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DIGITAL CASH TRANSFERS IN LAO PDR

A scoping exercise

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Digital Cash Transfers in Lao PDR: a scoping exercise

I. Background and introduction

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

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

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

II. Aim, scope and methodology

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

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

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

III. Country context

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

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

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

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

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

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

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

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

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

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

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

IV. Country priorities and regulatory framework

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

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

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

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

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

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

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

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

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

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

7 <https://www.uncdf.org/laopdr>

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

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

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

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

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

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

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

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

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

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

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

V. Digital Financial Services in Lao PDR

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

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

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

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

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

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

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

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

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

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

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

In July 2020, UNITEL signed a Memorandum of Understanding (MOU) with BCEL to promote cooperation and interconnectivity between the two digital financial services. Among other issues, this MOU seeks to guide the joint development of a mechanism to connect U-Money with BCEL One (the BCEL online banking app) to enable users to make transfers from their U-money account to a BCEL account and vice versa. Importantly, since the U-money platform can be used via mobile phone networks without the need for an internet connection, this mechanism is expected to greatly facilitate transfers for users living in remote areas who, as discussed in Section 3, typically have limited access to internet services.²⁵

21 <https://phbdevelopment.com/creating-a-new-world-of-banking-in-lao-pdr-a-vision-for-branchless-banking-realized/>

22 <https://vnexplorer.net/u-money-e-wallet-in-laos-marks-two-years-of-operation-a202094943.html>

23 <https://vnexplorer.net/u-money-e-wallet-in-laos-marks-two-years-of-operation-a202094943.html>

24 Ibid. Note that the article does not specify by when UNITEL expects to establish 1-3 service centres in each village of the country. At the same time and against the background of poor network coverage, limited smartphone penetration, and limited digital financial literacy as elaborated in Section 3 however, it remains to be seen whether this ambition will be fulfilled.

25 <https://laotiantimes.com/2020/07/18/star-fintech-signs-deal-with-bcel-for-mobile-banking-interconnectivity/>

As Box 1 shows, a growing number of actors, including the GOL and state enterprises, have started to adopt U-Money in 2020.

Box 1: Mobile money in Lao PDR: a growing uptake

In mid-2020, UNITEL signed agreements with district government offices to pay the salaries of local government staff, also in remote villages where there are no banks, through the U-Money platform to replace traditional cash in hand transfer payments. U-Money was first trialled in Merng, Chomphet, and Pak Ou Districts in Luang Prabang Province.²⁶ Building on the experience in these districts, in December 2020 UNITEL signed additional agreements to expand payment of local government staff salaries in more provinces.²⁷

A number of state enterprises have adopted U-Money transfers in 2020, including Dao Drinking Water at Phatthanasanamxay Village in Champasack Province, Star Tech and Thepaumnuay in Vientiane²⁸. In December 2020, UNITEL also signed a MOU with Prudential Life Assurance Co. Ltd to support insurance premium payments via U-Money.²⁹

In December 2020, Star Telecom donated LAK 500 million (USD 53,900) as emergency assistance to 1,200 households affected by the floods that hit the Savannakhet province in September-October 2020. Star Telecom used U-Money to deliver cash transfers of LAK 300,000 (USD 33) per household to affected people.³⁰ Recipients withdrew their cash transfers at “UNITEL service centres, agency outlets or UNITEL staff nationwide” and, according to the article, U-money was chosen as the best system to disburse the donations, enabling families to access the money directly, quickly and securely.”³¹

QR-code: In 2017, BCEL launched BCEL OnePay, the first mobile phone application to enable cashless payments in the country: consumers can use their smartphones to scan a QR code to pay for goods and services, the amount is deducted from the consumer account and transferred immediately into the vendor account.³² As interviewees indicated, QR-code enabled merchant payments is a digital service that is becoming increasingly popular in the capital and in urban and peri-urban areas, but less so in rural areas, largely because digital literacy and penetration of smartphones in rural areas is still lagging (see Section 3). Since 2017, other banks in Lao PDR have started to develop QR

26 <https://laotiantimes.com/2020/08/10/district-governments-begin-salary-payments-via-u-money/> see also <https://laotiantimes.com/2020/08/10/district-governments-begin-salary-payments-via-u-money/>

27 These are: Maed district, Vientiane province; Viengkham, Phonthong and Phoukhoun districts in Luang Prabang province; Kuan district in Huaphan province; Xaysathan district in Xayaboury province; Samphan district in Phongsaly province; Meuang district in Bokeo province; Hom and Longcheng districts in Xaysomboun province; and Xaychamphon district in Borikhamxay province. <https://laotiantimes.com/2020/12/17/treasury-star-fintech-ink-deal-on-salary-payments-using-u-money/>

28 <https://laotiantimes.com/2020/08/10/district-governments-begin-salary-payments-via-u-money/>

29 <https://www.prudential.la/corp/prudential-la/en/newsroom/umoney-and-prudential/>

30 Also, an additional 68 flood affected households received cash transfers of LAK 2 million (USD 215) as well as a phone handset each <https://www.laopdrnewgazette.com/star-telecom-donates-over-us53900-for-flood-victims-in-savannakhet/>

31 <https://www.facebook.com/vientianetimesonline/posts/3873583089375782>

32 <https://jclao.com/bcel-launches-cashless-payment-system-in-laos/>

applications. In April 2019 for example, the Kasikorn Thai Bank in cooperation with Lao Telecommunications Public Company launched the QR KBank.³³



VI. Cash-based programming and delivery mechanisms in Lao PDR

The use of cash as a modality for delivering social protection and emergency assistance is very recent in Lao PDR. Despite the issuance of a number of social welfare decrees to provide for the use of both cash and in-kind as modalities of social assistance (e.g. the cash & in kind transfer for veterans and elderly, Decree 343/PM), and the inclusion of both cash and in-kind transfers in the Poverty Reduction Fund, cash has been, until now, rarely used as a social protection instrument. In late 2020 however, government actors have embarked in the design and implementation of two social cash transfer pilots with support from international agencies, as elaborated below. Furthermore, the use of cash by the GOL as one modality of response to emergencies has also been limited,³⁴ with in-kind transfers largely being the most common way of GOL-led assistance to affected populations (WFP and OPM, 2018). As key informants also explained, humanitarian cash transfers implemented by international actors gained traction as part of the emergency response that was mounted in 2018 following the collapse of a dam in the Attapeu province.³⁵ The Cash Working Group (CWG)- co-chaired by WFP and the Ministry of Labour and Social Welfare (MOLSW), was also established relatively recently, in 2019, as a platform for coordinating the growing cash initiatives in the country.

Since 2018, WFP in Lao PDR has been delivering cash transfers for emergency response and other programme activities. Activities include: training and capacity building (reimbursements or incentives to government officials and other attendees for transport costs, daily allowances, etc.);

³³ https://www.facebook.com/permalink.php?id=414174082126582&story_fbid=1043921655818485

³⁴ For example, and as indicated by one WFP staff, in 2018 the GOL delivered cash transfers to people displaced as a result of floods and this assistance is still ongoing.

³⁵ Also, the Cash Working Group, which is co-led by WFP with the MOLSW, was only established in early 2019.

school feeding (grants delivered to village development committees for purchase of food at local level); Food for Assets (remuneration to participants working on creation/rehabilitation of productive community assets); community mobilization (incentives to community facilitators at village level) (WFP Lao PDR, 2019).

Cash in hand and mobile money: advantages and drawbacks

Thus far, WFP and other agencies have adopted cash in hand as the main channel for delivering to recipients; first using their own staff and then, starting from around 2019, through contracted FSPs. In this context, FSPs mainly consist of bank institutions that distribute cash transfers to recipients through mobile bank branches (vehicles) that are set up in programme areas in ad hoc distribution points (CWG, draft). WFP was one of the first agencies to draw up and sign stand-by partner agreements with FSPs, BCEL and Lao Development Bank. In remote locations where there are no physical branches, BCEL uses its BCOME platform (see Section 5) to distribute cash payments. In line with the objectives of the CWG,³⁶ WFP made available the Terms & Conditions (T&Cs) of the agreement for use by other cash actors wanting to establish partnerships with FSPs. According to one WFP staff, as of January 2021 a total of 19 UN agencies in the country had used these T&Cs to set up similar FSP agreements.

In the rural, cash-dominated economy of Lao PDR, direct cash in hand has allowed international agencies to roll out cash programmes using a delivery channel that functions, is commonly used, familiar, and trusted by recipients. Critically, the needs and preferences of cash recipients are one key aspect to consider when deciding the most appropriate cash delivery mechanisms. Hence, the importance of these aspects is not to be underestimated, particularly in light of the growing body of evidence showing that beneficiaries prefer cash delivered through mechanisms that are familiar to them, easy to use, trustworthy and reliable (Sagmaister and Pavanello, 2018; Bailey, 2017; Wilson and Krystalli, 2017; see also Section 7).

At the same time, key informants interviewed also highlighted a number of (relatively common, also in other contexts) drawbacks and risks associated with cash in hand. These are outlined here below:

Access: the most prominent barrier to distribution (by agencies) and collection (by beneficiaries) of cash assistance in this context is access. As key informants explained, cash beneficiaries typically live in rural, often remote mountainous areas and the majority need to travel long journeys to reach the distribution point (e.g. the contracted FSP mobile bank branch) to collect their cash in hand payments. Echoing the findings of the ADB 2019 survey mentioned in Section 3 above, one

³⁶ One of the four objectives of the CWG Terms of Reference is to “[s]trengthen coordination ... in ongoing operations, preparedness and response”, including through “combined negotiations by humanitarian and development organizations with service providers [e.g. financial, cell phone and insurance providers for effective cash and voucher delivery with possibility of add-on services] (CWG, 2019)

interviewee noted that, depending on where they live, some beneficiaries can walk up to six hours to reach the cash distribution point. WFP Lao PDR 2019 Annual Report also noted that accessibility challenges intensify during the rainy season when poor road conditions and landslides hamper distributions or prevent beneficiaries from travelling to receive their payments (WFP Lao PDR, 2019). One interviewee also added that accessibility is a critical issue for people with disability, a vulnerable group that was indicated as particularly difficult to reach with cash assistance in this context.

Accessibility constraints and the travel time (and no doubt also costs) required to reach distribution points were also indicated by some interviewees as limiting options for exploring the roll out of more frequent (e.g. every one or two months), regular cash transfers, rather than one-off emergency transfers, to achieve longer-term goals such as strengthening household resilience, improving food security, and providing social protection assistance to the most vulnerable.

Traceability: a well-known issue with cash in hand in general is that, unlike digital payments, it is not easily traceable. This poses a challenge for transparency, monitoring and evaluation of cash programmes, and for donors' reporting requirements. Implementers of the social cash transfer pilots described below, highlighted lack of traceability of cash in hand as among the key reasons why these pilots were exploring mobile money as one delivery channel. At the same time, implementers interviewed were well aware of the challenges surrounding the adoption of the new mobile money system to deliver regular cash transfers in the absence of a digitized official ID system of individuals with a unique identifier and in a context of low financial literacy among rural recipients of cash interventions, low mobile penetration, and other contextual challenges as elaborated in Section 7.³⁷

Insecurity: in general, Lao PDR is a relatively safe operating environment and there are limited protection risks to beneficiaries (WFP Lao PDR, 2019). That said, there are inherent risks arising from the manual distribution of large amounts of cash in any context. WFP Risk Register for Lao PDR for example rates insecurity and access as the highest risks for cash transfer distributions in the country (WFP Lao PDR, 2020).

Given the nascent DFS ecosystem and the limited banking and mobile phone options available, until recently there has been a genuine lack of delivery options, making 'alternatives' to direct cash in hand, also as a way to redress the drawbacks outlined above, almost impossible for international actors to explore. Hence so far, cash in hand has been the only feasible way to deliver cash in Lao PDR. As discussed above however, the DFS ecosystem is gradually changing, and new digital solutions are now on offer. As the three examples below show, there is growing interest among cash actors operating in the country – also in line with global digitalization trends- to explore how to best leverage these new digital solutions, mobile money in particular, as alternatives to cash in hand.

³⁷ Especially in the rural areas of the country, the use of family books, rather than ID cards is widespread, and only around 25% of the adult population countrywide holds a national ID card (CWG, draft; UN ESCAP, 2020). This is a key challenge in the establishment of a national social registry in Lao PDR.

Cash pilots using mobile money as the delivery mechanism

UNICEF-MOLSW unconditional cash transfer pilot. Under the United Nations Joint Programme umbrella,³⁸ UNICEF is working with the MOLSW to design and implement an unconditional cash transfer pilot targeting eligible pregnant women and children under 12 months in Attapeu and Savannakhet provinces to prevent nutrition-related diseases and chronic malnutrition in children (Joint SDG Fund, 2019).³⁹ Unconditional cash transfers of 140,000 LAK (15 USD) per month will be delivered under this programme every two months to beneficiary households, for a period of 18 months. At the time of writing the pilot had not yet been rolled out, and the identification of the cash delivery mechanism and the FSP, which also included exploring options for digital payment solutions, was still underway.

World Bank-Ministry of Agriculture and Forest (MAF) conditional cash transfer pilot. As part of the Reducing Rural Poverty and Malnutrition project,⁴⁰ the World Bank is working with the MAF to design and implement a conditional cash transfer pilot targeting pregnant women and mothers of children ages 0–2 years in the four northern provinces of Huaphanh, Xieng Khuang, Phongsaly, Oudomxay. Conditional cash transfers of 140,000 LAK (15 USD) per month will be delivered to eligible households with a frequency of two to three months to improve nutrition, diet diversity, utilization of health and nutrition services and practices through the conditionality attached to the transfer (World Bank, 2019).⁴¹

On 25th February 2021 the MAF and UNITEL signed an agreement under which UNITEL will disburse conditional cash transfers to eligible beneficiaries using the U-Money platform: cash will be transferred to recipients' phones and will be cashed out at "service agents at village level, UNITEL staff, and convenient counter services".⁴² The first cash transfers were expected to be distributed in March 2021.⁴³

Word Vision International (WVI). As explained by staff interviewed, at the time of writing WVI was finalizing an agreement with UNITEL for the roll out a mobile money pilot to be launched in March/April 2021 in two selected provinces. Through this pilot WVI aims to test digital payments and gradually shift from cash in hand to mobile money transfers to cover allowances (e.g. transport, per diem), remunerations, and incentives to government officials and other individuals (e.g. village health volunteers, community mobilizers) attending WVI capacity building and training activities. As highlighted by one respondent interviewed, the idea is to first test mobile money transfers with a

38 The United Nations Joint Programme is a two-year (2020-2021) initiative implemented by UNCDF, ILO and UNICEF to support the GOL in developing the social protection sector (Joint SDG Fund, 2019).

39 Through the delivery of an integrated welfare package consisting of both regular, unconditional cash transfers and early childhood services.

40 Reducing Rural Poverty and Malnutrition is a five-year (2019-2024) project funded by the World Bank to improve nutrition behaviours and enhance the convergence of nutrition-focused interventions (World Bank, 2019).

41 Conditionality consists of attending regular Social and Behaviour Change Communication sessions on maternal and child health and nutrition.

42 <https://laotiantimes.com/2021/02/25/ministry-star-fintech-ink-deal-on-conditional-cash-transfer-under-the-reducing-rural-poverty-and-malnutrition-project/>

43 <https://laotiantimes.com/2021/02/25/ministry-star-fintech-ink-deal-on-conditional-cash-transfer-under-the-reducing-rural-poverty-and-malnutrition-project/>

pool of recipients who are likely to be familiar with mobile technologies, have a mobile phone, and relatively easy access to a cash out point (e.g. a UNITEL agent), and subsequently, on the basis of this experience, explore the possibility of piloting mobile money for cash transfers to beneficiaries.

VII. Digitalization of cash transfers in Lao PDR: opportunities and challenges

From an agency perspective and considering the other two digital financial services available in the country at this juncture (branchless banking and QR Code), a focus on mobile money as a potentially viable, albeit nascent, alternative to cash in hand, makes sense. On the one hand, branchless banking has already been adopted by WFP and other agencies but, as discussed above, the number of transfer agents across the country remains low, offering limited options for cashing out. Hence, until transfer agents onboarding is expanded, branchless banking does not seem to offer a solution to the accessibility constraints discussed in the preceding sections. On the other hand, the wider uptake of QR code-enabled payments is largely limited to urban and peri-urban areas where smartphone use is predominantly concentrated, but not in the rural, remote areas where the majority of beneficiaries of cash transfer programmes are found, making this channel not a viable solution for cash transfer programmes at this stage.

By contrast, mobile money, as also shown in Box 1, is being increasingly used by different entities, including the GOL, also in remote areas where physical banks are not present, and UNITEL has also used mobile money to distribute emergency cash to flood affected people. The MOU between UNITEL and BCEL signed in July 2020 mentioned above, is also a potentially interesting development which could lead to interoperability between BCEL (with who WFP already has a stand-by agreement) and UNITEL. This needs further exploration, particularly once coordination and interoperability between BCEL and UNITEL do indeed materialize, but it might be useful to consider as a link between two possible delivery mechanisms. These are all indications that mobile money could indeed offer prospects towards digitalization of cash transfers in this context.

Interviewees also saw mobile money transfers as holding potential for redressing some of the drawbacks associated with cash in hand outlined in Section 6. Their traceability for example was expected to lead to greater programme transparency and technology was indicated as offering a way to overcome the access challenges arising from the long distance that separates people from banks. Since in the near future banks and other financial institutions are unlikely to extend their services through physical infrastructure to less populated, remote rural areas where cash programmes are typically rolled out (see Section 3), technology such as mobile phones were seen as helping to fill this gap and extend access beyond branch-based service provision (see also Naidoo and Loots, 2020). WFP staff also mentioned that, similarly to the goal of digital cash transfer programmes in other contexts, moving from cash in hand to mobile money transfers could open avenues for establishing a link between formal financial system and people who are traditionally excluded from it, and in turn offer positive financial inclusion gains (see also WFP Lao PDR, 2020).

At the same time however, interviewees also acknowledged a number of challenges linked to the adoption of the nascent mobile money transfer as a cash delivery mechanism in Lao PDR, and specifically:

Transfer agent networks: Until recently, UNITEL was the only MNO that had been granted the licence to operate mobile money transfers in the country. As highlighted above in early 2021, a new player - Lao Mobile Money Company sole Limited, has also launched a new mobile money platform, m-Money. Again, this gives an indication of the early stage of development of the sector. As elaborated above, UNITEL currently relies on 10,000 transfer agents across the country in both rural and urban areas, a significantly higher number than BCOME agents, estimated at 400 as mentioned above (and possibly more than the number of Post Offices). Even so, interviewees also did not see the network of UNITEL transfer agents as wide enough to provide sufficient coverage and cash-out points to enable the delivery of regular, frequent transfers that can be easily accessed by targeted beneficiaries.

From a regulatory point of view, the expansion of transfer agents' network should be relatively straightforward since country regulations allow any entity with a business license to become a transfer agent, subject to risk-based requirements (World Bank, 2019a). This means that, in principle at least, small grocery stores in rural areas can become transfer agents. As in other developing country contexts, this is advantageous particularly in areas beyond the reach of banks since virtually everybody lives in relatively close proximity to a grocery store. However, as one interviewee explained, in practice basic requirements to become an agent - such as having good levels of numeracy and literacy skills, familiarity with technology, ability to apply to become a transfer agent and satisfy necessary requisites (e.g. around risk management) - are not easily met in most of the rural, remote areas of the country and therefore act as entry barriers for newcomers. In turn, this limits agents' onboarding as well as the growth of the network.

Transfer agents' liquidity: established transfer agents may not be able to satisfy the demands of cash transfer programmes. As one interviewee noted for example, agents in rural areas might not have sufficient liquidity to effectively cope with high demands for cashing out at once (since cash implementing agencies typically use bulk transfers, i.e. the simultaneous transfer of funds from the implementing agency to many beneficiaries, and beneficiaries typically cash-out the entire amount on the distribution day).

Beneficiaries' financial and digital literacy: low levels of financial and digital literacy amongst beneficiaries were mentioned in interviews as a source of concern for the uptake of mobile money transfers in this context. In turn, outreach and training were seen as critical components of digital cash programmes precisely to help redressing these challenges (see also WFP Lao PDR, 2020).

This concern is no doubt well-grounded. First and as discussed so far, the mobile money model in the country is nascent, and recipients of cash transfers (whether delivered as part of emergency response or social protection schemes) are for the most part rural, vulnerable and poor people with limited digital literacy and access to mobile phones (see Section 3). Second and as a growing body of evidence from different country contexts suggests, in general poor and vulnerable cash recipients

are not familiar with digital channels and technologies such as ATM cards, mobile money or even mobile phones. In turn, they see DFS as not relevant and often find the process of accessing their cash entitlements difficult and confusing, as the examples in Box 2 show (Bailey, 2017; Wilson and Krystalli, 2017; Sagmaister and Pavanello, 2018).

Box 2: Mobile money transfers and recipients' preferences

In Ethiopia and Bangladesh, beneficiaries of Mercy Corps projects that delivered cash assistance through mobile money had very little previous experience with mobile phones, let alone mobile money. In Ethiopia, a mere 10% of beneficiaries owned phone handsets prior to the Mercy Corps project (Bailey, 2017). A 2018 study exploring recipients' needs and preferences around cash delivery mechanisms in Kenya and Iraq, found that beneficiaries of UNHCR and WFP cash interventions in Iraq experienced a great deal of confusion when cash was delivered using channels, such as mobile money transfers, that were largely unfamiliar to them and which involved, from their perspectives, multiple and complicated steps (Sagmaister and Pavanello, 2018). In both Kenya and Iraq, the majority of study participants expressed a marked preference for cash delivery mechanisms that were familiar and allowed access to cash assistance through a limited number of clear and easy to follow steps (*Ibid.*).

Financial inclusion: Growing evidence in different contexts suggests that the link between digital humanitarian cash and financial inclusion has not yet materialised. While cash transfer programmes can increase recipients' exposure to mobile money and other DFS (e.g. ATM withdrawals), they do not automatically lead to uptake of financial services. One study exploring the financial journey of refugees in Greece, Jordan and Turkey for example concluded that "financial inclusion through cash assistance is a goal and not a reality" (Wilson and Krystalli, 2017: 75). Very often, beneficiaries' comfort in managing digital transactions, which in many contexts is also not a given as discussed above, does not necessarily translate into comfort in accessing other kinds of digitally enabled financial services (Bailey, 2017; Wilson and Krystalli, 2017; Chehade et al., 2020).

VIII. Conclusions and ways forward

Since 2015, Lao PDR has made important advances in developing communication infrastructure, the enabling regulatory environment for DFS, and a range of digital products such as branchless banking and mobile money. Since 2018, cash transfers have also been increasingly used as a modality of assistance by international humanitarian agencies, including WFP. Also, national social protection actors, with support from development partners, are stepping up the use of cash, and at the time of writing two cash pilots were being rolled out in the country as part of efforts to develop the nascent social protection system.

While thus far cash assistance has been delivered to recipients as cash in hand, recent developments in the DFS ecosystem are opening up interesting opportunities for national and international actors to use the relatively new digital solutions, such as mobile money, as cash delivery mechanisms. Indeed, there is strong interest amongst international agencies working in Lao PDR, including WFP,

to explore mobile money as one viable alternative to cash in hand and as a step towards greater digitalization of cash transfer programmes in the country.

This scoping exercise has highlighted how mobile money could redress some of the drawbacks linked to cash in hand for both cash actors and beneficiaries. These include: access constraints, lack of traceability, and the inherent risks associated with manually distributing large sums of cash. At the same time, some challenges to the adoption of mobile money by national and international cash actors have emerged. These include: the network of transfer agents currently offers limited cash-out points and coverage, which would hamper the delivery of regular, frequent transfers to beneficiaries; existing agents in rural areas might lack sufficient liquidity to cope with the high demands for cashing out at once, typical of cash transfer programmes; low levels of financial and digital literacy amongst beneficiaries might hinder the uptake of mobile money transfers.

Based on the findings, the following ways forward are proposed for WFP to consider as it continues, together with other actors, to explore alternatives to cash in hand in Lao PDR while ensuring alignment to government priorities:

Evidence generation. To assess what might be the best way to deliver regular cash assistance in Lao PDR, WFP, in coordination with other cash actors - including development partners supporting cash pilots- under the umbrella of the CWG, should gain a better understanding of: a) the specific contextual challenges and opportunities of digitalizing cash transfers, and b) the needs, experiences, and priorities that targeted populations might have around delivery mechanisms and DFS. This evidence would also usefully serve to define the nature of the specific activities (e.g. training) that will need to ideally precede and accompany the roll out and implementation of mobile money transfers.

Trend monitoring. Over the next five years,⁴⁴ WFP in Lao PDR should keep a close eye on the evolution of the digital financial ecosystem in the country, including developments related to: existing and emerging key players and their role (e.g. FSPs, MMOs); financial and digital infrastructure and product suites; the possible interoperability between BCEL and UNITEL; government regulatory framework and policy environment for financial payments, etc. In parallel, WFP should also follow closely the implementation of the mobile money pilots that are being rolled out in coming months to learn from these initiatives 'in real time', gain a sense of challenges and opportunities as they emerge, and understand whether and how to trial mobile money transfers in the future on the basis of these experiences. As the co-chair of the CWG, WFP is well-placed to monitor these trends. A first step in this regard could be to invite UNITEL to present their strategy, approach, digital products, coverage, capability to deliver mobile money transfers at scale, etc. at the next CWG meeting. Going forward, the CWG could be leveraged as a forum where partners who are rolling out mobile money pilots provide regular updates on their implementation processes, challenges, opportunities, and lessons learned.

⁴⁴ Five years is the duration of the upcoming Country Strategic Plan (2022-2026).

Exploring options for piloting mobile money transfers. The knowledge, lessons learned and insights gained from activities in the preceding point could be used by WFP in Lao PDR to strategically inform decision-making around the design and implementation of mobile money transfers in the coming five years. As part of this decision-making process and building on the experience of other cash actors in country, WFP could explore the feasibility of establishing a first pilot project to deliver cash transfers to GOL officials (e.g. to cover their DSA or transport costs for participation in capacity building activities similarly to the upcoming WVI pilot), or to schools (e.g. for the purchase of the fresh foods from local suppliers).



Acronyms

ADB	Asian Development Bank
ASEAN	Association of Southeast Asian Nations
BCEL	Banque pour le Commerce Extérieur Lao
BCOME	BCEL Community Money Express
BOL	Bank of the Lao PDR
CWG	Cash Working Group
DFS	Digital Financial Service
FSP	Financial Service Provider
GOL	Government of Lao PDR
LAK	Lao Kip
LAO PDR	Lao People's Democratic Republic
MAF	Ministry of Finance and Agriculture
MNO	Mobile Network Operator
MOLSW	Ministry of Labour and Social Affairs
MOU	Memorandum of Understanding
T&Cs	Terms & Conditions
NSEDP	National Social Economic Development Plan
U-Money	U-Money Mobile Wallet
UNCDF	United Nations Capital Development Fund
UNITEL	Star Telecom Company
WFP	World Food Programme
WVI	World Vision International

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Terminology

Digital Financial Services (DFS): financial services such as savings, credit, insurance, payment facilities delivered to organisations and individuals by banks and other financial institutions through electronic payment mechanisms or devices, such as ATMs, internet banking, point-of-sale (POS) devices, branchless banking and e-money.

Financial inclusion: the provision of sustainable and affordable financial services to promote access to and uptake of formal financial services and bring the poor into the formal economy.

Financial Service Provider (FSP): an entity that provides financial services, digital or otherwise. FSP commonly used in humanitarian digital transfer programmes include e-voucher companies, financial institutions (such as banks and microfinance institutions), and mobile network operators (MNOs).

Electronic cash or money (e-cash): currency that is electronically stored in devices. In this paper electronic and digital are used interchangeably.

Mobile Money: Payment services operated under financial regulation and performed via a mobile device. Instead of using cash, credit cards or cheques, consumers use their mobile phone to receive money, withdraw cash from their Mobile Money account at agent locations in their home country, pay for services and goods, and save.

Mobile network operator (MNO): a provider of wireless communications services, also known as wireless service provider, cellular company or mobile network carrier

Transfer agents: individual entrepreneurs or shops registered with digital cash operators (e.g. MNOs) which can issue and accept electronic cash. In rural areas these are often small business owners, typically grocery stores who also sell airtime. In this paper transfer agents and service centres are used interchangeably.

Electronic wallet (e-wallet): cash value that is stored on a card, phone, or other electronic device. The electronic device is considered a substitute for the cash normally that is normally carried in a person's wallet.

Annex I: List of key informants interviewed (remotely) in Lao PDR

Organisation	Staff	Title
UNICEF	Maryam Abdo	Chief, Social Policy Monitoring
World Bank (former UNCDF)	Cedric Javary	Economy and Social Inclusion Consultant
World Food Programme	Dale Wilson	Climate Change and Resilience Consultant
World Food Programme	Fumitsugu Tosu	Head of Programme
World Vision International	Elisa Rosa Buzi	Senior Manager, Resource Development and Advocacy
World Bank	Francesca Lamanna	Senior Economist
	Thongdewane Nanthavone	Social Protection Officer

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