

Digitalisation & IT Sector Brief
LAOS



COUNTRY OVERVIEW

The Laos Democratic People's Republic is the least densely populated nation within the ASEAN region – nearly two-thirds of the country's 7.3 million people still live-in rural areas. The only land-locked country in ASEAN, Laos borders four other nations – more than any other in the region, which makes the country a vital junction in mainland Southeast Asia. Laos is demarcated by the Mekong River which extends the length of the country from its border with China in the hilly north to Cambodia in the far south. Laos is a presidential, constitutional republic.

Annual economic growth exceeded 8% for four years prior to 2014, during which time Laos advanced to lower-middle-income status, powered by mining ore and hydroelectric electricity exports to the rest of the Asia Pacific region. Annual GDP growth has slowed as the Sepon mine has matured and declined, and the broader economy begins to shift toward services and consumer expenditure, a process accentuated by the epidemic. Laos experienced 0.4 percent growth in 2020 as its borders remained closed to all but essential trade towards the end of the year, and was predicted to score a moderate rebound in 2021, with 2.2 percent GDP growth forecast against the previous year's low base.



SECTOR OVERVIEW

The ongoing pandemic has only accelerated this shift in Laos, as it has in other countries. Every day, digitalisation expands in unprecedented scale and methods, and its potential to benefit the local economy is recognized. While significant progress has been made in recent years, Laos, as a developing country, is still attempting to catch up with its neighbors in terms of digital usage. A robust legal and regulatory framework consistent with international agreements, in addition to much needed ICT and logistics infrastructure, is critical to foster digital adoption while also protecting citizens from the perils of technology in the new economy, in order to reap fuller benefits for the country. Access to digital technologies is restricted. However, huge increases in connectivity and internet speeds, combined with physical isolation during the epidemic, have advanced the sector in recent years. Whereas POS bank card terminals were once uncommon in Laos, new QR code-based and mobile phone-based banking payment solutions have become common in Laotian restaurants and retail establishments in recent years. The recent rapid digitalization of financial services in Laos has allowed for the growth of other significant products and services, most notably food delivery and online taxi services, but primarily in the biggest cities such as Vientiane, Savannakhet, and Luang Prabang.

General characteristics and trends

As a result of the pandemic, relief organizations and the government in Laos are collaborating more on digitization, including training for small enterprises in new technology. Nonetheless, Laos is still catching up in terms of its economy's digital transformation, and there is no official statistics on the size and extent of the country's IT and digitalization business.

Growing connectivity: Internet penetration rates in Laos surpassed 50% for the first time in 2020, indicating that the majority of the population now has access to the internet. However, access is uneven and heavily skewed towards urban areas, particularly the capital Vientiane and the country's main tourist hub, Luang Prabang. Nonetheless, as the number of internet users grows, so does the rate of connectivity.

Faster internet speeds: Laos has been catching up with the rest of Asia-Pacific in terms of internet speeds in recent years. In cities such as Vientiane prefecture, where internet speeds for enterprises in the capital is 5G and for city residents using fixed-line and mobile connections commonly enable the use of online video.

E-payment options: In recent years, Laos has made rapid progress in transitioning its economy away from cash and toward mobile and card payments in several cities, albeit from a difficult starting point. In recent years, many Laotians in Vientiane have begun to pay taxes, utility bills, insurance, and other payments using banking apps, for instance OnePay, YesPay, TrustPay that provide a growing number of online payment choices. In a country where banking rates have traditionally been low, SMEs may now handle accounts more swiftly and affordably, while also benefiting from low-cost and often free rapid digital payment methods. For the first time in Laos' rural communities, mobile digital payment solutions are allowing non-cash transactions.

Government Prioritization: Although the Laos government has been slow to include and name Industry 4.0 priorities in its economic masterplans, ministers have become more vocal in public about digitalization and IT. In the last two years, the pandemic has increased the urgency of public policy, with the Laos government increasingly recognizing the importance of digitalization as a key tool for combating the negative socioeconomic effects of the Covid-19 outbreak.

Following the pandemic, the increased government focus on digitalization has prompted foreign embassies, the United Nations, and independent aid agencies to devote more resources to such priorities in Laos. The Laos government launched its Digital Government Transformation project with aid partners in July 2021, which includes a commitment to adopt IT tools across ministries and local government offices. One such initiative is the SMART Government e-Interfaces for public service access. This has created numerous opportunities for small businesses that can provide digital services and products, including grants and loans from foreign actors.



MAIN PRODUCTS, SERVICES, AND SEGMENTS

Banking and money transfer

In 2020, approximately 500,000 people in Laos, or 6.75 percent of the population, were active users of digital wallets, up from only about 1% the previous year. The Banque pour Le Commerce Extérieur Lao (BCEL) has been a leader in the digital payments sector, particularly in retail, with many shops, cafes, and restaurants displaying QR codes at their registers, allowing for instant digital payments for goods and services.

Customers of many banks in Laos will now be able to transfer money via a mobile application managed by joint venture Lao National Payment Network Co Ltd (LAPNET) under the Bank of the Lao PDR (BOL). The integrated and convenient system of electronic payments through mobile transfers involving different banks of Laos will make it easier for clients or customers of each bank to reply on their smartphones for transferring money anytime, anywhere and on any payment channel, together more choices for foreign investment and tourism. In other foreign banks, including those from Vietnam, Thailand, and China, quickly introduced new digital payment options prior to and during the pandemic. Government banks from Laos and large lenders from neighboring countries dominate this sector.

The government has aided the development of the digital payments sector by passing the Law on Payment Systems in 2017, followed by the Law on Electronic Signature in 2018, with a new decree on Public-Private Partnerships expected to open the door to more joint investment, particularly in the state-dominated banking sector, in late 2020.

Online retail

Despite the pandemic, Lao residents have seen a steady increase in online retail, with the grocery shopping segment, in particular, shifting increasingly online to account for physical store opening hours and mobility. Grocery services have also expanded into the wholesale and hospitality sectors, but the effects are difficult to assess because the tourism industry remains closed as a result of the Covid-19 outbreak.

Consumer electronics, clothing, and other goods are also making their way into the Laos digital marketplace – accurate data on online shopping is limited in rural areas, but sales remain a minor component of the overall economy. Bydata.com specializes in computers and office equipment, as does Shopping-d.com. LOCA Gro is a digital delivery service for a number of supermarkets and food retailers, as well as other small online shopping apps, such as Dorppin-X in Vientiane. This is a fantastic new opportunity for Lao people who enjoy online shopping.

Payments are typically made using QR-code online banking services rather than credit cards, and international payment services such as PayPal and Master card, as well as the E-pocket bank, are increasingly accepted, albeit with a transaction fee.

Foodservice

Food delivery services in Laos have become the most crowded marketplace in the Lao e-commerce industry since foreign companies such as Food Panda of Singapore entered the country just before the pandemic began. Because of the high number of competitors, foreign firms have joined local entrants who were already operating in Vientiane and Luang Prabang, and the market is expected to consolidate. However, the popularity of the country's food online delivery services such as M-Food, Go-Teddy, and MG Delivery has grown.

During the pandemic, when visiting restaurants and cafes was prohibited, digital food delivery services proved to be an invaluable resource. The proliferation of food delivery services has assisted small restaurants and catering businesses in reaching new customers while also pushing the industry away from cash-only payment methods and toward digital solutions.

Transport services

Due to higher prices and the proliferation of motorbikes and scooters in cities, the ride-hailing sector in Laos has not spread as quickly as food delivery services; however, this is a rapidly expanding market dominated by the local company LOCA. The service was launched in early 2018, with access to the city markets of Vientiane and Luang Prabang. LOCA now has hundreds of drivers and is expanding into the grocery and product delivery segment with the May 2020 launch of LOCA Gro. However, public transportation is still available for residents of the capital city to urban areas.

Other foreign investments, such as InDriver App, give Laos' ride-hailing sector access to the local market, but the lack of foreign companies suggests that opportunities and growth opportunities remain significant in a country where car ownership is steadily rising but remains low. The total number of cars in Laos is unknown, but there were 800,000 registered in Vientiane in 2017, with motorbikes remaining far more common, particularly outside of urban areas.

Digital advertising

In Laos, media marketing is increasingly shifting to digital platforms, including social media. It is also one of the few digital sectors in which a significant number of foreign firms have invested. Businesses from Thailand and Vietnam, in particular, have expanded into Laos in order to attract customers from their home countries. Billboards in cities such as Vientiane, as well as social media, SMS, and other digital platforms, have been used in these campaigns. Despite its recent emergence as one of Laos' primary IT-related sectors, the digital advertising and marketing industry is expected to grow rapidly, aided by a lack of advertising options in newspapers and magazines, as well as television sectors with limited scope and competition outside of state-owned offerings.

Education

During the pandemic was affected the institute, Laos has seen the rise of the online education sector as private schools, particularly in Vientiane, sought ways to reach students who were stranded at home. Although it is still a new industry in Laos and much smaller than in China and other ASEAN countries, online education is expected to grow rapidly in the coming years as faster internet speeds enable video conferencing and real-time teaching online across larger segments of the country and Laos society.



REGULATION

Registration and legal requirements

The huge foreign companies working on infrastructure alongside local entities are currently allowed to invest in Laos internet services, despite the fact that investment restrictions on providing internet services in Laos remain. Only minor firewall restrictions apply to international news websites, social media platforms, and other foreign content providers. Despite the fact that a slew of new digital payments and digital signatures have opened up the e-payment and e-commerce sector in the last five years, the central bank's 'Decision on Minor Payment Settlement System' in 2019 mandated that digital payment companies maintain a minimum 10% shareholding by a local company or individual, as well as the appointment of a Laos director.

With little regulation currently in place, online retail, ride-hailing, and food delivery services face far fewer legal constraints. The ride-hailing industry is governed by legislation that is still being developed, particularly in the areas of registration, labor rights, and the development of automated driving solutions. Car insurance has only recently become widely available in Laos, according to government registration data.

Foreign investors are not prohibited by local law from transferring net profits, capital, wages, or interest outside the country if prior state approval is sought and obtained. Nonetheless, caps on foreign currency transactions limit the amount of capital that can be repatriated outside of the country in practice.



MARKET ENTRY

Starting a business in Laos

The Lao People's Democratic Republic has experienced rapid economic growth in the last 25 years. However, recent data show that the impact of this growth on poverty reduction has been minimal, with inequality widening. Laos is attempting to diversify its economy and create more jobs in order to make growth more sustainable and to spread its positive effects throughout society. A strong private sector will be required for this and increasing private-sector-led growth is a priority of the 8th National Socioeconomic Development Plan (2016–2020).

Laos is ranked 154th out of 190 countries in the World Bank Group's 2020 Ease of Doing Business Index, because of the time-consuming process of registering a company with the Ministry of Industry and Commerce's newly renamed Department of Enterprise Registration and Management (DERM). In Laos, business registration typically takes months rather than weeks.

Foreign companies can establish a representative office structure for a one-year term with the option of extending it for up to three years, or a limited company that can be entirely foreign-owned. According to the central bank's 'Decision on Minor Payment Settlement System' in 2019, some sectors, including the payment settlements industry, place restrictions on foreign ownership. DERM may require employment contracts to prove local hires in industries where hiring of local specialists or directors is required, such as payment settlements. Depending on their size, scope, and industry, foreign companies can receive a foreign visa allocation for foreign staff. New businesses will receive an Enterprise Registration Certificate and Tax Identification Number, as well as a company stamp, once their registration is complete.

To support private-sector-led growth and boost Lao competitiveness, deeper reforms that improve the business environment, advance connectivity with neighboring economies, and boost local firm productivity will be required. This necessitates the simplification of regulations as well as the creation of a more transparent and predictable business and trade environment, which will level the playing field, encourage entry, and increase competition. However, the short-term enterprise registration was developed by the government.

Promotion

Participating in trade fairs is a traditional promotional activity, but foreign embassy-organized events showcasing new and/or foreign products and services have grown in popularity in Vientiane. Many new digital companies that have entered Laos' competitive food delivery sector have used billboard advertising in the main city to capitalize on the increasingly common traffic jams during rush hours, a relatively new phenomenon in Laos.



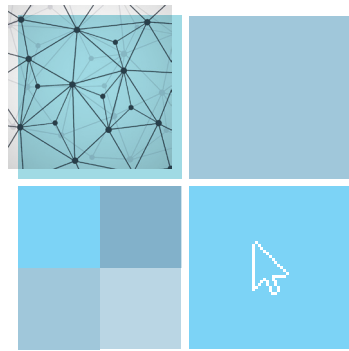
RECOMMENDATIONS AND TRENDS

Currently, 90 percent of Lao people have access to the internet through their mobile phones. However, by implementing digital solutions, both the private sector and the Lao PDR government could improve the effectiveness of their service delivery. We are delighted to join the authorities in their efforts to improve the use of digital technologies, which are also critical to promoting a more inclusive pattern of economic growth and improving the quality of life for all citizens. Laos is expected to enter a period of rapid growth in terms of digital and IT services and products in the country, fueled by challenges encountered during the global pandemic. Other challenges and opportunities are as follows:

Although the lead company officially announced the rollout of 5G services in Laos last year, companies operating in Laos' IT and digitalization sector face a two-tier marketplace in terms of accessibility and internet speeds for the foreseeable future, as they strive to reach the critical more than 75 percent internet coverage threshold, during which time speeds in rural areas will remain limited. Nonetheless, 5G is being deployed in Laos, which opens up new opportunities and competition for small businesses, particularly in Vientiane.

In comparison to neighboring nations, landline phone pricing is reasonable, with few corporations providing monopolies on telephone services in Lao PDR and insufficient internet infrastructure and investment. However, service use is expanding, and there is a future need for internal integration and competitiveness to ensure widespread use across the country.

The worldwide community is eager to bridge the Digital Divide. Laos could benefit from multilateral, bilateral, non-governmental organization (NGO), and private sector ICT programs as a Least Developed Country (LDC). A policy for universal Internet access must be developed. Laos can use the Internet to compensate for a lack of road transportation. While physically delivering newspapers and schoolbooks to rural places is impracticable, these goods could be provided via the Internet. The government should establish a network of public Internet connection sites to ensure that its residents have access to the information they require. If ICT is a vital tool for social and economic development, rural people, who represent for 80 percent of the entire population, should have access to it. However, Laos requires additional ICT investment to deliver services to both the government and the commercial sector.



Digitalisation & IT Sector Brief