Making Access Possible

Lao PDR

Financial Inclusion Roadmap 2016–2020

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Making Access Possible (MAP) is a multi-country initiative to support financial inclusion through a process of evidence-based country diagnostic and stakeholder dialogue, leading to the development of national financial inclusion roadmaps that identify key drivers of financial inclusion and recommended action. Through its design, MAP seeks to strengthen and focus the domestic development dialogue on financial inclusion. The global project seeks to engage with various other international platforms and entities impacting on financial inclusion, using the evidence gathered at the country level.

At country level, the core MAP partners collaborate with Government, other key stakeholders and donors to ensure an inclusive, holistic process. MAP Laos represents a partnership between the Bank of Lao PDR, United Nations Capital Development Fund (UNCDF), jointly undertaking the Making Access to Finance Inclusive for Poor People (MAFIPP) programme with Australian Government funding, and FinMark Trust for the development of a Strategic Framework for Financial Inclusion in Laos.

This Roadmap was initially produced by Keith Jefferis of Econsult Botswana as part of the larger MAP diagnostic work in Laos, then revised by Bank of Lao PDR through the stakeholders' consultation process.

Australian Aid

ABOUT MAP LAOS

This roadmap document is produced as part of a series of documents in the Making Access Possible (MAP) initiative for the Lao PDR.

MAP Laos was requested by the Bank of Lao PDR as input towards the development of a financial inclusion strategy for Laos. The Bank of Lao Financial Institutions Supervision Department (FISD) has set up a steering committee for the MAP project. MAP Laos is generously funded by the Australian Government, under the auspices of the Making Access to Finance Inclusive for Poor People (MAFIPP) programme.

The key research findings from the MAP diagnostic in Laos are captured in the country diagnostic report, Making Access Possible: Lao PDR Country Diagnostic Report, 2015. The diagnostic covers the demand-side, supply-side and regulatory analyses. The supply-side analysis covers payments, savings, credit and insurance, and therefore provides an understanding of financial inclusion in a broad context. The demand-side component includes an analysis of access, usage, perceptions and attitudes of financial services by target groups, and draws from quantitative data provided by the Laos FinScope Survey 2014 and qualitative research in the form of Home Visits and Key Informant Interviews.

Documents produced as part of the MAP Laos initiative include: (1) Making Access Possible: Laos Synthesis Note 2015. (2) Making Access Possible: Laos Country Diagnostic Report 2015. (3) Databook - Laos FinScope Survey 2014. A summary presentation of the MAP Diagnostic Report findings, presented to a Stakeholder Workshop in September 2015, and the FinScope dataset are available on request.

The roadmap summarises the main findings and recommendations from the comprehensive diagnostic report and presents a way forward on the recommended priority areas for financial inclusion in Laos.

The MAP methodology and process has been developed jointly by UNCDF, FinMark Trust and the Centre for Financial Regulation and Inclusion (CENFRI) to improve financial inclusion to improve individual welfare and support inclusive growth.

Acknowledgements

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Valuable inputs to the diagnostic and roadmap process were made by representatives of the Government of the Lao PDR, the Bank of Lao, development partners, financial services providers, industry bodies, and community organisations.

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Abbreviations and Acronyms

AFP	-	Access to Finance for the Poor
ADB	-	Asian Development Bank
AML	-	Anti-Money Laundering
ATM	-	Automatic Teller Machine
BCEL	-	Banque pour le Commerce Exterieur Lao
BoL	-	Bank of Lao PDR
BSD	-	Banking Supervision Department
DFS	-	Digital Financial Services
DTMFI	-	Deposit-taking Microfinance Institution
EFT	-	Electronic Funds Transfer
FISD	-	Financial Institutions Supervision Department
FSD	-	Financial Sector Development
GDP	-	Gross Domestic Product
IFC	-	International Finance Corporation
KYC	-	Know Your Customer
LAK	-	Lao Kip
LPSI	-	Lao Postal Savings Institute
MAP	-	Making Access (to Finance) Possible
MFI	-	Microfinance Institution
MNO	-	Mobile Network Operator
MSMEs	-	Micro, Small and Medium Enterprises
MTO	-	Money Transfer Operator
NBFI	-	Non-Bank Financial Institution
NCRDPE	-	National Committee for Rural Development and Poverty Eradication
NDTMFI	-	Non-deposit taking Microfinance Institution
NSEDP	-	National Socio-Economic Development Plan
POS	-	Point of Sale
RTGS	-	Real Time Gross Settlement
SCU	-	Savings and Credit Union
SDGs	-	Sustainable Development Goals
SOB	-	State-Owned Bank
SSO	-	Social Security Organization
VF	-	Village Fund

1. Executive Summary

The Laos Financial Inclusion Roadmap 2016 – 2020 lays out the national priorities for the enhancement of financial inclusion in the Lao PDR, in order to helpimprove welfare, enhance incomes and growth, and support national development objectives.The Roadmap is based on the Country Diagnostic Report, 2015, which in turn draws on in-country research and interviews, demand-side analysis from quantitative data provided by the Laos FinScope Survey 2014 and qualitative research.

The Making Access Possible (MAP) Laos research and programme has been conducted at the formal request of the Government of the Lao PDR, through the Bank of Lao, in order to inform the financial inclusion agenda in Laos.

The research demonstrates that a high proportion of the adult population have access to financial services, with overall financial inclusion standing at 75%. This is mainly driven by widespread use of savings, and there is much less use of payments & remittances, credit and insurance. The informal sector plays a major role in delivering financial services, with more adults using informal financial services than those from formal, regulated institutions. Hence access to finance is broad (a high level of inclusion) but not deep (not much use of multiple products). Furthermore, access is still an issue in certain segments of population, particularly rural and low-income households. Women have a slightly higher level of financial access (76%) compared to men (72%).

Further extending financial inclusion can play an important role in poverty alleviation in Laos, in a number of ways. It will bring a wider range of financial services to a broader range of households, micro, small and medium enterprises. By facilitating savings and investment, and reducing the costs of financial services, financial inclusion will in due course lead to higher incomes. By improving access to insurance mechanismsit will raise living standards by providing greater resilience to adverse shocks, which might otherwise result in poverty.

This pattern of financial inclusion in Laos is reflected in the main opportunities identified to improve financial inclusion, being (1), assisting excluded groups to get access to financial services; (2) improving the effectiveness of informal financial service provision and (3) deepening financial inclusion for the included population through improved efficiencies and better product availability and value.

The following vision for financial inclusion is proposed:

"Improve household welfare, increase economic efficiency and support growth by reducing the percentage of adults who are excluded from 25% to 15%, and increasing those with access to more than one formal financial product from 28% to 42% by 2020 by:

- *extending financial inclusion to lower income households and target groups that are currently less well served*
- *enhancing financial sector infrastructure, encouraging competition, modernising regulation and reducing risks*
- *facilitating well targeted credit to productive enterprises and farmers and for investment in assets."*

The Roadmap proposes five priorities to support this goal, namely (1) Improving the availability and sustainability of credit; (2) Consumer protection and empowerment; (3) Strengthening village funds; (4) Payment eco-system development;and (5) Extending the outreach of banks and other financial service providers.

These priority areas of action have been identified based on the most urgent customer needs and barriers identified in the MAP research, and will further inform the financial inclusion agenda over the next planning cycle (the eighth National Socio-Economic Development Plan, NSEDP 8, 2016-20). It is envisaged that the proposed interventions will result in an increase in depth and quality of financial inclusion in Laos, in order to enhance welfare, support economic growth, and contribute to the achievement of national socio-economic development goals.

2. Background

2.1. Laos Financial inclusion Roadmap - Introduction

Financial inclusion can aid national growth and welfare in a number of ways. These include helping to generate employment (by supporting farmers and medium, small and micro enterprises (MSMEs)), developing human capital (financial services for access to education and to mitigate health risks), and by directly improving household welfare (products to support household needs, new financial technologies that reduce cost and improve access, financial services to mitigate households risks, and by aiding asset accumulation).The purpose of the Laos Financial Inclusion Roadmap is to assist the government and stakeholdersto identify and implement actions that best improve financial inclusion in support of these goals, based on the researchas documented in the diagnostic report.

The diagnostic is based on the application of the MAP diagnostic and programming framework, which explores the linkages between financial inclusion and the real economy so as to impact people's welfare. It is set apart from other diagnostic exercises in thatit: (i) sets a detailed understanding of the target market and their needs at the core of the analysis; and (ii) is fundamentally linked to a multi-stakeholder process towards the implementation of a roadmap for financial inclusion.

The key research findings from the diagnostic are captured in the comprehensive demand-side, supply-side and regulatory analyses ("Making Access Possible: Lao PDR Country Diagnostic Report'', 2015). The diagnostic report and the accompanying summary (MAP Laos Synthesis Report, 2015)include a comprehensive study of four product markets: credit, payments, savings and insurance, and therefore provide an understanding of financial inclusion in a broad context. The demand-side component includes an analysis of access, usage, perceptions and attitudes of financial services by target groups. The demand-side analysis draws from quantitative data provided by the Laos FinScope Consumer Survey 2014 (FinScope, 2014) and qualitative research in the form of Home Visits and Key Informant Interviews. The sampling framework and weighting for FinScope is based on the 2005 census data and 2013-14 village lists, and was developed in close collaboration with the Lao Statistics Bureau

This roadmap summarises the findings of the diagnostic, and presents a way forward on the recommended priority areas.

MAP Laos was requested by the Bank of Lao PDR as input towards the development of a financial inclusion strategy for Laos. The Bank of Lao established a steering committee for the MAP project to guide the process.

2.2. Roadmap approach and methodology

The roadmap is founded on priority areas identified in the research, representing gaps and opportunities in the market that can have the largest positive impact on consumer welfare if appropriately addressed. Within the diagnostic report framework, each of the highlighted gaps and issues is analysed from the perspective of the user or potential user of the financial product or service, using the Making Markets Work for the Poor (M4P) approach. This approach identifies the stakeholders, structures, laws, regulations and customary relationships that underpin the product or service.

In order to provide a vision and direction, a policy goal (vision) is proposed towards which supportive intervention logic can be organized and monitored, indicating how the proposed interventions will contribute to the achievement of the goal and outcomes.

The final stage of the process is to build consensus from the key stakeholders for the interventions, and to place it in the format of a road map, including responsibilities and accountabilities and activities. Costs, timeframes and targets will be firmed up at the beginning of the implementation phase.

3. Laos financial sector context

3.1. Country Context

Small population, largely rural, sparsely distributed. Laos has a relatively small population compared to other countries in the region, with a low overall population density. The population is largely rural – around 63% - and distributed widely across the country. Much of the terrain is mountainous. Where the provision of financial services is concerned, the small population constrains scope for growth and economies of scale, while dispersed population and difficult terrain adds to distribution costs.

Lower middle income country with declining, but still high, poverty rates. GDP per capita is around US$1,600, one of the lowest in South-East Asia. Poverty has declined substantially over the past two decades, but remains high at 23%. Income distribution is reasonably equal, with a Gini coefficient of 0.36, similar to other countries in the region, but inequality has risen slightly in the past decade. Access to education and health services is poor.

Farming the main occupation. The population is mostly engaged in farming, and in many cases have limited integration into the formal, monetary economy. 78% of Lao adults receive some income from farming activities, and for 52% it is their main income source. Perceived financial needs are often modest and there is a low level of financial literacy.

Socialist political system, strong government, small private sector. The highly centralized political system entails a leading role for state-led development. State-owned enterprises occupy an important position, including in the financial sector. The private sector is relatively small. However, there has been movement towards market-led development and the need for a stronger private sector is accepted by Government.

Strong growth, led by mining, energy and infrastructure projects. Economic growth has been strong, around 7-8% in recent years. Although agriculture is the dominant activity for the majority of the population, growth has recently been driven by major investments in mining, hydroelectric power projects and infrastructure, with foreign direct investment playing an important role. Rapid growth has been associated with urbanization and the integration of more of the population into the formal, modern economy, with associated demands for financial services.

Social cohesion high, along with ethnic diversity. Community is very important in Laos and there is a high level of social cohesion. This provides the basis for community-based financial institutions. Social solidarity networks are important in managing risks. There is a high degree of ethnic diversity, which has an important influence on behaviour.

Poverty alleviation a high-level objective. There is a strong government focus on rural development and poverty alleviation. This provides a conducive environment for the development of a financial inclusion policy, which is seen as potentially playing a strong poverty alleviation role. It has also led to a reliance on subsidized credit provision, which is expensive and may not be effective.

Access to infrastructure is good. More than 90% of adults live in households that have access to electricity. However, only 43% have access to piped running water. Most of the rural population have access to all-weather roads. Mobile phone penetration is very high.

Macroeconomic position has risks. Despite good growth, the macroeconomic position is exposed to several risks. In particular, external debt is high, and foreign exchange reserves are low, leaving the country exposed to external shocks. Furthermore the fiscal deficit is high, and there is a need to rationalize spending, and cut unproductive spending. This means that any government resources used to support state-owned banks or provide subsidised credit must be effectively targeted and efficiently delivered.

3.2. Financial Sector and Regulatory Context

Financial sector in transition. The financial sector has traditionally been dominated by the large, state-owned commercial banks, which in the past have not been very dynamic or competitive. However the sector has grown rapidly in recent years, with new institutions established, new products and services introduced, and much more competition. Nevertheless, the small population and low population density limits the number of financial institutions that can sustainably offer formal financial services.

Banking sector. The formal financial services sector is dominated by the state-owned banks, Banque pour le Commerce Exterieur Lao (BCEL), Agricultural Promotion Bank (APB) and the Lao Development Bank (LDB). However, there is an increasing number of private banks, which includes joint ventures between private investors and state entities, domestic privately owned banks, and subsidiaries and branches of foreign banks. The share of state-owned banks in the market has been shrinking as new competitors have entered. Banks are mostly focused on urban areas. Besides normal banking (deposit-taking and credit) services, banks also provide a low-cost over-the-counter money transfer service, and act as agents for cross-border money transfer operators such as Western Union and Moneygram.

Development Finance Institution (DFI). There is one stated-owned DFI, Nayobay Bank. Although it is not a deposit-taking institution, it is generally included in the banking sector. Nanyobay Bank is used as a primary conduit for policy-based subsidised credit to farmers and priority districts.

Non-bank financial institutions (NBFIs). The NBFI sector has been growing, albeit from a small base, mainly through microfinance institutions (MFIs) and leasing companies. While they are mostly urban, they are extending outreach to some extent to rural areas. MFIs provide both savings (deposit-taking) and credit services, while leasing companies only provide credit. There are also some regulated pawnshops. The Lao Postal Savings Institute (LPSI) provides savings and limited credit services. In terms of overall significance, formal NBFIs remain relatively small.

Insurance. The insurance sector is not well developed in Laos, and is concentrated on compulsory (although not well enforced) vehicle insurance. There is a dominant insurance company (AGL) and a number of smaller providers. There are various state schemes for social insurance.

Savings and Credit Unions (SCUs). There are a small number of SCUs, most of which have developed from village funds.

Informal providers – Village Funds (VFs). Informal financial service provision is extremely important in Laos. The primary informal organisations offering financial services are Village Funds (also known as Village Banks), of which there are a very large number (estimated at 4,000-6,000). VFs accept deposits and many also offer credit to members. VFs are present in most villages, and are officially promoted by the Government as part of the "Developed Village" policy. They tend to operate on a part-time basis with semi-formal procedures and volunteer staff.

Other informal providers. There are a number of other informal sector providers that provide coverage in Laos, especially in rural areas to low income households. These include rotating savings and credit associations (Lin Houai), informal leasing by retailers and travelling merchants, and informal money lenders. In addition, funeral funds provide community-based risk pooling.

Mobile money. Pilot mobile money services are currently being rolled out. Three pilot schemes have been licensed, including one bank product (from BCEL), and two from mobile network operators (Unitel and ETL). While these will initially operate on a limited scope basis during the pilot, it is anticipated that they will quickly roll out nationwide coverage.

Post Office. Lastly, the Post Office provides remittance and bill payment services.

Financial sector infrastructure is not well developed. There is a real time gross settlement system (RTGS) for high value payments, but it is not widely used. There is a cheque clearing house operated by the Bank of Lao (BoL), but none for Electronic Funds Transfers (EFT)s. Interbank transactions are settled bilaterally. There is no national switch for domestic payments, and many transactions are settled through Visa, However, the Chinese firm UnionPay is in the process of establishing a national switch that will acquire ATM transactions. The banks dominate the remittances market. Mobile money is only just starting, on a pilot basis. There is a credit information bureau at the BoL but it is only open to banks, and is reportedly not very efficient or comprehensive. There is also a deposit protection scheme run by the BoL, but this is used only by banks and not other deposit-taking institutions.

Industry associations exist but are limited. There is a Bankers Association, but it is not very active. A Microfinance Association acts as an umbrella organisation for the MFI sector, and deals with research, capacity building and donor relations. There are no cross-cutting associations, such as credit providers or payments service providers.

Development partners have been active in promoting access to finance and financial sector development more generally. The development of village funds, in line with government policy, has been to some extent donor-led. GIZ has been particularly active through the Access to Finance for the Poor (AFP) project, which includes institutional development, and network support organisations. AFP also has a component dealing with Financial Literacy and Consumer Protection. Donors have also supported the development of SCUs and MFIs. The Asian Development Bank (ADB) has helped policy and institutional development in the banking and MFI sectors; KfW has provided a fund for commercial banks to on-lend to MSMEs, while the International Finance Corporation (IFC) is supporting the development of the national payments system and the credit bureau. The World Bank is supporting the BoL Banking Supervision Department on prudential regulation and performance indicators.

Bank of Lao PDR the main regulator. Almost all financial sector regulation falls under the Bank of Lao (BoL), and is divided between the Banking Supervision Department and the Financial Institutions Supervision Department. FISD is responsible for regulating MFIs, SCUs, mobile money and leasing companies. The BoL is also responsible for the regulation of capital markets. Regulatory responsibility for insurance falls under the Ministry of Finance, which is also responsible for general financial sector development policy. Regulatory directives may also be issued by other arms of government, such as the Prime Minister's Office.

Generally enabling environment, but there are many gaps, and modernisation is needed to extend inclusion. The regulatory environment is generally supportive of financial sector development. However, there are gaps and inconsistencies, and in some respects the regulatory and policy environment is lagging behind financial sector development and innovation. The process of regulatory reform is very slow, and laws and regulations often remain in draft form for long periods. There are uneven regulatory requirements across different types of financial institutions, e.g. between banks and MFIs, which create a playing field that is not level, and discourage growth. Regulations discourage the opening of new branches by banks, MFIs and leasing companies, for instance by imposing additional capital requirements on institutions when new branches are opened, which inhibits financial inclusion.

Village Funds are unregulated. An important component of the financial sector – Village Funds – is unregulated. A large proportion of village funds are thought to be unsustainable and there is potential risk to depositor/member funds. Furthermore some of the more successful village funds have grown quite large. There are risks from having such a large segment of the financial sector operating without appropriate rules and supervisory structures. Some Village Funds have received intensive support for development, operational activities and capacity building, which appears to have benefits that are potentially generalizable.

Supervision and implementation of regulations is patchy, and there is a lack of financial sector transparency. The implementation of regulations and supervision across the financial sector is patchy, with a high level of regulatory forbearance that undermines the credibility of regulation and supervision. Comprehensive information is lacking on the regulations, rules, guidelines and directives applicable to financial institutions. Different entities interpret regulations and directives in different ways. There are also gaps in the information made available by both the regulators and financial institutions themselves.

Regulatory provision for consumer protection is generally weak. Certain practices are permitted that appear to disadvantage consumers, especially those with low levels of financial literacy; these include flat rate interest on loans (rather than declining balance), and the appropriation of dormant account balances to banks' profit and loss statements. Banks are not obliged to have well-publicised systems for resolving customer grievances, nor is there and independent dispute resolution mechanism.

3.3. Status of Financial inclusion in Laos

Access to formal financial services is moderate. Just under half (47%) of Lao adults are formally served (use financial services provided by formal, regulated institutions). A further 28% use informal services only and 25% are totally excluded. This is midway amongst the three countries in the region where there have been FinScope surveys. In Thailand, 97% of adults have formal access and only 1% are financially excluded. In Myanmar, only 30% are formally included and 39% are financially excluded.

Informal financial services are more widely used than formal services. 61% of Lao adults use informal financial services. Many adults, 33% of the total, use both formal and informal financial services. Informal financial services therefore provide a complementary channel to those who use formal financial services, and also extend the frontier of access for those who do not use formal products.

Wide variation in usage of different types of financial services. FinScope surveys consider usage of four groups of financial services: (i) savings; (ii) credit; (iii) insurance; and (iv) payments. The last category is in turn divided into (a) transactions, referring to the purchase or sale of goods and services, payment of wages etc., and (b) remittances, whereby money is sent or received across a distance. FinScope reports results for usage of these financial services in terms of the access strand, which considers the types of providers, specifically: those who use any type of bank products; those who use only products from other formal, regulated financial service providers; those who use only informal (unregulated) products; and those who use only family and friends. The final group is those who are financially excluded, who do not use any of these types of financial products and services.

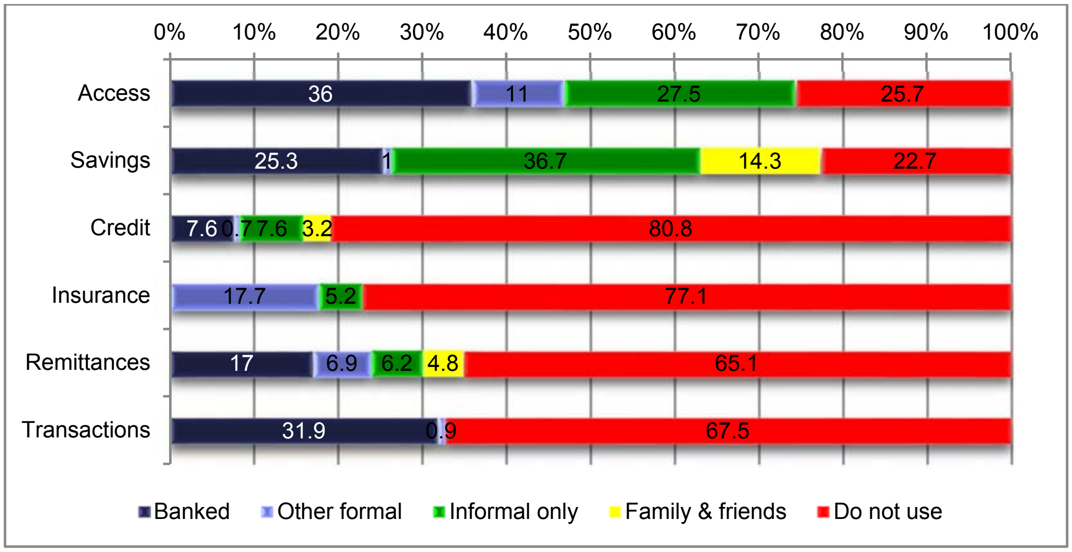

Figure 1: Financial services access across product categories

Source: FinScope 2014

Usage of financial products varies according to various demographic, economic and locational characteristics. The likelihood of an adult using financial services depends on a wide range of factors, including income level, gender, age, location of residence and level of education. Of these, the most important appear to be income and education, followed by location, with less variation by age and gender.

A number of usage and access barriers. There are a variety of reasons for low usage of some financial products. For the few adults who do not save, the main reason is that they do not have enough money, or their income is too low. For those who do not use credit or insurance – the majority – the main reasons are a lack of need, a lack of appreciation of the attributes of financial products, and a lack of understanding of how they operate. There is also a substantial fear of debts. Even should they choose to use formal financial services, many consumers face access barriers, notably low affordability, a lack of flexibility and distances to access branches and distribution networks.

Breadth and depth of access

Accessto finance in Laos is quite broad, in the sense that a high proportion of adults use some kind of financial services. However, the usage of formal financial services is low, in particular the use of multiple types of financial services. Only 28% of adults use formal financial service across more than one product market (i.e. savings, credit, insurance or payments). But 35% of the adult population are "thinly served", meaning that they only use one product category from a formal service provider, or only informal financial services. Because of limited usage of multiple formal financial products, financial inclusion is not deep.

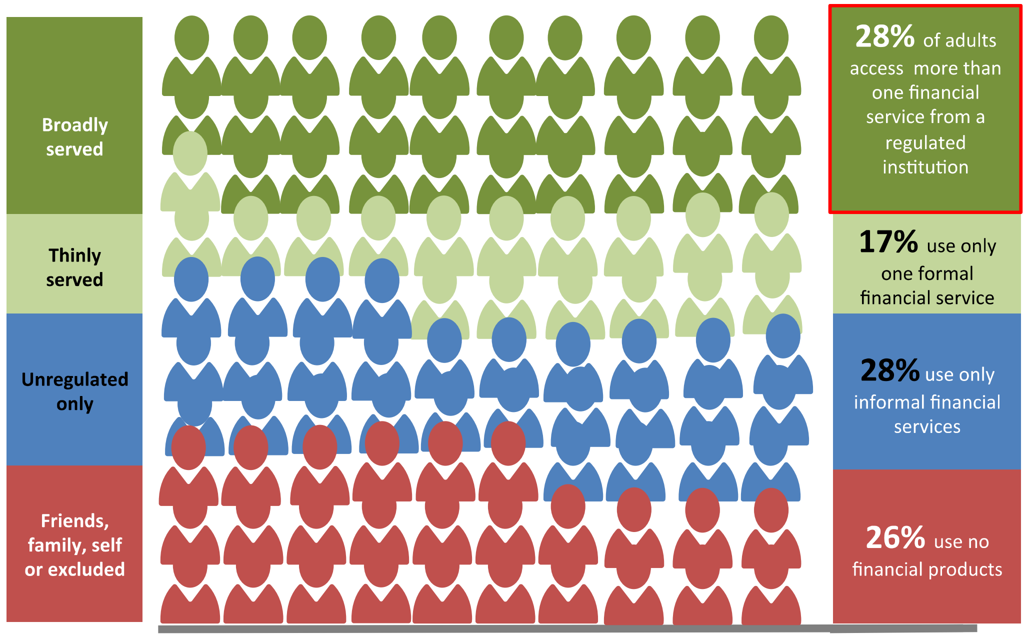

Figure 2: Depth of financial inclusion in Laos

Source: FinScope Survey 2014

3.4. Marketdrivers

As measures are put in place to unlock the barriers to financial inclusion, there are broader trends / driversthat need to be taken into account. These include the following:

Access to financial services is mainly driven by informal and semi-formal providers rather than the formal sector. For many Lao households/adults, especially those who live in rural areas (the majority), their primary point of contact is with informal or semi-formal financial service providers, particularly village funds. Such institutions in many ways provide a better fit with Lao society and the needs of low-income households. However, there are important sustainability issues that have to be addressed.

Savings drives uptake. There is a major contrast between the extent of use of savings products and the use of remittances, insurance and credit. Whereas the majority of adults save, only a minority of adults make use of each of the other products. To some extent this reflects an innate conservatism in the population, including an aversion to debt. Savings have multiple functions, including playing an important risk-management role.

Financial access depends on a variety of factors that must be taken into account in designing inclusion strategies. It is striking that the four target groups with the lowest average monthly incomes are predominantly female, and that the three target groups with the lowest level of access to finance – whether formal or informal – are predominantly rural. More generally, financial inclusion is low for those with low incomes and little education.

A "Missing Middle" in the financial system, and a high level of unintermediated savings. There is a large gap in the financial system between the banks who serve higher income customers and the informal financial service providers who serve lower income customers. In between, savings are largely held in the form of real assets – particularly livestock and valuables such as jewellery and gold - or cash. Hence a significant portion of household savings are not available for intermediation through the financial system, which may restrict growth in the future as these funds cannot be used to finance investment. A key challenge of financial sector development in Laos is to provide a range of attractive savings options for households – i.e. attractive from a risk, return and liquidity perspective - that are alternatives to real assets, valuables or cash, and gradually attract these non-intermediated savings into the financial system. In the medium to long term, this should help to increase the rate of investment and reduce dependence upon foreign capital inflows to finance investment.

Banks will play an increasingly important role. Banks dominate the financial sector, as they are the institution with the largest number of customers as well as the largest pool of financial assets. Banks have also grown rapidly in recent years and extended their customer base and product offering. In the future, banks are likely to play a leading role in extending financial inclusion, as this process continues, and as more people move into the formal economy and urban areas. Competition will be the main driver of this process.

Bank branch outreach. The physical outreach of banks through branches and service points is limited to urban areas and district centres, and it is unlikely that it will be economically viable for banks to extend their physical networks significantly beyond this. Non-branch channels will be needed to reach rural customers.

Proximity. In view of the limited physical outreach of branch networks and other financial service providers, and the rural nature of the country, most of the population do not live in close proximity to formal financial service providers. Physical access to these entities is based around visits to markets in district centres. This is convenient for many people, but does not provide for quick access or liquidity. However, almost everybody lives in close proximity to grocery stores, which can potentially offer an outlet for agent-based financial services.

Technology provides a means of overcoming the impediments of distance, low population density, and limited access to bank infrastructure. Given that the banking system is unlikely to extend financial service provision to less populated areas and low-income households through physical infrastructure, technology can help to fill the gap. Technology-based provision of financial services is at an early stage in Laos. However, there is significant potential to use technology-based services such as mobile money and cash acceptance networks to extend access beyond branch-based provision.

Agent-based financial service provision holds promise, but is as yet untested on a large scale. As noted above, grocery stores are widespread and most of the adult population has ready access to them. Many of them could potentially be agents for financial service providers. Early demand is likely to come from mobile money networks, but this could in due course be extended to banking agents (either independently or in collaboration an mobile network operator (MNO)). Banks targeting down-market may find this more useful, e.g. ACLEDA Bank Laos. In the medium term, agents could also be used by the larger village banks, but this would require more formalisation of their status and upgrading of technology and management systems.

Education, awareness, financial literacy. Uptake of financial services is limited by a low level of awareness and understanding of what they can offer. In the long-term, improved financial literacy will be an essential component in extending access to finance, so that people are empowered to make appropriate choices from the options on offer.

Modernisation of the regulatory framework is needed to extend inclusion. The regulatory environment is generally supportive of financial sector development. However, there are gaps, and in some respects the regulatory and policy environment is lagging behind financial sector development and innovation. Without modernisation, the regulatory framework will increasingly be a drag on financial inclusion.

These factors have been taken into consideration in developing the priority areas of action.

4. Enhancing Financial Inclusion in Laos

4.1. MAP Prioritisation process

In defining and prioritising measures to improve financial inclusion, eight target market segments were identified, namely (1) Low-income farmers, (2) High-income farmers, (3) Low-income non-farm self-employed, (4) High-income non-farm self-employed,(5) Informal employees, (6) Low-income formal employees, (7) High-income formal employees,and (8) Dependents.The description and needs for each of these segments from the research are shown below.

Table 1: Market segments and needs by market segment

Segment	Estimated size	Characteristics	Identified needs
All segments	4,267,000		• Financial literacy; consumer protection; credit information
Low-income farmers	788,000	• Large group, very low income • Mainly female, not well educated • Low financial inclusion, mainly informal	• Short-term savings, emergency credit • Targeted & well-structured agricultural credit
High-income farmers	• 742,000	• Well educated, male, rural • Reasonable level of financial inclusion, but reliant on informal financial services	• High priority, need for improved range of savings products (short-term and long-term) • Agricultural credit • Insurance (asset, crop, health, credit)
Low-income Informal SMEs	284,000	• Low income • Mainly female, urban	• Need for cheap/reliable remittance and payments channels • Formal savings products • Credit suited to informal MSMEs
High-income informal MSMEs	240,000	• High income, urban, well educated • Well-served financially	• Low-cost remittances to support dependents • MSME-related financial services • Housing finance, long-term savings
Informal Employees	387,000	• Largest non-farm group • Medium income • Low access to finance	• Need alternative means of receiving payment, facilities for saving (consumption smoothing), more formal access
Low-income formal employees	263,000	• Small group • Low income • Mainly urban, female	• More services based around bank accounts, long-term savings, leasing

		• Reasonably well-served financially, both formal and informal	
High-income formal employees	241,000	• Small group • Very high income • Urban, well-educated, young • Well-served financially	• Low-cost remittances to support dependents • Housing finance, long-term savings • Sophisticated banking products
Dependents	• 229,000	• Low income • Mainly urban, female, elderly • Low access to finance, mainly informal	• Payments and remittances, low cost savings • Financial capability is low

Given that a financial inclusion roadmap will not be able to bridge every gap and realise every opportunity, financial inclusion interventions have been prioritised according to those that best meet the national objectives for growth and improved livelihoods. This in turn is linked to how closely a particular intervention meets each of the segments' needs, and hence its potential reach given the number of people and average income of each segment.

4.2. A Proposed Goal for Financial Inclusion in Laos

In order to provide a vision and direction for financial inclusion, the following policy goalis proposed:

"Improve household welfare, increase economic efficiency and support growth by reducing the percentage of adults who are excluded from 25% to 15%, and increasing those with access to more than one formal financial product from 28% to 42% by 2020[1] by:

- *extending financial inclusion to lower income households and target groups that are currently less well served*
- *enhancing financial sector infrastructure, encouraging competition, modernising regulation and reducing risks*
- *facilitating well targeted credit to farmers and productive enterprises and for investment in assets ".*

The Roadmap proposes five priorities to support this goal, namely (1)Improve the working of the credit market (2) Consumer protection and empowerment;(3) Strengthening village funds; (4) Payment eco-system development; and (5) Extending the outreach of banks and other financial service providers.

These five priority areas were chosen through a process of stakeholder consultation, based on a preliminary list of seven possible priorities. This same process led to a ranking of the selected five priorities, and the numbering above reflects the chosen order of importance.

In order to achieve these objectives and priorities, two important overarching preconditions need to be addressed, namely the political will and coordination that need to be in place, and a reality check on the long-term role of the government in the provision of financial services.These will need to be addressed by stakeholders during the implementation process.

[1] Baseline is from 2014 FinScope. The first target is equal to 40% reduction in the excluded from 25% to 15%, and similarly a 50% increase of the adult with access to more than one formal financial product from 28% to 42%.

5. Implementation Priority Areas

Key interventions proposed under each of the priority areas identified above are shown in Figure 3below. The interventions directly support the proposed national financial inclusion goal. They are discussed in further detail in this Chapter.

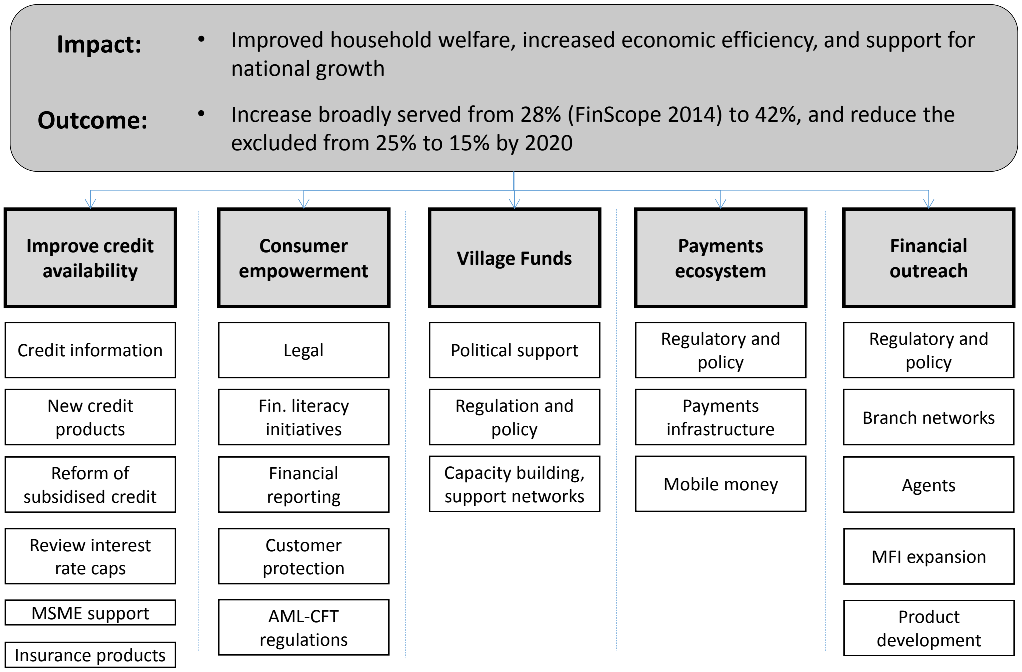

Figure 3: Summary of proposed priorities

5.1. Priority 1 – Improve availability and sustainability of credit

Credit is the least-used of the four financial product categories, and if properly provided and understood by borrowers can play an important role in boosting economic activity by supporting investment by farmers and MSMEs. It can also assist households in financing the acquisition of large assets (e.g. housing) that would otherwise have to be paid for out of income, in coping with fluctuations in income and in dealing with emergencies. Extending the range of types of credit available will help to make the provision of credit more effective. A large proportion of the credit that is available is provided as subsidised policy lending by government banks. This is expensive, and reforming the provision of subsidised credit can make it more effective and less costly.

The credit market is distorted by regulatory restrictions (e.g. interest rate caps), and the provision of subsidised credit by government. Hence it is difficult for an effective credit market to develop. There is evidence of over-indebtedness amongst some groups of borrowers. Furthermore, many borrowers do not understand credit well, which can lead to the provision of credit on non-transparent and inappropriate terms and conditions. The range of available credit products is narrow, and there is a high reliance on collateralised credit.

The primary objective of this priority is to increase access to credit for investment in productive activities, household assetsand education;risk management; and consumption smoothing. Credit for investment is focused on MSMEs as there is currently no bottleneck in agricultural finance given the level of credit already available.

The actions proposed to realise this opportunity are further outlined in the table below.

Table 2: Potential actions to help improve the availability and sustainability of credit

Intervention	Activities	Timeframe (S/M/L)
Financial institutions	• Pay more attention to ability of borrowers to service debt on the basis of cash flow	S
	• Develop new credit products especially those not dependent upon collateralised lending	M
	• fr	M
	• Develop MSME credit through lines of wholesale credit, guarantee funds	L
	• Develop refinancing linkages between financial institutions (e.g. banks to non-deposit taking MFIs)	L
Subsidised credit	• Review the provision of subsidised credit by government with a view to reform that will help to reduce fiscal costs and improve credit discipline and impact effectiveness.	S
	• Seek to learn from relevant international best practice.	S
Regulatory	• Review the impact of caps on interest rates on lending by financial institutions.	S
	• Require banks and other lenders to consider the ability of borrowers to service debt on the basis of income rather than simply considering collateral	S
	• Introduce rules on product information disclosure (e.g. APRs on credit and savings) and restrict credit institutions from using flat rate credit;	M
	• Improve the effectiveness of credit information collection and sharing, by extending compulsory participation in and sharing of information with the credit information registry and requiring lenders to ascertain the credit record of borrowers before making new loans	M

5.2. Priority 2 – Consumer Empowerment and protection

It is critical to empower consumers through education and protection so that they fully benefit from finance. The result should be better understanding and improved ability of consumers to choose and use appropriate products; protection of consumers; and reducing the dangers of over-indebtedness.

At present, there is a lack of understanding of financial concepts, products, and a low level of numeracy. Building understanding of financial issues is a long-term process. A broad range of interventions is needed, involving stakeholders beyond the financial sector. Channels for consumer redress are ineffective, as are restraints on market conduct / abuse. Access to information regarding financial institutions is limited, thereby undermining the ability of consumers to take well-informed decisions. There is also a need for a more consistent and transparent regulatory environment.

Table 3: Consumer empowerment and protection activities

Intervention	Activities	Timeframe (S/M/L)
Financial literacy	• Ensure that all financial institutions report publicly, consistently and in a timely manner that meets current legal requirements, and that all relevant financial sector statistics are regularly published.	S
	• Encourage financial institutions to develop financial literacy amongst their customers;	M
	• Aim to integrate learning on financial literacy into the education system;	L
Consumer Protection	• Require dormant bank account balances to be transferred to the BoL	S
	• Establish compulsory procedures in financial institutions for dealing with customer complaints	M
	• Introduce rules on product information disclosure (e.g. APRs on credit and savings) and restrict credit institutions from using flat rate credit	M
	• Extend depositor protection (deposit insurance) beyond banks to MFIs	M
Regulatory	• Ensuring that all existing laws, regulations guidelines and directives relating to the financial sector are publicly and readily available	S
	• Ensure that AML/CFT regulation is more effectively implemented	M
	• Introduce tiered KYC regulations	M
	• Faster finalisation of draft laws and regulations	M
	• Ensure that there is consistency in regulatory requirements across different but similar types of institutions, and consistency in interpretation of laws and regulations	L

5.3. Priority 3 – Strengthen Village Funds for sustainability and relevance to rural populations

Villages Funds (VFs) are probably the main set of financial institutions that are of relevance to poor households, and provide many such households with access to semi-formal savings and credit products. In many respects, they have a good cultural and social fit in Laos. VFs are low-cost to operate and can offer depositor-members good returns. Improving the functioning of VFs by addressing sustainability issues through a more formalised regulatory and supervisory environment, along with appropriate support services, could improve the level of trust and confidence in VFs, enabling them to play a more effective role in providing financial services to poor households, and support the building of linkages between VFs and other financial institutions (banks and MFIs).

However, while there is a minority of successful, expanding and sustainable VFs, the majority is thought to be unsustainable under current arrangements. Responsibility for supervision is unclear, and most of them are effectively unsupervised. There are sustainability risks facing VFs of all sizes, and as a result many members' are potentially at risk of losing their savings deposits. The GIZ-AFP VF project has shown that VFs can be successful and sustainable, with appropriate support and supervision through regional apex organisations, but this only covers a minority (approx. 10%) of VFs.

VFs are important politically, and there are many different institutions and groups that have an interest in their success. However, there is no dominant institution or champion that is willing to drive the sector as a whole towards sustainability. It will therefore be necessary to mobilise broad-based political support for the objective of stabilising the VF sector and undertaking reforms, committing resources to ensure sustainability and fulfilment of potential.

Table 4: Proposed activities to facilitate sustainability and improved relevance of village funds

Intervention	Activities	Timeframe (S/M/L)
Regulatory	• BoL should take on regulatory and supervisory responsibility for the VF sector.	M
	• BoL should establish a set of regulations, covering operating procedures, accounting and reporting requirements, cash management, risk management, provisioning etc., applicable to all VFs, perhaps graduated and related to size;	M
	• BoL to take direct responsibility for supervising the larger VFs (with a balance sheet size above an agreed level).	M
	• Delegate supervisory responsibility for smaller VFs (the majority) to regional support organisations;	L
	• Develop regulations for VF support organisations and supervise them.	L
Developmental	• Mobilise broad-based political support for the objective of stabilising the VF sector and undertaking reforms, committing resources to ensure sustainability and fulfilment of potential.	S
	• Utilise experience of GIZ-AFP project to roll out effective support and supervision mechanisms for VFs nationwide	M
	• Promote establishment of regional VF support organisations; or conversion of existing entities to more effective and properly structured support organisations	M
	• Establish third tier VF organisation for training, auditing	L
	• Consider Nanyobay Bank as provider of wholesale credit to successful VFs	L

5.5. Priority 4 – Improving the payments eco-system through mobile money, digital financial services, and improved payments infrastructure

The payment system in Laos is relatively undeveloped, and there are many opportunities for further development. The are two main objectivesof action in this area. The first is to use the payment ecosystem to extend financial services to lower income households,especially those that are currently less well served. The second is to upgrade the core infrastructure of the payments system to ensure that banks and other financial institutions have access to reliable, low cost payments services

Mobile money (MM) and potentially other digital financial services (DFS) have the potential to fill some of the gaps in the financial sector and make available a broader range of financial products and services to those who have limited choices at present, whether because of proximity barriers, “doorstep” barriers (lack of perceived relevance and suitability of some formal financial services to lower income groups), or cost barriers. Mobile money can directly offer a range of payments, remittance and savings services to customers, and can also act as a distribution mechanism for products offered by other service providers (such as micro-credit and micro-insurance). Mobile money potentially offers low transaction and usage costs, as well as convenience through a widely distributed agent based distribution network. In due course, mobile money can be extended from domestic to cross-border remittances.

More efficient/lower cost remittances will have particular benefits for dependents, whose income is mainly derived from payments received from others. The dependents group has relatively low income, and reducing the costs of sending/receiving remittances could help to increase their disposable income.

As cash-based payments are gradually replaced by digital payments, information flows are generated, These can help to unlock access to credit, by providing information on individuals’ financial capacity. They will also help to improve the ability to levy taxes on businesses.

More generally, improved payments infrastructure will help to reduce the costs of payments, improve efficiency, reduce risks and reduce reliance on cash. There will be easier access and ability to make payments and transfers across sub-sectors (e.g. between bank and mobile money products). Improving the payments eco-system will help to fill gaps in the financial system.

The main challenge is that mobile money is at a very early stage in Laos, with one bank offering a mobile-based money transfer service, and one MNO about to embark on a pilot scheme. Hence the model is as yet untested in Laos, and it is not known how quickly there will be customer take-up, especially amongst the relatively unsophisticated rural population. The extent and effective operation of agency networks will be key, and the initial pilot models, product design and pricing may need some refinement to ensure that they work.

Furthermore, substantial investment is required in order to develop core payments infrastructure. Payments system development is complex and technically demanding, requiring high-level skills, expertise and technical support. Furthermore a solid legal framework needed. The payments system involves a range of entities, including banks, other financial institutions, the Post Office, MNOs, and technology service providers, and channels are needed for effective communication and co-ordination of payments system development issues.

The potential actions to realise opportunity are further described in Table 5 below.

Table 5: Proposed activities to develop the payment ecosystem

Intervention	Activities	Timeframe (S/M/L)
Mobile money	• Introduce mobile money systems; get pilots up and running.	S
	• Refine business models on the basis of pilot experience, and move from pilot to full nationwide roll-out as quickly as possible	M
	• Ensure that agent networks function effectively, providing adequate liquidity for cash-out demands, and that mobile money agents have convenient facilities for rebalancing cash and e-value.	M

	• Ensure that agent networks penetrate areas beyond the current reach of banks.	M
	• Encourage other banks and MNOs to consider MM products	M
	• Introduce cross-border mobile money (especially Thailand-Laos)	M
	• Introduce products linking mobile money to bank accounts	M
Payments infrastructure	• Ensure that high-level settlement infrastructure (RTGS) is effective and functional, and require banks to participate	S
	• Establish clearing mechanism for interbank payments instruments (cheques, EFTs) with appropriate data communications channels.	M
	• Consider national switch linking banks, retail point-of-sale (POS) terminals, mobile companies etc., enabling payments functionality across channels (e.g. bank/mobile).	L
	• Participate in regional (ASEAN) cross-border payments and settlement system	L
Regulatory	• Finalise draft MM regulations to provide more certainty in the regulatory environment for MM service providers.	S
	• Finalise a comprehensive legal, regulatory and reporting framework for payments, encompassing both core, high-value clearing and settlement systems, as well as retail payments service providers.	L
Developmental	• Facilitate cross-border mobile money	M
	• Consider the case for offering grants/subsidies to agents in more remote areas in the early stages of mobile money development	M
	• Establish payments service providers association for discussion of issues of concern to the industry.	M
	• Promote inter-operability between different mobile money platforms and between non-bank mobile money providers and banks	L

5.6. Priority 5 – Extend the outreach of banks and other financial service providers

The objective of this priority is to encourage banks and other financial service providers to extend both their physical outreach and improve product design in order to make them more accessible to low-income households.This would have several benefits. Moving banks beyond their current focus on urban areas and serving higher income / formally employed consumers can extend access to banking to under-served customers, providing them with a wider range of financial service choices and alternatives to informal/semi-formal providers. Similarly, other financial service providers, particularly MFIs and leasing companies, can help to increase customer access through extended branch and agency networks. This would help to overcome proximity barriers.

Rapid economic growth and urbanisation has enabled banks to grow profitably. With some exceptions, there have been few attempts by banks to develop more extensive distribution networks, and product design has not been particularly innovative, particularly for consumers with low and/or irregular incomes. The business case for such outreach may be weak, given the high costs of penetrating rural areas through branch-based networks, and the limited economic capacity of rural households. There are also some regulatory barriers to branch network expansion. However, competition – particularly amongst private banks – should provide an incentive for innovation in mobilising deposits and sustaining/increasing market share, and technology should support low-cost expansion of outreach, for instance through agent / branchless banking. MFIs and leasing companies are also subject to regulatory restrictions on the opening of new branches, which inhibits the growth of branch networks.

The key actions to realise the outreach opportunity are further detailed in Table 6 below.

Table 6: Proposed activities to facilitate improved physical outreach and product design for low income households

Intervention	Activities	Timeline (S/M/L)
Products	• More innovation in product design, moving beyond traditional products, to those more suitable for low-income households	M
Regulatory	• Remove regulatory barriers to the establishment of new branches by banks, MFIs and leasing companies, such as additional capital requirements.	M
Physical outreach	• Banks need to be more innovative in extending distribution networks through branches and non-branch channels	L
	• Investigate the potential for branchless banking using independent (third party) agents, such as retail stores, who would provide banking services on behalf of banks.	L
	• Consider strategic alliances between banks and MFIs.	L

6. Roadmap to reform

6.1. Congruence with NSEDP

The proposed timeframe for the implementation of the MAP Roadmap coincides with the period of the 8th National Socio-Economic Development Plan (NSEDP), 2016-2010. The overall objective of the NSEDP premised on achieving three key Outcomes (Inclusive Economic Growth, Human Resource Development and Poverty Alleviation, and Sustainable Natural Resource Management). There are in turn 20 Outputs that will contribute to the achievement of these Outcomes.

Several elements of the MAP Roadmap will contribute to the achievement of specific NSEDP Outputs, while other NSEDP Outputs will act as enablers for the achievement of MAP objectives. These complementarities are shown in Table 7 and Table 8 below.

Table 7: Financial Inclusion contribution to NSEDP 8 objectives

NSEDP VIII	MAP Roadmap Objectives
Outcome 1 – Firm and Inclusive Growth	
Output 1 – Sustained and inclusive economic growth	

Promotion of competitive and sustainable SMEs Small-holder farmer diversification (303)	1. Credit 2. Financial Literacy 4. Payments
Transparent enforcement of legislation, rules & regulations (303)	2. Consumer Empowerment (Transparency)
Business banks/institutions meeting regional/international standards of efficiency (8.4.2 Priority Activities bullet 4)	1. Credit 2. Consumer Empowerment (Transparency) 4. Payments 5. Outreach
Non-farm activities in small towns (8.4.2 Policies bullet 11)	1. Credit 2. Consumer Empowerment (Financial Literacy) 4. Payments
Access to finance (for agric.) on a rational basis (8.4.3 Implementation bullet 4) Access to finance for SMEs, provision of LT finance by banks, establishing a fund to mitigate risks of bank lending to SMEs (8.4.5 bullet 4)	1. Credit 2. Consumer Empowerment (Financial Literacy) 3. Village Funds 4. Payments 5. Outreach
Access to finance for rural enterprises through mobile and e-banking services, with appropriate regulation (8.4.5 bullet 5)	4. Payments
Outcome 2: Development of human resources, poverty reduction, access to health & education	
Output 1: Improved living standards & poverty reduction using Sam-Sung principles	
Developed villages	3. Village Funds
Rural economic activity	1. Credit 3. Village Funds 4. Payments 5. Outreach
Output 2: Macro-economic Stability	
Implementation of recommendations of FATF (Implementation bullet 9)	2.Consumer empowerment (AML/KYC)
Output 2: Food security	
Appropriate farmer credit	1. Credit

Table 8: NSEDP 8 objectivescontributing to Financial Inclusion

NSEDP VIII	MAP Roadmap Objectives
Outcome 1, Output 1 – Sustained and inclusive economic growth	
Enhance sustainability of agriculture through producer groups (8.4.3 Direction bullet 1)	1. Credit
Output 2: Macro-economic Stability	
Macroeconomic co-ordination (MoF, BoL, MPI, MIC) (Implementation bullet 8)	All
Priority Cross-Cutting Outputs	
Management and Application of ICT	
Increase registered mobile phone usage rate to 100%	4. Payments 5. Outreach

6.2. Financial Sector Development Stakeholders

The action items in the MAP Roadmap relate to a variety of different stakeholders, including government, industry participants, and development partners. A tentative listing of stakeholders follows in Table 9 below.

[As the Roadmap is finalized, this listing will need to be refined.]

The Bank of Lao PDR is the key overall stakeholder and its responsibilities and interests cut across many areas. While it may be appropriate for the BoL to be the lead stakeholder for all five priority areas, it would be helpful for this responsibility to be shared with a second stakeholder in each case.

Table 9: Financial Inclusion Priorities & Partners

PRIORITY NO.	*1. Credit*					*2. Consumer Protection*					*3*	*4. Payments*		*5. Outreach*			
	Credit info.	Interest rates	MSME credit	Credit products	Credit insurance	Transpar-ency	Financial literacy	AML/KYC	Consumer prot.	Legal	Village Funds	Mobile money	Infrastr-ucture	Branches	Agents	Products	MFIs
Government																	
Prime Ministers Office		X								X							
Min. Finance		X			X					X							
Bank of Lao PDR	X	X	x		x	X	x	X	X	X	X	X	X	X	X		X
Min. Telecom. Post												x					
Min. Education							X										
DoSME (Min. Ind. Comm)			X														
Min. Health																	
Min. Lab. Soc. Wel.																	
Min. Agr. Forestry		x															
NCRDPE		x									X						
Central Cttee		X															
Lao Womens Union											X						
Industry																	
Banks	X	X	X	X	X	X	X	X		X		X	X	X	X	X	
Nayobay Bank	X	X	X				X				x						
MFIs	X		X	X	X			x						x	x	x	X
Village Funds				X							X						
Leasing co's	X		X	X										x		X	
Insurance co's					X			x						X	X	X	
Bankers Assoc.	x		x					x		x			x	x	x		
MFI Assoc.	X		X					x						X	X		X
Mobile Networks												X			X	X	

PRIORITY NO.	*1. Credit*					*2. Consumer Protection*					*3*	*4. Payments*		*5. Outreach*			
	Credit info.	Interest rates	MSME credit	Credit products	Credit insurance	Transpar-encey	Financial literacy	AML/KYC	Consumer prot.	Legal	Village Funds	Mobile money	Infrastr-ucture	Branches	Agents	Products	MFIs
Development Partners																	
World Bank			x			x		x									
IFC	X		x										x				
GIZ-AFP							X				X						
MAFIPP												X					
Embassies								x									
ADB			x				x										
UNCDF		X															

X = primary partner; x = secondary partner

6.3. Timeframe for Implementation

The various initiatives and action items proposed to be implemented under this Roadmap can be classified to those that can be implemented in the short-term (S, within 12 months); in the medium-term (M, 2-3 years) and long-term (L, 4-5 years). The proposed timeframes are shown in Table **11Error! Reference source not found.**in Appendix 1 below.

6.4. Anticipated benefits

FinScope (2014) indicates that 25% adults remain without access to any type of formal or informal financial service.This limits their ability to effectively manage their financial lives. It limits their capacity to mitigate against risks, smooth their consumption, accumulate assets and invest in productive activities. Even amongst those who are financially included, their use of financial services is very thin, and only 28% of adults use more than one type of financial service from a formal, regulated institution.

Even among the broadly served, there is room for improvement, by providing more affordable and appropriate products, as well as through customer education and protection. This will help deepen financial inclusion in Laos. In addition access to financial services can help to deliver on the fundamental policy objective of economic growth andemployment generation.

This financial inclusion roadmap can helppolicy makersand stakeholders focus attention on these issues and help build a more inclusive society.

The Roadmap will helpcontribute the following benefits:

- **Improving household welfare** by extending financial inclusion to households that are currently less well served,as a result of the emergence of products and channels that more efficiently serve them, such asexpanded digital paymentswhich will enable individuals to affordably transact, pay bills and send long distance remittances, affordable and appropriate savings products that provide the tools to build up savings that can be used to acquire assets, smooth consumption, and increase options for risk mitigation.
- **Supporting economic diversification** by facilitating well targeted credit to farmers, productive enterprises and for investment in assets. Enabling financial institutions to better serve MSMEs through more relevant products andother service providers (e.g. MFIs) will help them become more efficient. MSMEs will benefit from additional credit but also from a widened range of capital sources. Agricultural households will benefit from credit that is provided more sustainably and on terms more suited to their economic and financial needs.
- **At the macro levelimprovement in overall economic efficiency** by enhancing financial sector infrastructure, encouraging competition, modernising regulation and reducing risks. The Roadmap will enable an enhanced legal and regulatory framework that allows for market players to more effectively deliver services to the poor.
- **At the micro level the growth of new and existing institutions** to better serve low income households, including new partnerships between various players, and the growth of MNOs as players in financial services.
- **A measurement framework** to quantify and track financial inclusion, to ensure that the program of action remains relevant to national objectives.

Overall the program will result in the growth, deepening and higher quality of financial inclusion, especially by addressing some of the access barriers observed in the research. Such improvements will be beneficial to the economy, as there is substantial evidence that financial inclusion yields tangible benefits for the poor. Improved access to finance is regarded as pro-growth and also a means to reduce income inequality and poverty.

6.5. Congruence with Sustainable Development Goals

The international community is in the process of adopting Sustainable Development Goals (SDGs), as the successor to the Millennium Development Goals. Financial inclusion initiatives as laid out in the MAP Roadmap are particularly supportive of several of the SDGs, particularly:

SDG1: End poverty in all its forms everywhere.

SDG2: End hunger, achieve food security and improved nutrition and promote sustainable agriculture.

SDG8: Promote sustained, inclusive and sustainable economic growth,full and productive employment and decent work for all.

SDG10: Reduce inequality within and among countries.

6.6. Implementation

The Steering Committee under the chairmanship of the Bank of Lao will continue to be responsible for the MAP process, providing leadership and coordination during the implementation phase of the financial inclusion Roadmap. As chair, the Bank of Lao will be the Roadmap champion. Actual implementation will be the responsibility of the respective stakeholders, including financial service providers, various ministries, as well as donors active in financial inclusion. Sector associations will assist to coordinate providers in their respective sectors, ensuring that sector positions emerge that support financial inclusion in a sustainable manner.

The Bank of Lao will lead the Steering Committee in making key decisions, as well as in appointing and running Technical sub-groups for various work areas.It will also be responsible for donor coordination and M&E functions. As such it is important to ensure sufficient capacity within the BoL.

Successful implementation is contingent on engagement with, and the role played by the private sector, especially the banks, insurance companies, and MNOs. It will be important to get the firm commitment ofthe private sector players through tailored engagement with sector associations, as well as with individual players to resolve specific issues for the purposes of enhancing financial inclusion. It is proposed that the Steering Committee and its structures will meet with the private sector early on in order to clarify their role in the Roadmap, obtain buy in, as well as clarify actions that the private sector expect Government to put in place for them to play their role in enhancing financial inclusion.

Industry associations such as the bankers association and the microfinance association will be particularly important in discussing with the regulators and advancing private sector propositions that will facilitate the further extension of services to the low income. It will also be an important conduit for the Steering Committee to communicate its objectives to the service providers, guided by national frameworks and objectives.

It will also be necessary to ensure that there is sufficient political support for the Roadmap. This will involve engagement between the Bank of Lao and key political entities, notably the Prime Minister's Office and the Central Committee of the Lao Peoples Revolutionary Party. This partly reflects the fact that roadmap action items extend beyond narrow financial sector issues, and also that for cross-cutting issues, co-ordination across stakeholders is required. Furthermore, several items where reform is needed are politically sensitive (e.g. subsidised credit).

As a less-developed country (LDC) – a status that Laos is determined to exit from by 2020 – Laos receives considerable donor support. It will be important to mobilise donor support for funding some of the Roadmap action items, especially those that have substantial financial implications. Development partners can also be of assistance where access to the experience of other countries in addressing these issues is required.

6.7. Measurement and evaluation

Successful implementation partly depends on being able to measure progress, as well as communicating the outcomes of the interventions. The Bank of Lao PDR will monitor and evaluate the proposed outcomes, and provide regular report backs.

The key information source for tracking progress will be future FinScope surveys, which will be carried out at least every three years. According to this schedule, the next FinScope would be carried out in 2017 (following the initial FinScope in 2014). This would provide information on progress with achieving financial inclusion targets at the mid-point of the Roadmap process (as well as the mid-point of the NSEDP). This would provide an opportunity for the recalibration of policy initiatives, depending on progress at that point in time. A further FinScope in 2020 would enable an assessment of the overall achievement of objectives over the period 2016-2020.

The key indicators to be tracked will relate to the primary components of the vision for financial inclusion, i.e.

These can be tracked at both a national level (against the agreed targets) and at the target group level.

A secondary set of indicators can also be tracked on the basis of the FinScope results, which offer a potentially very rich set of information. During 2016, work should take place on determining exactly which indicators should be tracked through FinScope. The final set will need to be agreed in time to be included in the planning process for the next FinScope, as it may have implications for questionnaire design.

It will also be possible to track certain usage indicators more frequently than the FinScope surveys, based on supply-side information from banks and other financial service providers. A further source of information for monitoring and evaluation purposes could come from supply-side information on costs / affordability of selected financial services.

Table 10: Possible indicators for Monitoring and Evaluation

Indicator	Source	Frequency
Financial access strand: - Financial exclusion - Use of formal/informal products - Use of multiple products (depth)	FinScope surveys	Every 3 years?
Demand-side information relating to priority areas, e.g. - understanding of financial concepts, risk etc. - responses to risk events - provision for retirement - proximity to financial service providers (time, cost) - barriers to access	FinScope surveys	Every 3 years?
Number of customers/account holders (savers & borrowers) - Banks - MFIs - Leasing companies - Mobile money - Insurance companies Volumes and values of savings and credit balances disaggregated by individuals/MSMEs	Financial institutions, BoL, MoF	Quarterly/annual
Number of branches/agents	Financial institutions, MNOs, BoL, MoF	Quarterly/annual

Volume / value of transactions	Mobile money operators	Quarterly/annual
Volume / value of other payment instruments / transactions (credit/debit cards, inter-bank transfers)	Banks	Quarterly/annual
Number of credits/borrowers/enquiries recorded by credit information registry	BoL	Quarterly/annual
Cost of financial services	Financial institutions	Annual

7. Conclusions

While ahigh proportion of the adult Lao population have access to financial services, with overall financial inclusion standing at 75%, there are many gaps. Access to finance isbroad (a high level of inclusion) but not deep (not much use of multiple products). Furthermore, access is still an issue in certain segments of population, particularly rural and low income households. This pattern of financial inclusion in Laos is reflected in the main opportunities identified to improve financial inclusion, being (1), assisting excluded groups to get access to financial services; (2) improving the effectiveness of informal financial service provision and (3) deepening financial inclusion for the included population through improved efficiencies and better product availability and value.

MAP Laos proposes to deepen financial inclusion and reach additional pockets of the excluded, low-income groups through five priority initiatives, whichare based on the customer needs and barriers identified in the MAP research. It is envisaged that the proposed interventions will result in an increase in depth and quality of financial inclusion in Laos, in order to increase household welfare, support enhanced economic opportunities and growth, and hence support national socio-economic development goals.

The next steps in the Roadmap process include:

- Identification of stakeholders and champions for each priority area
- Further stakeholder engagement
- Finalisation of roadmap and formal approval (by PM office)
- Establishment of institutional structures (or use of existing structures) to oversee implementation and monitoring
- Donor engagement for funding of roadmap initiatives/action items
- Implementation matrix showing actions and responsible implementer
- Development of M&E indicators and framework (to mobilise stakeholders and monitor outcomes)
- Immediate implementation of areas where resources are available or resource requirements are low

Implementation of the Roadmap will most visibly contribute to financial inclusion by the development of products and business models that deliver better value to low income customers.

Appendix 1

Table 11: Proposed Implementation Timeframe

Priority Area	Activities
	Short Term
I – Credit	• Pay more attention to ability of borrowers to service debt on the basis of cash flow
I – Credit	• Review the provision of subsidised credit by government with a view to reform that will help to reduce fiscal costs and improve credit discipline and impact effectiveness.
I – Credit	• Seek to learn from relevant international best practice (on subsidised credit).
I – Credit	• Review the impact of caps on interest rates on lending by financial institutions.
I – Credit	• Ensure that banks and other lenders consider the ability of borrowers to service debt on the basis of income rather than simply considering collateral
II – Consumer Protection	• Ensure that all financial institutions report publicly, consistently and in a timely manner that meets current legal requirements, and that all relevant financial sector statistics are regularly published.
II – Consumer Protection	• Require dormant bank account balances to be transferred to the BoL
II – Consumer Protection	• Ensuring that all existing laws, regulations guidelines and directives relating to the financial sector are publicly and readily available
III - Village Funds	• Mobilise broad-based political support for the objective of stabilising the VF sector and undertaking reforms, committing resources to ensure sustainability and fulfilment of potential.
IV - Payments	• Introduce mobile money systems; get pilots up and running.
IV – Payments	• Ensure that high-level settlement infrastructure (RTGS) is effective and functional, and require banks to participate
IV – Payments	• Finalise draft MM regulations to provide more certainty in the regulatory environment for MM service providers.
	Medium Term
I – Credit	• Develop new credit products especially those not dependent upon collateralised lending
I – Credit	• Develop insurance products to support credit (e.g. credit life)
I – Credit	• Introduce rules on product information disclosure (e.g. APRs on credit and savings) and restrict credit institutions from using flat rate credit;
I – Credit	• Improve the effectiveness of credit information collection and sharing, by extending compulsory participation in and sharing of information with the credit information registry and requiring lenders to ascertain the credit record of borrowers before making new loans
II – Consumer Protection	• Encourage financial institutions to develop financial literacy amongst their customers;
II – Consumer Protection	• Establish compulsory procedures in financial institutions for dealing with customer complaints
II – Consumer Protection	• Introduce rules on product information disclosure (e.g. APRs on credit and savings) and restrict credit institutions from using flat rate credit
II – Consumer Protection	• Extend depositor protection (deposit insurance) beyond banks to MFIs
II – Consumer Protection	• Ensure that AML/CFT regulation is more effectively implemented

Priority Area	Activities
II – Consumer Protection	• Introduce tiered KYC regulations
II – Consumer Protection	• Faster finalisation of draft laws and regulations
III - Village Funds	• BoL should take on regulatory and supervisory responsibility for the VF sector.
III - Village Funds	• BoL should establish a set of regulations, covering operating procedures, accounting and reporting requirements, cash management, risk management, provisioning etc., applicable to all VFs, perhaps graduated and related to size;
III - Village Funds	• BoL to take direct responsibility for supervising the larger VFs (with a balance sheet size above an agreed level).
III - Village Funds	• Utilise experience of GIZ-AFP project to roll out effective support and supervision mechanisms for VFs nationwide
III - Village Funds	• Promote establishment of regional VF support organisations; or conversion of existing entities to more effective and properly structured support organisations
IV – Payments	• Refine business models on the basis of pilot experience, and move from pilot to full nationwide roll-out as quickly as possible
IV – Payments	• Ensure that agent networks function effectively, providing adequate liquidity for cash-out demands, and that agents have convenient facilities for rebalancing cash and e-value.
IV – Payments	• Ensure that agent networks penetrate areas beyond the current reach of banks.
IV – Payments	• Encourage other banks and MNOs to consider MM products
IV – Payments	• Introduce cross-border mobile money (especially Thailand-Laos)
IV – Payments	• Introduce bank-to-mobile products
IV – Payments	• Establish clearing mechanism for interbank payments instruments (cheques, EFTs) with appropriate data communications channels.
IV – Payments	• Facilitate cross-border MM.
IV – Payments	• Consider the case for offering grants/subsidies to agents in more remote areas in the early stages of MM development
IV – Payments	• Establish payments service providers association for discussion of issues of concern to the industry.
V- Outreach	• More innovation in product design, moving beyond traditional products, to those more suitable for low-income households
V- Outreach	• Remove regulatory barriers to the establishment of new branches by banks, MFIs and leasing companies, such as additional capital requirements.
Long Term	
I – Credit	• Develop MSME credit through lines of wholesale credit, guarantee funds
I – Credit	• Develop refinancing linkages between financial institutions (e.g. banks to non-deposit taking MFIs)
II – Consumer Protection	• Aim to integrate learning on financial literacy into the education system;
II – Consumer Protection	• Ensure that there is consistency in regulatory requirements across different but similar types of institutions, and consistency in interpretation of laws and regulations
III - Village Funds	• Delegate supervisory responsibility for smaller VFs (the majority) to regional support organisations;
III - Village Funds	• Develop regulations for VF support organisations and supervise them.

Priority Area	Activities
III - Village Funds	• Establish third tier VF organisation for training, auditing
III - Village Funds	• Consider Nanyobay Bank as provider of wholesale credit to successful VFs
IV – Payments	• Consider national switch linking banks, retail point-of-sale (POS) terminals, mobile companies etc., enabling payments functionality across channels (e.g. bank/mobile).
IV – Payments	• In due course, promote inter-operability between different MM platforms and between non-bank MM providers and banks
IV – Payments	• Finalise a comprehensive legal, regulatory and reporting framework for payments, encompassing both core, high-value clearing and settlement systems, as well as retail payments service providers.
IV - Payments	• Participate in regional (ASEAN) cross-border payments and settlement system
V- Outreach	• Banks need to be more innovative in extending distribution networks through branches and non-branch channels
V- Outreach	• Investigate the potential for branchless banking using independent (third party) agents, such as retail stores, who would provide banking services on behalf of banks.
V- Outreach	• Consider strategic alliances between banks and MFIs.