



**LADLF** Laos-Australia  
DEVELOPMENT LEARNING FACILITY  
An Australian Aid project managed by Adam Smith International

# Digital Financial Services in Lao PDR Readiness and Opportunities

November 2015

Managed by:

**Adam Smith  
International**

Supported by:

**Australian  
Aid** 

# Digital Financial Services in Lao PDR – Readiness and Opportunities

## 1. Context

Financial services include savings, credit, insurance and payment facilities provided to organisations and individuals by banks and other financial institutions. In modern economies financial services are delivered by electronic payment mechanisms such as automatic teller machines (ATM), internet banking, point-of-sale (POS) devices, branchless banking and e-money. The use of financial institutions with electronic payments facilities offers many advantages and supports economic growth: cash kept at home is less secure than money in a financial institution; savings accounts accrue interest and provide resources for credit; and credit facilities support business expansion and economic activity. The use of financial institutions improves accountability, from enterprise record-keeping to payment records, and digital payment systems enable people to transfer money to each other when they are in different locations. Risks exist and need to be managed but overall the benefits outweigh the costs.

Despite the advantages offered by financial services and electronic payment systems, in Lao PDR cash remains the norm for holding, transacting and transferring funds. For example, salary disbursements by several government departments are made in cash and many people in Lao PDR keep their savings in cash. It is not uncommon for households to keep up to LAK10 million at home (around USD1200 or almost 12 months of average per capita consumption).<sup>1</sup> Most people in Lao PDR have subsistence farming livelihoods with limited or only recent experience with money. For example: 64% of the population live in rural areas; 78% of adults are involved in farming and of these 90% own and operate their own enterprise.<sup>2</sup> Seven out of 10 workers are employed part-time in low productivity agricultural jobs.<sup>3</sup> The majority of the population are self-employed, with only 15% of adults being formal employees of public or private sector organisations.<sup>4</sup>

On the supply side, the national financial system has expanded from a monopoly in 1975 (the State Bank of Lao PDR) to a system in 2015 that includes 36 commercial and state owned banks, 15 insurance agencies, 48 non-bank financial institutions, 64 microfinance institutions and almost 5000 village funds.<sup>4</sup> The national payments system is under-developed – resulting in reduced facilities for interbank and international transfers and credit card payments. Electronic payment facilities such as internet banking and POS devices are present in Laos but their availability and use is limited and mostly restricted to larger businesses in Vientiane, Luang Prabang or larger provincial capitals. The only widely used electronic means of payment is mobile telephone “top-ups” and utility bill payments linked to formal bank accounts. ATMs are available in Vientiane and provincial capitals but only in some district centres.<sup>5</sup>

---

<sup>1</sup> Lao Statistics Bureau (2015) *Lao expenditure and consumption survey 2012/13 result*. [Table 7].

<sup>2</sup> Agricultural Census Office (2012) *Lao Agricultural Census 2011*. ACO, Vientiane, Lao PDR. [p9]

<sup>3</sup> Clarke, G. et al., (2014) *Lao PDR Investment Climate assessment 2014: policy uncertainty in the midst of a natural resources boom*, World Bank Group, Washington, USA.

<sup>4</sup> UNCDF (2015) *Making access (to finance) possible country diagnostic* LAO PDR. Presentation to Stakeholders, Vientiane, Lao PDR September 17, 2015.

<sup>5</sup> MAFIPP (2014) *Mobile money and branchless banking: market insights on product needs and channel management*. Making Access to Finance More Inclusive for Poor People, Vientiane, Lao PDR.

Access to finance is limited in Lao PDR. According to the 2015 Finscope Study the share of adults using at least one financial service included: 38.5% using a bank; 25.5% using other formal institutions such as a credit union or micro-finance institution; 60.2% using informal services; and 25.7% not using financial services at all. In rural areas many people live far from financial services – for example 44% of adults in rural areas can reach a bank within one hour of travel.<sup>4</sup>

### **Bank of Lao DFS Pilot**

In an effort to increase access to financial services, the Bank of Lao PDR (BoL) is piloting digital financial services (DFS). This involves *branchless banking* and *mobile money* especially targeted at small and medium-sized enterprises and the poor. With support from Australia and UNCDF, the Making Access to Finance More Inclusive for Poor People (MAFIPP) program supports BoL to implement the pilot with competitively selected commercial enterprises including one bank (BCEL) and a mobile network operator (UNITEL). BCEL Community Money Express (BCOME – a form of *branchless banking*) was launched on June 19, 2015 and involves 19 agents including grocery stores, a Beer Lao reseller and construction companies throughout the country. BCOME facilitates over the counter (OTC) transactions (cash to cash), payments (cash to other bank account) and deposits (cash to own bank account). UNITEL is about to start piloting *mobile money*, which runs on a parallel platform where e-money is issued based on a trust fund bank account. Providers issue e-money to a network of agents who receive real money from customers and convert to e-money for transactions. Initial agents include UNITEL branch offices.

## **2. Focus of Study**

This study is a rapid appraisal of the readiness of businesses in Lao PDR to adopt DFS and the opportunities for contributing to economic growth by expanding the range of financial services available in the country. Semi-structured interviews were conducted with a small sample of companies based in Vientiane but operating nationally. In these interviews businesses were asked about their readiness to adopt DFS<sup>6</sup> and the opportunities that DFS offered their businesses. The companies interviewed included a food wholesaler, two travel agents, Lao Brewery Company, Outspan Bolovens Limited, Petro Trade, and Sinouk Coffee and Sinouk Phatana Sekong.

## **3. Readiness to adopt financial services & electronic payments systems**

Readiness is characterised by recognition of a problem and acceptance that a proposed solution (in this case DFS) is worth trying. Whilst most businesses interviewed recognised the costs of cash transactions, they all identified the preference for cash among suppliers and clients in Lao PDR as a constraint to financial services and electronic payment systems.

Some businesses were constrained by the business practices of their suppliers and clients. We spoke to one food wholesaler that is a supplier of fine foods to hotels, restaurants and mini marts. Orders and payments from businesses managed by expatriates based in Lao PDR are made via bank transfers but payments to and from local family businesses in Lao PDR are made in cash. The food wholesaler have approached the local businesses to shift to account based business transactions but have met with strong resistance. The family businesses pay for orders with cash from their till and prefer to keep their transactions off the record.

Other businesses are constrained by enterprise structure, practices and culture. Sinouk Phatana Sekong (SPS) sells high quality, green bean, coffee to the domestic market and Sinouk Coffee buys beans from SPS to roast, pack and distribute to hotels, restaurants and minimarts. Sinouk Coffee

---

<sup>6</sup> Armenakis, A., Harris, S. and Field, H. (1999) Making change permanent: a model for institutionalising change interventions. Research in Institutional Change and Development, Issue 12, pp97 – 128. Stamford, CT: JAI Press Inc. USA.



also has a retail channel with eight coffee shops (six in Vientiane and two in provincial capitals) and four franchises. As retail outlets the coffee shops receive cash. They do not have POS systems for electronic payment. The Vientiane headquarters collects cash every day from the coffee shops in Vientiane and then controls and consolidates all cash before depositing at their bank. Although the coffee shops have their own bank accounts and could make bank-to-bank transfers, the business owner feels it is necessary for control of cash to be centralised and collected daily in order to exert control. Trust in staff handling cash is one of the main challenges identified by this business and cash control is perceived to be the best way to monitor this. The business employs 100 staff, who are all paid in cash. The business attempted to shift salary payments to bank transfers but there was strong resistance from staff and the attempt failed.

Another factor that keeps the Sinouk enterprises operating as cash businesses is the lack, or high cost, of financial services in Lao PDR. Transferring funds between accounts in different banks is expensive and takes a few days. Mr Sinouk banks with Banque Franco-Lao (BFL) but many hotels and restaurants have accounts with Banque Pour le Commerce Extérieur Lao Public (BCEL) and pay with BCEL cheques. Such cheques are cashed by Sinouk staff at BCEL and the cash is deposited at BFL. To purchase regular supplies from Thailand, the Sinouk business withdraws Lao Kip cash from the BFL account, exchanges these for Thai Baht at the border, and then deposits this cash in a Thai bank across the border in Nong Khai before it is transferred by bank-to-bank electronic funds transfer (EFT) to pay suppliers in Thailand.

The lack of financial services offered by banks in Lao PDR also constrains the payment facilities that businesses can offer their customers. One large local travel agency cannot offer online credit card payments for clients. BCEL began offering an on-line credit card payment service recently, but they charge 4.5% for each transaction, whereas the average credit card processing fee for “*card-not-present*” businesses such as online shops is around 2.5%<sup>7</sup>. This makes Lao PDR a more expensive destination and so less attractive for tourists, especially compared with ASEAN countries with similar offerings such as Cambodia, Indonesia, Malaysia and Vietnam.

## 4. Opportunities for DFS and electronic payments systems

### Awareness of transaction costs of cash

While the preference for cash in Lao PDR remains strong there are signs of progress towards adoption of financial services and electronic payments systems by smaller businesses. One indicator of “readiness” to adopt among business is their awareness of the transaction costs caused by the reliance on cash based systems (a “*problem*”). A food wholesaler representative identified a number of disadvantages resulting from cash-based businesses including: it is time-consuming; it is harder to control transactions between staff and suppliers; and use of cash is associated with an *ad hoc* business style that includes a lack of business planning on the part of clients, which results in frequent and unpredictable small orders.

Mr Sinouk also identified transaction costs associated with the use of cash including: the time staff spend travelling to Thailand to transact with regular suppliers; the transactions relating to managing daily takings; a need to micro-manage the business in the absence of clear business records; as well as security risks with staff carrying large amounts of cash. Mr Sinouk also said that being a cash business prevented him from expanding. For example he said he would not open a new café in the provinces because he could not be there to control the cash. He said that with a more modern financial system the business could attract joint ventures and even be listed on the stock exchange but with a cash business the financial records were not good enough to attract investors.

---

<sup>7</sup> [www.cardfellow.com/average-fees-for-credit-card-processing/](http://www.cardfellow.com/average-fees-for-credit-card-processing/)

Outspan Bolovens Limited (OBL) is aware of the transaction costs associated with operating in a cash environment. They identified the time to organise and administer the money transfer via provincial and district banks and the subsequent transport of cash up to the spot of the actual payment to the coffee suppliers and coffee plantation workers as a concern, as well as the risk and lack of control for both parties involved.

Advances and bonuses to farmer groups as well as payments to some contractors are paid by cheques which involve some physical transport and handling by OBL. The recipients face the constraints of the physical locations and the public hours of the banks cashing the cheques which may require additional efforts to access the payments.

Most of these transactions would be more efficient if digital financial services were used.

### **Early adopters of financial services and electronic payments systems**

There was also evidence of early adoption of electronic payments systems and DFS among some businesses interviewed, with early evidence of resulting benefits.

The larger companies, especially those with international investors, have modern financial management practices based on formal bank transactions. Lao Brewery Company Ltd (LBC), a joint venture between Carlsberg Brewery and the Lao PDR Government, is one of the largest companies in Lao PDR. They use bank transfers to make and receive payments. LBC transact with several thousand outlets, including beer gardens and small shops, with about 80% of these paying by cheque or bank transfer to account and about 20% paying with cash. Outlets are encouraged to have an account with the same bank used by LBC for these transactions.

Some companies have made an effort to shift their financial transactions from a cash to a bank-based system. One travel agent now pays 95% of staff and suppliers – including local guides and park entry fees – with bank transfers. This was not always the case but the result of a strong push by the travel agent to change the system – a business transformation process that took five years. As an employer and important client for tourist industry suppliers (e.g. hotels, car hire companies) the travel agent brought about change in the industry. The travel agent worked with BFL to organise meetings with suppliers, explain the advantages of bank accounts to them, and help them open accounts. The travel agent also helped suppliers negotiate with BFL when they had difficulties. The transition was initially resisted by suppliers because of the strong cash culture associated with a desire to minimise taxation through a lack of transparency about earnings and use of off-book transactions. There was also resistance from staff, many of whom felt that their money would be less accessible.

The travel agent, its suppliers and staff have benefited from moving to a formal banked business rather than cash business. The travel agent identified benefits including: elimination of corruption or fraud in negotiations between staff and suppliers; the capacity to negotiate all commissions globally, by contract, for the benefit of all staff; and increased efficiency because frequent suppliers (e.g. hotels, tourist sites, guides) invoice by monthly statement rather than on the basis of individual transactions. As transactions were properly recorded the travel agent was able to increase its bargaining power with suppliers as they could demonstrate the volume of demand they generated and so negotiate better conditions of service (e.g. requiring all drivers to have a license) and reduced unit costs.

Suppliers to the travel agent also experienced benefits from adopting formal bank account business models – many of which related to improvements in financial literacy. Suppliers gained an improved understanding of their own business by having a record of financial transactions and properly separating their business and personal affairs. As they began to accurately record their costs, suppliers also began to bill for more costs, thus improving their business viability. More accurate

business records also demonstrated that the suppliers were better off paying company and income taxes transparently rather than negotiating a lump sum payment with tax officials. Also, using bank accounts enabled the suppliers to develop relationships with the banks and they began to access other financial products such as credit, which in turn enabled them to grow their businesses.

Staff of the travel agent benefited from receiving salary payments as bank transfers rather than cash. Staff found that, contrary to their initial expectations, their money was readily accessible through ATMs while being more secure. In addition, having their monthly salary in a bank account rather than in cash helped them to budget and save better because it was easier to know how much money they had. This transition was facilitated by the travel agent providing financial literacy training to their staff, including developing saving and budgeting skills.

As well as using the banking system, some large companies are also starting to use electronic payment systems. For example, the fuel supply company PLUS (formally PetroTrade) issued debit cards linked to BCEL bank accounts since 2012. ATM cards, VISA cards and Union Pay cards issued by BCEL and Phongsavanh Bank can also be used for payment at PLUS/PetroTrade fuel stations.

### **Adoption of DFS**

Although it is early days in the introduction of DFS (branchless banking/mobile money) in Lao PDR, there is early evidence of adoption by companies. One Beer Lao outlet operates as an agent in the BCEL branchless banking pilot. The success of this has resulted in other outlets expressing interest to become agents. Beer Lao outlets would be ideal agents for DFS because of they are located centrally in local communities and have many small transactions.

There is also interest in DFS from OBL. They have worked with the rise of branchless banking in East Africa and are encouraged by the way it can be used as a common mechanism for transferring payments to and from coffee producers in rural areas. If the system becomes widely available in Lao PDR and is seen as beneficial by coffee growers they would consider using it for paying their coffee traders and growers instead of using cash or cheque transactions.

## **5. Conclusion**

Although cash remains the norm for business transactions in Lao PDR, there are clear signs of readiness and early signs of adoption of financial services and electronic payments systems. Larger, formal businesses such as LBC, Petro Trade, the travel agent interviewed for this study and Olam (and its subsidiary OBL) are drivers of change towards more efficient, more transparent financial services and electronic payments systems in Lao PDR. Their early commitment can be used to support the next group of companies to adopt DFS.

A second tier of medium-sized businesses are also being drawn into the formal financial system, some through their own initiatives and some as supply chain intermediaries for large businesses (e.g. Beer Lao outlets). However, other medium-sized businesses remain cash based because of their enterprise structure, practices or culture (e.g. Sinouk group).

A third tier of small, informal businesses remains predominantly cash based and isolated from the formal system. This includes, for example, suppliers and clients of medium-sized businesses such as farmers and traders supplying coffee to OBL, beer resellers buying from LBC outlets, and minimarts selling imported food products. Reasons for Lao PDR small and medium-sized enterprises remaining cash businesses include lack of financial literacy and business management skills; a lack of familiarity with and in some cases easy access to banks; and a preference to avoid formal business records due to a lack of trust in the Government.

The experiences of companies making the transition to financial services and electronic payment systems that were interviewed as part of this study suggest that business management and growth are enabled by the process. For example suppliers of the travel agent interviewed (e.g. hotels, restaurants, car hire businesses) began to bill accurately for costs, understood their cash flows better, which led to them improving their business strategies and developing relationships with banks so that they could access credit and other financial products.

Examples from this study demonstrated that a cash based approach to business can constrain growth. For example, the cash-based café business was reluctant to open branches in other provinces because the manager would not be able monitor staff actions or control finances remotely.

This study suggests cash businesses are aware of the transaction costs associated with cash-based management practices and that they are ready to consider alternatives such as a shift towards financial management using bank accounts and electronic payments if the DFS “solution” is communicated effectively. However, there are still constraints on the supply side (e.g. high cost of banking services and limited payments facilities) which may influence the rate and pace of adoption.

It is not surprising that interest in DFS was expressed by businesses with fragmented supply chains, such as OBL. Such a business needs to pay many suppliers who are not within easy proximity of a bank branch. Companies in this situation are likely to be early adopters if their suppliers perceive a personal benefit in the proposed solution.

While the process of adoption of financial services, electronic payments facilities and DFS has begun in the Lao PDR business community, it will take time for the process to be complete. Experience in other countries suggests 5 – 10 years is a realistic period to achieve at least 65% adoption and commitment. The Government of Lao PDR and development partners could support Lao PDR businesses in the adoption and diffusion of financial services, electronic payments mechanisms and DFS by providing training in financial literacy and SME management as part of their Human Resource Development (HRD) priorities. These changes make a contribution to two elements of the LDC graduation criteria – the human asset index and economic vulnerability index – and so are directly relevant to the strategic priorities identified by the Government of Lao PDR.



LADLF. PO Box 468. Phonesavanh Nuea  
Village, Unit 17, Sisattanak District, Vientiane  
Capital; Lao PDR.

Tel: (856-21) 263882  
<http://ladlf.org>

Managed by: **Adam Smith  
International**

Supported by: **Australian  
Aid** 