtue of the domestic political economy, SOEs play a dominant role in the national economy. Those engaged in electronic money and digital transfer services belong naturally to the banking and telecoms sectors. Operating banks are BCEL and Lao Development Bank and the Mobile Network Operators (MNOs) are Unitel and Lao Telecom.
- Private commercial banks, with a regional retail footprint include the following: ACLEDA (also Cambodia and Myanmar), Kasikorn Bank (also Thailand, Viet-Nam, Cambodia, Indonesia, and Singapore) and Maruhan (Sathapana Bank in Cambodia, before MFI; MFI in Myanmar). Digital wallets and agent-banking constitute an avenue for private commercial banks to challenge the dominant retail market position of State-
Owned Banks and to extend their outreach nationwide with a limited number of branches. In all instances, the banks are replicating a service already marketed in a neighboring country.

- Local fintechs are now being sidelined. Several entrepreneurs established local companies including PayPlus, SabayPay, KiwiPay, CoolFrog which have proposed innovative services or interconnection with global e-payments leaders such as Alipay and WeChatPay. But none of them has been able to secure a PSP license so far, most likely due to lack of capital. Only KiwiPay has managed to establish itself as a systems integrator for domestic banks.

Another example of an unsuccessful fintech initiative is the digital wallet Kapao from the MFI New Concept Finance (NCF). NCF’s Kapao received pilot authorization from the BoL in November 2017 and tried to extend its digital wallet to Vientiane fresh food markets, but the program failed to onboard a large number of users onto its digital wallet. Its pilot authorization was rescinded in 2020.

However, despite the latent presence of local fintechs in the digital finance landscape of Lao, the time when digital wallets required large IT investments is now over, as IT vendors to the banking industry have now mainstreamed the digital wallet alongside their suite of mobile-banking platforms, complete with online onboarding of new customers. Operationalizing a digital wallet is now a marginal cost to the necessary capital expenditure for a mobile-banking IT platform.

Nevertheless, the results as of August 2020 appear to be impressive and replicate in Lao PDR the tremendous adoption of digital wallets observed in other ASEAN countries:

<table>
<thead>
<tr>
<th></th>
<th>All operators</th>
<th>Unitel (Star Fintech)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of digital wallets opened</td>
<td>1,904,144 accounts</td>
<td>1,500,000</td>
</tr>
<tr>
<td>Number of active users¹⁵</td>
<td>479,140 accounts</td>
<td>125,000</td>
</tr>
<tr>
<td>Number of agents</td>
<td>14,640</td>
<td>10,000</td>
</tr>
</tbody>
</table>

By comparison, the BoL has reported a total of three million digital bank accounts among the country’s 40 plus licensed commercial banks. The question is: How many of these active digital wallet users are unbanked, considering that most digital wallets are offered only in complement to traditional bank accounts?

The challenge now is to sustain for several years the mass-market efforts to drive the adoption of digital wallets and mobile-banking by a large share of consumers who are either unbanked or have a bank account but do not use it for transactional purposes, only for savings. This is an area where the MNOs hope to outcompete traditional banks: they are accustomed to very large marketing investments to maintain/increase market share, and have experience in brand-building and promotions to boost sales and usage. The main performance metric of MNOs is the average revenue per user (ARPU). Their main risk is ‘churn’ and ‘auto-churn’: customers switching to another MNO in response to a promotion; changing one’s mobile number restrains churn but is not a deterrent – especially with dual SIM cards mobile phones becoming the norm.

¹⁵Numbers are either based on one transaction over the last 90 or 30 days, depending on the definition used by the PSP. Unitel provided data on active users within both timeframes.
In a context of stalling or falling telecoms’ ARPU due to the commoditization of telecoms services, digital wallets linked to a mobile number can increase customer loyalty, increase ARPU through fees on digital wallets transactions, and offer payment for value added services like online gaming, music streaming and video-on-demand.

**BCEL Community Money Express (BCOME): A successful new banking channel, but then what?**

BCOME is the historic pioneer of digital financial services in Lao PDR since its inception as a pilot project in May 2015 with UNCDF and BoL support. BCOME is primarily a network of banking agents meant to sustainably extend the provision of banking services to underserved areas. Its promoter, BCEL, is the largest bank in the country, state-owned in majority (now 60%) and with a significant part of its capital (20%) listed on the Lao Stock Exchange; it therefore has a mandate of transparency and profitability. BCEL also has a long tradition of IT innovation with state-of-the-art corporate and retail internet/mobile banking services but is hampered by limited sources of capital as GoL wants to retain a majority stake.

While initially meant to provide financial service bubbles to unbanked, remote areas through the maintenance of a specific no-frills bank account, the value proposition has evolved towards extending the footprint of BCEL at a very low cost and bringing transactional services closer to banked people with longer business hours (typically 7am – 8pm, 6 or 7 days a week, versus traditional bank hours from 8.30am – 3.30pm, 5 days a week) and micro/small businesses in need of payment services.

The BCOME agents operate under a bring-your-own model (agents provide computer, printer, internet connection, and in return keep two-thirds of commissions for themselves) that minimizes the capital expenditure on the bank’s side. They must maintain high liquidity levels, which is a costly proposition but in return benefits the bank by increasing brand notoriety. There are currently an estimated 700 agents nationwide.

Meanwhile, BCOME has terminated the no-frills account for the unbanked (using the BCOME ATM card pictured in Figure 11) and focused instead further on transactional services, now offering an unparalleled range of transactions: deposits to own account or to third-parties account, even in other banks, bill payments, tax payments, Over-The-Counter P2P transfers, cash withdrawals (card-based or using QR codes). BCOME is one among the five integrated channels of BCEL (with branches, ATMs, mobile-banking, self-service machines).

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16 For instance, text messaging services have become almost extinct amid the prevalence of WhatsApp and Facebook Messenger, and voice-over-IP dents revenues from airtime.

BCEL has thus applied and received for BCOME the only domestic Money Transfer Operator license so far (specific sub-category of PSP license). BCEL now has a distinct license for e-money for its One Cash Card digital wallet, but it is doubtful that BCEL will resolutely combine both as a cost-effective solution towards unbanked people. BCEL has not much marketed BCOME which grows by word of mouth. The management of the BCOME agents remains rather hands off, but increasing services have fueled the growth of average volume of monthly transactions per agent: +41% in Q3 of 2020 (~93 million kips ≈$10,000) versus two years previous (then ~66 million kips).

**Figure 12: History of BCOME transactions activity since inception**
Figure 12: (continued)

Source: UNCDF-BoL MAFIPP programme.
Note: The arrow points to the up-to-date total average monthly amount stated by BCEL for Q3 of 2020.

Unitel leveraging mass-marketing to outcompete banks in digital financial services

U-Money\textsuperscript{18} is the first digital financial service in Lao PDR issued by a non-bank, namely the MNO Unitel. Unitel is a joint venture between Lao Asia Telecom (Lao Ministry of Defense), which holds 51 per cent ownership, and Viettel Group (owned by Ministry of Defense of Vietnam), which has 49 per cent. It is the dominant MNO in Laos, slightly ahead of Lao Telecom. Viettel Group has successfully pursued very aggressive inroads in Least Developed Countries (such as Haiti, Tanzania, Mozambique, Timor-Leste, Cambodia, Myanmar) with an unusual strategy of first targeting rural areas — shrugged-off by competitors — as a means to build up market share. Unitel is also unique in Laos as it is the only MNO to completely own its distribution network, down to every village, with volunteers selling SIM cards and airtime scratch cards.

The Group believed early on in mobile money and worked on a service in Laos as early as 2015; mobile money is now part of a new strategy in which Unitel identifies its role more as an IT integrator than an MNO. U-Money received pilot authorization in September 2018 after long negotiations with BoL, which was dealing with its first non-bank ever, but with a limited scope (36 physical touch points initially, followed by 100 in 2019). Heavy marketing investment was unleashed once the permanent PSP license was in sight early 2020 and Unitel developed a

\textsuperscript{18} See https://www.unitel.com.la/u-money.
A tiered network of agents (179 master agents and 12,000 Points-of-Service [POS]) that simply provide low value cash-in/cash-out) harnessing its salesforce to ensure liquidity.¹⁹

**Figure 13: U-Money lucky draw to boost registration (September 2020)**

Thanks to a proactive registration policy, Unitel claimed 1.5 million registered customers and 60,000 transactions in July 2020, with a total volume of close to 5 billion kip (about 540,000 USD). Unitel is actively engaging in bilateral partnerships with domestic banks to offer customers the opportunity to credit U-Money accounts directly from mobile-banking services, and it is progressively rolling out a service for utility bill payments.

Unitel is actively vying to provide social cash transfer services from GoL (see §3.3.2 for payroll services for civil servants in 11 unbanked districts) and multilateral donors alike. Its next stage is to offer international remittances at discount prices connecting to wholesale cross-border transfer services alternative to SWIFT, and later digital credit (Unitel is offering already small airtime credit). The challenge is to obtain the regulatory approval from BoL for each service extension.

On the marketing front, the looming threat is the eventual entry of three new big tech companies – all decacorns, that is with a market capitalization above 10 billion USD – hungry for dominant market share in South-East Asia and with unmatched firepower from their sky-high stock market valuation: Grab, Gojek and Ant Financial through True Money. They are engaged in a breakneck race to expanding regionally, but have not yet pinned Laos on their map:

- Grab claimed as early as March 2019 to have acquired e-payment licenses in eight out of 10 ASEAN countries — all except Brunei and Lao PDR.²⁰ How long will Laos remain under Grab’s radar screen, especially considering the very satisfactory inroad

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¹⁹ All the financial transactions throughout the Unitel sales network were moved in 2019 on U-Money.
of FoodPanda, the only unicorn (startup with a market capitalization of more than $1 billion) to have established a dedicated presence in Laos?

- Founded in 2009, Gojek launched its application in 2015 in Indonesia with only four services: GoRide, GoSend, GoShop, and GoFood. But its superapp offers more than 20 services (six in the financial realm) and claims 170 million users over 5 ASEAN countries: Indonesia, Singapore, Philippines, Thailand and Viet-Nam.

- Ascent Money, the parent company of TrueMoney, which is majority-owned by Ant Financial and CP Group, has operations in Thailand, Myanmar, Cambodia, Viet-Nam, Philippines, and Indonesia. It boasts 40 million users and an unparalleled network of 65,000 agents.²¹

GoL may block for a while their entry to the domestic market but will eventually have to comply with its commitments towards the ASEAN Economic Community to liberalize the financial services market, which may create further barriers to the participation of local fintechs in the digital landscape of Laos.

2.4 Lack of interoperability in the financial sector

2.4.1 Unsatisfactory interoperability of the Lao banking system

There is a very limited interbank payment infrastructure in place in Laos; change is underway, but its pace is uncertain. A Gross Settlement system was launched in 2011, but became real-time (RGTS) only in 2019, once Straight-Through-Processing between the major commercial banks in Laos became operational. The Cheques Clearing House (CCH) is still manual with clearing meetings at provincial levels, making the clearing of an interbank and interprovincial cheque a long journey.

Entering an interbank account transfer is a frustrating experience due to the absence of a national bank account numbering standard (like IBAN for Europe or ABA for USA) and also of checksums in the account number itself to verify its integrity. The difficulty is compounded by the necessity to enter correctly the recipient’s account holder name, generally recorded in Roman script. The risk of transactions bouncing back is high, owing to any slight misspelling or misnumbering error.

The only functioning interoperability infrastructure on the retail side is the ATM switch, formerly named Lao Automated Payments System (LAPS) and operated by BoL until recently: it connects the ATMs of the three State-Owned Banks (SOBs) dominating the retail mass-market and four private commercial banks: JCB, Lao Viet Bank, Indochina Bank and STB. Connectivity expanded to seven more commercial banks early 2020 (ACLEDA Bank Laos then joined). But still some banks, notably Banque Franco-Lao (BFL) and Phongsavanh Bank, refuse to participate in it, possibly because the top-down model does not allow banks to individually determine pricing schemes.

The consequence is that when contracting a PSP for the distribution of welfare payments, mostly relief in the events of natural disasters (one or two successive payments) or early childhood grants to prevent stunting (regular handouts over three years), the proposals of PSPs were circumscribed to their closed-loop payment system: PSPs distribute the grants, most often using a name list, sometimes propose to open an account for the beneficiaries on their platform (bank account or digital wallet), but never propose to transfer the funds to beneficiaries who have already an account but with a different bank or PSP(!) No PSP believes

²¹ See https://www.ascendmoney.io/ouroffer.html
it can provide an aggregation service at an affordable unitary transfer cost and interoperability is sorely needed.

2.4.2 Public-private payments infrastructure operators lacking strategic clarity

The central bank, the Bank of Lao PDR (BoL), has taken voluntary measures to develop interoperability, by investing in interbank infrastructures and then spinning them off to give them space for commercial scale. The Real Time Gross Settlement (RTGS), the Automated Clearing House (ACH) and the Cheques Clearing House (CCH) are defined as the three core elements of the Systematic Important Payments Systems (SiPSS): they are wholesale services and are integrated into the Lao Payment and Settlement System (LaPASS) launched on the 1st of June 2020. The interbank retail payments services are offered through the Lao National Payment Network Company Ltd (LAPNET), which was established in April 2019 as a joint venture between BoL (25 per cent), UnionPay International (15 per cent), and seven domestic banks. LAPNET took over the Lao ATM Pool Switch (LAPS) and integrated more banks, bringing the current total to 14. Non-bank PSPs can join LAPNET, though indirectly, through a sponsoring bank (for settlement purposes). LAPNET is a PSO under the terminology of the NPS Law.

LAPNET has very ambitious plans to bridge the gap in interoperable retail services but its ambitions may be hampered by the lack of strategic clarity: who are LAPNET’s clients? The end users of banking services or the banks and payments companies it is linking? A critical element is the decision on pricing: it is still a very top-down model imposed on the participants, rather than bottom-up, with the resulting consequence that even participating banks are unwilling to promote LAPNET services to their own customers.

From inception, interbank ATM withdrawals were determined by BoL with an imposed end-user fee of 2,000 kip (0.22 USD) for a maximum withdrawal of 1,500,000 kip (161.55 USD), rather than a pricing to be determined by each bank for its customers. The fee is now deemed in retrospect too low by LAPNET staff, which explains why some banks continue to shun the ATM switch.

In June 2020, LAPNET launched a revolutionary service of interbank transfer from ATMs with unparalleled convenience vs. the classic interbank transfer: ❶ the user simply enters the 16-digit ATM card number of the recipient, ❷ the system retrieves the name of the cardholder for user to verify, ❸ the user enters the amount to transfer.

The pricing was set by LAPNET staff to only 1,000 kip per transfer, justifying that it saved cost to the bank in comparison to withdrawing the amount in cash and then giving the cash to the recipient. The tiered pricing in Table 4 below seems illogical: one would save fees by making two transfers of 5,000,000 rather than a single of 10,000,000.

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Table 4: Fee structure of LAPNET peer-to-peer interbank transfer

<table>
<thead>
<tr>
<th>Transfer amount</th>
<th>Fee</th>
</tr>
</thead>
<tbody>
<tr>
<td>1,000 – 1,500,000</td>
<td>1,000 kip</td>
</tr>
<tr>
<td>1,500,001 – 3,000,000</td>
<td>2,000 kip</td>
</tr>
<tr>
<td>3,000,001 – 5,000,000</td>
<td>3,500 kip</td>
</tr>
<tr>
<td>5,000,001 – 10,000,000</td>
<td>10,000 kip</td>
</tr>
</tbody>
</table>

Interestingly, the LAPNET staff did not compare the fees charged with what their bank clients were charging to their own customers: an intrabank transfer is charged the same 1,000 kip fee (0.11 USD) at the major commercial banks (but the amount can be higher). However, 10,000 kip (1.08 USD) is the minimum fee charged for an interbank transfer for instance of the corporate internet-banking i-Bank of main bank BCEL (interbank transfer is not available on the retail mobile/internet-banking service of BCEL).

LAPNET’s fee policy for interbank transfers will not fit well with the fee schedule of retail services of the major commercial banks, therefore the commercial banks will not promote this exemplary service. LAPNET also lacks data on cardholders, particularly on those not using LAPNET services, and any mean for contacting them directly. LAPNET revenues are too small to allow for any substantial marketing budget to trigger usage at scale through promotions or lucky draws. Hence, usage rates are set to remain confidential unless participating banks/PSPs actively promote LAPNET services to their customers.

LAPNET is about to soft launch Lao Mobile Pool Switch (LMPS), a brand new suite of interbank services that will be integrated into the retail mobile apps of LAPNET’s participants, in the form of a series of Application Programming Interfaces (APIs).

Figure 14: Diagram of LAPNET interbank services through ATMs (LAPS) and mobiles (LMPS)

Lao ATM Pool Switch (LAPS)
- Balance inquiry
- Cash withdrawals 14 banks
- Fund transfers 8 banks
- Point of Sales (POS) not operational yet

Lao Mobile Pool Switch (LMPS)
- Fund Transfer on Mobile
  - Card number
  - Account number
- QR Code /QR Code payment 2-4 banks
- Any ID
  - Card Number
  - Mobile Number
- Cross-border transfer (UnionPay Int’l network)

Figure 14 shows three services:

- Mobile fund transfers in which the recipient can be either an ATM card or an account number (including those from non-bank PSPs).
- Interbank QR code payment.
- Any ID that will pair a mobile phone number with an ID card number and also an account number.

The first two services are set to go live in December 2020 among four commercial banks, but no decision has been made with regards to pricing, nor has a process to propose, debate or decide on pricing with LAPNET’s participating financial institutions been put forward. Similarly, it remains unclear who will be charged fees — the merchant or the consumer? The technology
provider and reference shareholder, Chinese UnionPay International (UPI), has provided neither a blueprint nor a method for pricing the services – although it is precisely on QR payments that UPI faces an uphill battle on its own domestic market against the two giant PSPs AliPay and WeChatPay.

The economic equation is left pending at this stage. The risk of this lack of clarity is that transaction volumes for interbank services will not increase enabling economies of scale to kick-in, as banks and PSPs are unlikely to actively promote them. Thus, despite availability, the ultimate vision of affordable interbank transfer services will remain in a distant future unless it occurs under the stewardship of a closed-loop system of a dominant market actor, with the tail risk of an unlevel playing field and anti-competitive commercial practices. Unitel’s bilateral arrangements to offer top-ups for the U-Money wallet, directly from the mobile banking services of selected banks, is an illustration of the risk of LAPNET being sidelined.

2.5 Formal cross-border transfer services not up to the informal sector

Table 1 showed that Lao migrant workers in Thailand are twice as likely to use informal channels than formal channels to remit money home.

It is indeed a great challenge for the formal sector to be on par with informal brokers, who use the domestic mobile-banking services in Thailand and in Laos to offer real-time transfer services. They can advertise themselves on social media and develop a very simple pricing strategy without any entry fee.

Figure 15: Facebook post of informal broker Thailand to Laos, 2018

Figure 15 is a post on social media of an informal broker offering to channel money from Thailand to Laos with a commission of 5,000 kip for 1,000 Thai baht transferred (0.54 USD for every 33.33 USD transferred), roughly a 1.7% commission. Usually, the sender in Thailand makes a cash deposit in Thai baht in the broker’s bank account in Thailand (very straightforward and free at any branch of the account holder’s bank without the need to show identification), then the broker can wire the equivalent amount in kip from the broker’s account in Laos to the recipient (to a bank account or for pick-up at branch by declaring the recipient’s ID number) using the Lao bank’s mobile-banking service, or more traditionally the funds can be picked up at the place of a broker’s relative in Lao PDR. How can the formal sector compete with such simplicity, swiftness and low fees?
2.5.1 Official foreign exchange regime favoring informal remittance channels

The 22 December 2014 Law on Foreign Exchange Management gives the BoL authority to issue licenses and supervise foreign exchange bureaus and to control the foreign exchange activity of commercial banks. It is important to note that both residents and non-residents are allowed to receive incomes in foreign currencies deposited at a Lao commercial bank (holding offshore accounts is prohibited unless living abroad).

The de jure arrangement is a managed float, with the following main characteristics:\(^{24}\)

- The GoL’s objective is to limit USD/LAK fluctuations within ±5% per annum\(^{25}\). BOL sets a daily official reference USD/LAK rate which is calculated based on the weighted average of the previous day’s overall rate, the estimation of the domestic demand for USD, and the forecasting of the USD rate in the international market.

Commercial banks and foreign exchange bureaus are required to maintain their buying and selling USD/LAK rates within ±0.25% of this daily reference rate.

The bid-ask spread, i.e. the gap between the buying and selling rates, is capped at 0.25% for USD/LAK.

- Commercial banks and foreign exchange bureaus can freely set the exchange rate for other currencies. The bid-ask spread is capped at 0.75% for THB/LAK and EUR/LAK, and 2% for other currencies.

Enforcement appears to be quite different between commercial banks and foreign exchange bureaus:

- Commercial banks tend to closely follow the BoL’s official exchange rates for all currencies, to the notable exception of the Thai baht (THB), which as of the end of September was around 8-9% more expensive than the official rate (see Figure 16).

\begin{figure}
\centering
\includegraphics[width=\textwidth]{commerce-banks.png}
\caption{Commercial banks published rates vs. BoL reference rate.}
\end{figure}


\(^{24}\) IMF, Laos 2019 article IV Staff Report, August 2019, p.3.
\(^{25}\) Target set in current and next National Socio-Economic Development Plans (NSED): 8th (2016-2020): “Sustain stable exchange rates and contain them within ±5 percent” under Outcome 1, Output 2: Macroeconomic Stability 9th (2021-2025, draft version 5): “the exchange rate against the USD should be stable within the defined area of ±5%” under Output 1: Robust and sustainable macro-economic
The exchange rate for Lao kip prevailing in Thailand follows the BoL exchange rate, generally with a high markup due to the small transaction volume, thus creating a large distortion even between the Thai side and the Lao side of the same regional banking group. For example, Figure 17 below shows that when transferring funds from Thailand, it is much more cost-effective to sell the THB in Laos at 318.05 LAK than to buy LAK in Thailand at 273.22 THB/LAK, as the discrepancy is as high as 14%(!)

**Figure 17: Compared THB/LAK exchange rate of Kasikorn Laos (top) vs. Kasikorn Thailand (bottom)**

![Foreign exchange rate](image)

**Exchange rate calculation**

- Want to buy / sell: 1
- 273.22404

- Foreign exchange bureaus in Laos display FX rates that differ widely from the BoL reference rate for the USD, although they are in theory subject to the same foreign exchange regulation as the commercial banks
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Figure 18: sample Money changers published rates (25 September 2020)

The BoL has recently clamped down on unlicensed money changers and those “engaging in direct currency exchanging with commercial banks” (i.e. to exploit the gap between official and parallel rates at their advantage), following mounting concerns of falling exchange rates between USD/LAK and THB/LAK.26

An unquantified tailwind affecting formal remittances is the pressure on the semi-liberalized foreign exchange policy exerted by the dire macroeconomic conditions affecting Laos as a result of the COVID-19 crisis. The halt to international tourism and pause in Foreign Direct Investment (FDI) have destabilized the balance of payments of the country and reduced the foreign reserves of BoL to a critically low level, raising further concerns of default on sovereign debt.27 This has resulted in negative pressure on the semi-administered foreign exchange regime, widening the gap on the benchmark USD/LAK exchange rate between the official rate and the ‘grey market’ to around 9% (pre-COVID it would have been within a 4 and 5% band). Although there has been a wide divergence between the THB/LAK exchange rate of commercial banks and the BoL official rate (with a 8-9% deviation observed for the month of September 2020), staff from the Vientiane branch of a Thai bank reported that customers nonetheless prefer to withdraw THB in cash and change to LAK at money changers.

2.5.2 Difficult cooperation for efficient and cost-effective transfers Thailand to Laos

In general practice, commercial banks in Laos do not cooperate bilaterally to facilitate cross-border transfers as they rely on commercial wholesalers, such as SWIFT, to provide the messaging service and settlement procedures unless they themselves are agents of an MTO like Moneygram or Western Union.

Bilateral cooperation exists among regional players, but agreements have not been actively followed up on, resulting in under-utilized services on the Laos end. Malaysian CIMB Bank took great efforts in 2012 to launch the SpeedSend cross-border real-time transfer service to

26 Vientiane Times, 26 July 2020 and Xinhua news agency, 24 July 2020.
27 Nikkei Asian Review, Laos credit downgrade signals ‘real’ default risk as China looms - Fitch’s rare cut to ‘CCC’ raises possibility of relief from Beijing, 24 September 2020.
cover all ASEAN countries; in Lao PDR its partner is BCEL. However, BCEL is not known to have actively promoted the remittance service and has not fully integrated it. SpeedSend transfers to Laos still cannot credit a BCEL account; they must be cashed-out at BCEL branch. Likewise, the MoU with Korean KEB Hana bank, signed by BCEL in July 2017 for improved cross-border remittances for Lao migrant workers to Korea, has not led to the creation of an operational service.

At least two Thai banks have stated ambitions to develop cross-border payments services with Lao PDR in their scope, although they have not explicitly elaborated their business motives.

- Krung Sri (Bank of Ayudhya Public Company Ltd) is the sixth largest bank of Thailand by size of balance sheet. The group is very active also in vehicle leasing and microfinance in Lao PDR; the lending volume of its Lao leasing subsidiary has soared over the past four years, with a commensurate need to balance outflows in USD and THB and lease repayments mostly in LAK. Krung Sri has included Laos in its blockchain cross-border service, initially to serve the needs of its Lao leasing subsidiary and now marketing it to supply chain corporate actors and financial institutions (see Figure 19 below). Krung Sri has partnered with LDB and, through an API, banks have been able to perform real-time account-to-account cross-border transfers in USD or in THB since October 2020. Both are committed to market this service to Lao migrant workers in Thailand but have not yet defined the marketing terms to achieve the level of simplicity of the informal broker cited in Figure 15; fees are charged on the sending and receiving end, and they could not present in a synthetic manner the different requirements and steps to use the service. The cooperation was clearly operationalized at a technical level but not yet at the marketing level.

**Figure 19: Krung Sri and LDB ads for real-time transfer Laos↔Thailand**

- Kasikorn Bank is the second largest Thai bank. Cross-border settlement (multi-currency and THB Direct) is a key tool of its regional growth strategy to develop ‘borderless payments for all’, individuals and businesses alike, and then onwards to value chain cash management and financing – the aspects in which Laos is concerned. KBank launched a digital account-to-account remittance service for the Thailand-to-Myanmar corridor in partnership with local bank KBZ. BCEL in Laos is listed as a partner to KBank but it is unclear if there is any similar development in the pipeline.
However, an interview with managers of the KBank branch in Vientiane revealed that this vision has not yet manifested at the operational levels. The perspective of the Lao KBank branch is that it would be valuable to capture the market of Lao MSMEs' payments to Thai suppliers and retail payments of Laotians on short trips to Thailand. Hence the request of KBank Laos to BoL is for the interoperability of its QR KBank wallet in Thailand (which would require maintaining an ad hoc sub-account in THB for each wallet). Discussions between KBank Laos and Lao MNOs would have pertained only to the top-up of airtime using the QR KBank wallet.

Interestingly, transfers from a KBank Thailand account to a KBank Lao account must be operated via a SWIFT transfer with lag time of 1-2 business days, while direct real-time bank transfers from a KBank Lao account in THB to a KBank Thailand account are possible, with a transaction ceiling of 300,000 THB (nearly 10,000 USD). A Lao SME using this service must have two accounts, one in LAK and one in THB, and ensure sufficient funding in the THB account (the currency conversion can be undertaken in real time but remains a separate transaction nonetheless).

Despite that Lao migrants to Thailand comprise around 15 per cent of the total Lao labour force — the return of 100,000 workers amid the COVID-19 crisis has resulted in a loss of 1.25 million USD, equivalent to 0.7 per cent of national GDP — Lao migrant workers in Thailand remitting to Laos are still not recognized as a potential business case by the KBank Laos management. If this use case is pursued it would be under the stewardship of KBank Thailand since it is on the sending side.

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3 Pathways to build an enabling and inclusive ecosystem

Any discussion regarding a cost/benefit analysis of specific social protection interventions from the GoL public budget in response to the COVID-19 crisis is out of the scope of this paper, as the topic is complex, particularly considering the lack of fiscal space in the GoL (in 2019, the public deficit stood at 4.7% of GDP) and the already high level of public indebtedness (different figures of debt/GDP have been stated but the deficit is indisputably the highest in ASEAN after Singapore).

This paper focuses, rather, on the policies required to have effective distribution mechanisms of social protection in the form of G2B/G2P transfers, in priority to the poorest and most vulnerable groups, which often equates to remote and marginalized groups within the population. This report takes stock of solutions already being implemented and proposes further interventions to be kick-started.

3.1 Progressively operationalize interoperability with private sector

The BoL has taken the right steps to spin off interbank payments services to independent businesses, both wholesale (LAPASS) and retail (LAPNET). But businesses need to clearly recognize that they are service providers to the banks and PSPs so that they can offer varied and universal payments services to their end customers. LAPNET cannot achieve its vision of universal payments services in the country unless its partner banks and PSPs adhere to it. This requires, in turn, that businesses adopt the PSP and bank proposals regarding pricing in the ecosystem.

This bottom-up approach may not be easy, as banks and PSPs have different agendas on interoperability, but at least LAPNET could count on some allies among its partner banks and PSPs to support the implementation of its vision.

A delicate question is whether to encourage or refrain domestic PSPs and banks from entering bilateral peering agreements, which would provide limited interoperability that reinforces the value proposition of their closed-loop system. Such agreements would not necessarily undermine the interoperability of common payment infrastructures. In the very least, the proposition should be assessed from a levelled playing field perspective; anti-competitive practices that would lead to oligopolies should be rigorously addressed by the regulator.

3.2 No-frills accounts for all, with diverse offerings

3.2.1 Transactional accounts without maintenance costs

The LAPNET case shows that the tool used to conduct transactions is still the ATM card with a retail monthly charge of at least 5,000 kip (0.54 USD). It appears this will remain the case until QR codes and digital wallet transactions become mainstreamed. The technology and the business models related to e-money, digital wallets and agent-banking enable the delivery of extremely cost-effective solutions for the opening and maintenance of transactional accounts in remote areas lacking banking infrastructure, provided there is a basic telecoms infrastructure. It is made possible by the involvement of different types of actors to implement the value proposition: PSPs offering the service, small shop owners doubling as physical touch points, and MNOs providing the communication infrastructure.

This no-frills account can serve to store value and liquid savings, and can be used to make and receive payments. It should also have the potential to become the pivot for additional
Enhancing Capacities on digital G2P and G2B transfers and digital international remittances in Lao PDR

financial services, e.g. long-term savings, life insurance, damage insurance, and a possible line of credit. Furthermore, it can function as an anchor for additional informational services such as household budget planning or web-based micro-enterprise accounting services. Of prime importance is the security of customer deposits into these no-frills accounts, which the BoL plans to address soon with the upcoming e-money guidelines – notably the rules around trust accounts at commercial banks mirroring the float of e-money in circulation.

The services can be quite varied to offer a response to poor people in different situations:

- Convenient self-service management for young people at ease with smartphone and digital apps (such as social media apps), in areas with decent 3G/4G/5G coverage. Online onboarding offers a convenient way to register from home, with the necessary documents at hand.
- A similar service but adapted to more basic feature phones, suitable for people living in areas with GSM coverage but without data and/or not willing to invest in a smartphone, likely older people not familiar with the internet.
- A service totally independent from any mobile phone, typically using an ATM card as a transaction medium, and with all transactions facilitated by an agent or available in urban settings at an ATM. Accessible to people without access to a phone and for occasional usage.

Technological innovation has completely transformed the landscape of Point-of-Sales devices: from expensive payment card terminals to versatile machines or even elements leveraging the agent’s smartphone (car reader device coupled via Bluetooth to a POS emulator app on smartphone), with prices dramatically dropping (to the point that some Lao private banks lend the terminal for free to merchants without conditions on the minimal processing volume).

Poor customers tend to be extremely price-sensitive even if they may not be able to discern the most advantageous overall value proposition fitting their personal situation, which is why pay-as-you-go options without any maintenance fees are better accepted. The BCOME success story demonstrates that consumers are willing to accept an extra fee to perform a transaction at an agent rather than at a branch. This extra fee is easily offset by the avoided cost of transportation and loss of time in a working day incurred by performing the transaction during bank business hours plus the waiting time (30 minutes is not uncommon, particularly towards the end of the month). Consumers seeking to reduce transaction fees should be encouraged to use self-service channels rather than agents, but it implies access to a mobile phone or to live in proximity to an ATM.

The inclusivity should also extend to those people who do not feel the need to maintain any account and still prefer to keep all their savings with themselves in cash. The idea is to provide them with the occasional transactions they need, facilitated by an agent.

### 3.3 GoL to generate use cases for Digital Financial Services (DFS)

To prime the pump for the digital finance industry, it is essential to provide initial use cases, which will then snowball. GoL payments through welfare payments are an essential enabler for retail mass-market DFS, but also for MSMEs, mostly through the payment of taxes.

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29 An interesting counterexample is the tariffication of ATM cards at SOBs: the basic version costs 5,000 kip/month while withdrawing at the branch teller from a passbook savings account is still free of charge, though incurring much greater operational costs on the bank’s end.
An aligned objective is the required transparency of all GoL financial flows: this is why the digitization of incoming and outgoing payments is a critical element of the GoL Public Finance Management (PFM) reform, prompting the MoF to dramatically centralize and improve the efficiency of the Treasury. Although these interventions were initiated long before the onset of the COVID-19 pandemic, the crisis provides new impetus to unroll them.

3.3.1 Tax collection broadened and accelerated

The payment of business taxes has been facilitated with the active involvement of the State-Owned Banks, with BCEL designated to lead the initiative because of its technological prowess and large market share on savings and transactional bank accounts. Small and informal businesses are also targeted for creating awareness about the presence of multiple tax and Government services payments, with explanations even provided on the retail mobile-banking app BCEL One (see Figure 21 in which nearly a quarter of all icons pertain to taxes!).

Digital Financial Services are also harnessed to broaden the tax base and, particularly, to reach out to the unbanked: BCEL was the first bank to enter into an MoU with the MoF for the collection of the Road Tax (to be paid annually for every vehicle: motorbike, car, trucks), with immediate record results on collection. BCEL also designed an app for GoL officials to track the level of road tax payments in their respective provinces. This success story was widely shared and featured in a 2017 IMF Laos Article IV report30.

Most notably, the BCOME network played a key role in facilitating tax payments from rural areas; it explains why Road Tax became the most lucrative service of BCOME (see Figure 12) with an extreme seasonality (penalties kick in after the MoF deadline).

Next in line is the land tax, although the documentation requirements are more complex to initiate the first payment through banks, but after that repeated annual payments can be performed very simply from mobile-banking apps and bank agents.

3.3.2 Use of digital financial services for transparent and timely GoL payments

The Lao Development Bank was selected by the MoF in 2016 to provide the SMART CASH project, a cash management solution for the government to manage and distribute cash, through the banking channels, to ministries and other relevant parties.

In April 2020, the MOF signed a contract with Unitel to pay civil servants in 12 unbanked districts:

- Payroll management for 20,000 staff between day 25 and 30 of each month: 20 billion kips /month (~2.2 million USD);
- All staff receive salaries on a U-Money account.

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30 IMF, Laos 2017 Article IV report, Box 2. ‘Fintech Comes Through the Budget’, p.10.
3.4 Alternative repository of digital identities and tiered KYC to accommodate the large share of the population without digital IDs

The main barrier for vulnerable and marginalized groups to access this new breed of affordable formal financial services is the capacity to produce an official and currently valid photo ID. Under the Anti-Money Laundering /Counter Financing of Terrorism (AML-CFT) regime’s Know Your Customer (KYC) policy, all parties involved in any formal financial transaction must be positively identified. § 2.1 has shown that a regime of digital IDs capturing Lao PDR’s total population cannot be envisaged before at least 10 years. Workarounds have to be found for accommodating the reality of missing IDs for the provision of welfare payments and the risk-based supervision paradigm of the financial industry that BoL is moving towards offering specific provisions.

In particular, the BoL should mainstream the tiered KYC regime that it has authorized with PSPs such as U-Money:

- A first-level KYC, which is self-declaratory, gives access to the no-frills account but with restrictions that satisfy the AML/CFT regime. They encompass two categories:
  - A ceiling on the account balance and the volume of transactions so that this avenue is of no interest to criminals. This measure is complemented by a strict PSP surveillance of account activities to deter the hoarding of dozens of accounts by criminals to overcome the instituted ceiling.
  - The limitation on crediting the account, which is typically permitted only for the disbursing entity of the social protection initiative or the employer in the case of insufficiently documented domestic migrant workers. *It implies that account owners would neither be able to deposit cash nor to receive P2P transfers on these specialized accounts.*
- A fully compliant KYC that generally requires a face-to-face meeting between the customer and the PSP/bank staff, and in principle requires a proof of address.
- Possibly an intermediary level between the two to accommodate online on-boarding (i.e. the customer takes a selfie with her/his ID document, which is later validated by the back-office of the PSP) and/or KYC is delegated to agents.

This domain is very sensitive but fundamental in terms of accessibility; it is also not new (domestic banks years ago rolled out ‘cash card’ accounts, which can only be credited by employers to offer comprehensive payroll services to factory workers, particularly the migrant workers who could produce only a photocopy of the family book kept in their home village).

It is worth noting that the Financial Inclusion Roadmap 2018–2025 (FIR) has integrated this exact approach under its Priority #2 ‘Customer Empowerment’: Introduce tiered know your customer (KYC) regulations (2.1 and 2.5). However, the Medium-Term timeframe should be accelerated and can take stock of the existing authorized e-money schemes implementing a tiered KYC.

A notable improvement would be to leverage the KYC policy on SIM cards that is currently being implemented by the Ministry of Post & Telecoms (MPT). The policy forces all MNOs to properly ID their customers, who have to verify their official ID card with the staff of the MNO or accredited agents, by the end of 2020 or be progressively terminated. A similar application of this KYC standard for a certain level of use of e-money would enable MNOs to add a digital
wallet to any SIM card in circulation\textsuperscript{31}. The initiative of banks like LDB — which has partnered with the technology provider of the SIM cards KYC, Lab 856, to eventually piggy-back the SIM card KYC for digital wallet opening — should be encouraged.

3.5 Ubiquitous coverage of physical touch points for e-money

The adoption of e-money will greatly hinge on the ability to seamlessly convert e-money into cash and vice versa, hence the importance of a large footprint for the physical touch points of e-money, particularly to ensure comprehensive coverage in the rural areas, with a fine granularity down to the remotest locations.

The FIR envisions the following Medium-Term activities under its Priority #4 ‘Improving the payments ecosystem through mobile money, digital financial services, and improved payments infrastructure’:

- Ensure that agent networks function effectively, providing adequate liquidity for cash-out demands and mobile money agents have convenient facilities for rebalancing cash and e-value (4.3).
- Ensure that agent networks penetrate areas beyond the current reach of banks (4.3).
- Consider the case for offering grants/subsidies to agents in more remote areas in the early stages of mobile money development (4.3).

This is a domain that requires sensitive and frequent fine-tuning, but would certainly benefit from gradual institutionalization, for example of a tiered KYC regime of PSP agents:

- Master agents with large transactional capabilities requiring commensurate liquidity obligations. These master agents would need to be adequately trained on AML/CFT risks and mitigation processes.
- Sub-agents with limited functionalities and transactional volumes and therefore limited liquidity and compliance obligations. The notion is to establish a significant number of rural businesses/shops able to qualify to offer a far-reaching footprint to PSPs.

It is particularly essential to start the reflection by taking stock of the four years in which agent banking has been in practice in Laos. From then on it will be a combined effort of the PSPs and the regulator to ensure that liquidity, consumer protection and AML/CFT risks are properly addressed. The NPS Law and the PSP licensing framework reflect the international common practice that PSPs are responsible for the behavior of their agents. The PSPs have to demonstrate to the regulator that they have set up the necessary infrastructure to manage and monitor their agents. This requires setting up a dedicated workforce to recruit, train, motivate and manage the agents as well as systematic processes to monitor their activity and redress deviations, ultimately decommissioning repeatedly noncompliant agents.

\textsuperscript{31} Unitel is already using the SIM card KYC campaign as an opportunity to systematically cross-sell the U-Money wallet.
3.6 Coordinated policy to shift the Thailand-to-Laos remittances to the formal system

3.6.1 Encourage private sector alternatives to traditional MTOs

For Laos to fully benefit from the influx of foreign capital, and for Lao migrant workers in Thailand to maximize gains from the security of formal remittances, decent prices for transfers need to be established (targeting a 3% overall transfer cost for a transfer value of ~THB 5,000 (see §1.5.1).

Bilateral cross-border real-time transfers, through account-to-account systems like the Krung Sri – LDB service (see § 2.5.2), have the potential to achieve this objective at very low cost. But Lao migrant workers are just a secondary target, ranked way behind MSMEs in terms of prospects for volumes and commissions. ‘Soft’ technical assistance to bilateral cross-border
real time partnerships can improve the necessary coordination between the two partners and provide market information that is sufficiently decisive to trigger promotional activities.

In the course of this exercise, in October the consultant organized a tripartite meeting between LDB, Krung Sri and the International Organization for Migration (IOM), to determine what would be required to make the transfer service available to Lao migrant workers in Thailand. Krung Sri staff explicitly expressed that the lack of critical information on the industrial parks, in which Thai employers recruit and employ large groups of Lao workers, impedes any commercial prospecting. However, this information is available from the Lao recruitment agencies contracted by these Thai employers, and a UN agency, such as the IOM or ILO, could act as a trusted facilitator.

### 3.6.2 Financial Inclusion module to migrant workers under MOU

Once affordable formal remittance solutions are in place, the GoL can then mandate recruitment agencies for outgoing Lao migrant workers to include, as part of their pre-departure formalities, opening bank accounts for both the worker and his/her relatives in Laos to send and receive remittances. The recruitment agencies would need to coordinate with the Thai employers to integrate the option for remitting part of the salary to Laos into their payroll service, or — if salaries are paid in cash — to examine the available options for formal remittances near the factory.

With the involvement of the Lao recruitment agencies, most of the formalities required to use cross-border account-to-account transfers could be prepared in advance, as well as the necessary time dedicated to conduct a proper training for migrant workers on the setup and use of this system.

### 3.7 Financial and digital literacy

Naturally, the FIR has integrated financial literacy into its action plan, with the following provisions under Priority #2, ‘Consumer empowerment’:

- Encourage financial institutions to develop financial literacy amongst their customers (2.2), Medium-Term
- Aim to integrate learning on financial literacy into the education system (2.2), Long-Term

However, introducing welfare recipients, most of whom are unbanked, to the formal financial system for welfare payments is a difficult but critical endeavor, and all the more so in Laos given the limited track record of financial services and technologies.

It is therefore highly recommended to include a provision mandating the PSPs selected to distribute welfare payments alongside a training session for beneficiaries on the use of the financial services available, as well as basic digital literacy for those introduced to financial services leveraging a mobile phone. Specific attention must be given to key security aspects, such as keeping the beneficiary’s PIN code confidential and an accessible hotline with a complaint management process.