



Business Confidence Assessment Lao PDR

(Lao and European businesses)

July - December 2014

Jointly published by the Lao National Chamber of Commerce and Industry and the
European Chamber of Commerce and Industry in Lao PDR



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Vientiane 2015

Foreword

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1. Executive summary

With a survey of 424 enterprises (385 Lao and 39 Laos based European businesses) over the period July-December 2014, the present assessment has three objectives: it aims to provide (i) an insight of the business environment for the second half of the year 2014, (ii) a comparison between Lao and European enterprises, and (iii) developments over the year 2014 in the business sector, in the form of indices.

The main results are all positive: the assessment of the overall economic situation and of the general business situation of the enterprises is positive for both local and European firms. 37% of Lao and 58% of European firms consider their business situation in the second half of 2014 as good, more than half of the Lao and about ⅓ of the European companies as average. European firms are more optimistic when compared to six months ago.

Key findings may be summarised as follows:

- **General economic situation:** 38% of the Lao companies assess the overall situation of the country as good, 49% as average (21% and 58% for the European companies respectively) which is an improvement of the results of the last survey.
- **Business situation development:** A positive trend among local and European firms for the last six months. Expectations are optimistic for the first half of 2015.
- **Turnover:** Most companies record an improvement in their turnover in the second half of 2014. Optimism prevails for the turnover situation in the next six months.
- **Profits** have on average increased in the second half of 2014.
- **Financial situation:** Most companies have seen an improvement in their financial situation, which was not the case six months ago. Again, expectations are optimistic.
- **Investment:** The majority of both local and European companies are investing in their business, although a minor decrease in investment since the first half of 2014 has been noted. A majority of firms plan to invest in their company in the first half of 2015, but there is a notable difference between local and European companies: 71% of local companies are planning to invest, but only 56% of the European ones. These results are similar to the assessment conducted six months ago.
- **Employment:** 28% of the Lao companies and ⅓ of the European companies saw a net increase of their staff number in the second half of 2014; 50% of the local and 44% of the European firms are planning an increase in their employment in future.
- **ASEAN Economic Community (AEC):** ¼ of the Lao and ⅓ of the European companies have positive expectations for the AEC, few are sceptical (16% and 5% respectively).
- **Exports:** Most companies experienced a positive development although expectations were not met by actual developments. Future expectations are largely positive (70% of Lao firms expecting an increase, 38% of European firms)

Part I: BACKGROUND

2. Introduction

During the peak of the World Economic and Financial Crisis the Lao National Chamber of Commerce and Industry (LNCCI) implemented three half-yearly Business Confidence Assessments (June 2009, December 2009, June 2010). Aiming to supplement existing publications, these reports provided real time qualitative information on the business environment in Lao PDR, as well as up-to-date perceptions of the expected and actual short-term developments by the businessmen themselves.

In 2014, the European Chamber of Commerce in Lao PDR (ECCIL) and LNCCI revived the series and published a fourth Business Confidence Assessment for the period January - June 2014, this time with a twofold objective: (i) assessing the current business situation and expectations in Laos for the first half of the year 2014, and (ii) comparing the business environment for Lao and European enterprises located in Lao PDR. This report gave an insight of the economic developments in the first half of 2014 and expectations from the business sector for the second half of the year. The main result from the January to June 2014 assessment was that the majority of both Lao and European surveyed enterprises had seen a positive development in their business activities for the first half of the year 2014 and had optimistic expectations for the rest of the year.

3. Objectives

The current Business Confidence Assessment aims to provide representative information on the business environment for the second half of 2014, and to compare this information with previous six months of the year.

In particular the present assessment aims to provide (i) an insight of the business environment for the second half of the year 2014, (ii) a comparison between Lao and European enterprises, as well as (iii) developments over the year 2014 in the business sector in the form of indices.

The present report provides an up-to-date representation of the business sector's situation for the second half of 2014, by the businessmen themselves. It can be used as a reference material for all stakeholders interested in the current business environment in the Lao PDR, particularly for policy makers and investors.

Although the Business Confidence Assessment aims to be as representative as possible for the business sector in the country, there are limitations. The report provides a qualitative assessment, and is based on perceptions of the members of the LNCCI and ECCIL in Lao PDR. They provide real-time information about the current sector, in each province for Lao companies, as well as short-term future expectations. With the survey of European businesses conducted at the same time, this assessment also compares the situation of local and European firms, providing an insight for those who are willing to set up in the country.

The report does not substitute other surveys by the government, multilateral organizations or development agencies but rather supplements them with experiences and assumptions from the business sector.

4. Methodology

Up-to-date information on the current total number of businesses in operation in the country is not available, and different sources are providing different estimates. The base was therefore defined following the last official Economic Census of 2006, which states that 126,913 economic units were in operation in the country¹. The LNCCI together with provincial Chambers of Commerce and Industry have conducted the surveys for Lao companies in regions where an operational chamber is located. In Attapeu and Xekong provinces are no provincial chambers, the one in Phongsaly is in its infancy and not yet fully operational. However, the number of companies in these regions is very limited (a combined total of 5222 enterprises is assumed)². These three provinces were therefore not taken into account, and the total number of enterprises stated in the Census was reduced accordingly. Hence the base was defined at 121,691 enterprises.

Representativeness was defined as follows:

Confidence interval (Z):	1.96 (95%),
Variance (p):	0.5
Margin of error (ε):	0.05
Base (N):	121,691

To determine the size of the sample which matches the above mentioned criteria the formula

$$n_0 = \frac{Z^2 \cdot p(1-p)}{\epsilon^2} \quad \text{was used and corrected with} \quad n^* = \frac{n_0}{1 + (n_0 - 1)/N}$$

The resulting sample population is 383 Lao enterprises, with a confidence level at 95% and a margin of error at 5%.

The European business sector was defined as the organized European business sector, i.e. Lao based corporate members of ECCIL which are 89 enterprises. Questionnaires have been sent out to every Laos based corporate member of ECCIL.

Given limited replies from ECCIL members (39 questionnaires out of 89 members), the study for European firms is rather indicative than representative with a margin of error at 10% and a confidence level at 90%.

This leads to the following statistical framework:

¹ The Steering Committee on Economic Census (Ed.): Report of the Economic Census, 2006. Volume 1. Vientiane Capital, 2007, p.18

² *ibid.*

Lao companies

Confidence level:	95%
Margin of error:	5%
Base:	121,691
Resulting sample size:	383 or more (385 surveys were received)

European companies

Confidence level:	90%
Margin of error:	10%
Base:	89
Resulting sample size:	39

All surveyed enterprises have received the same questionnaire. The LNCCI has been collecting the data in 12 provinces and the capital for 385 enterprises which were randomly sampled. A team in each provincial Chamber of Commerce and Industry collected the data through interviews based on the aforementioned questionnaire. ECCIL conducted the survey among its members via electronic communication.

The spatial distribution was also determined by the findings of the census. According to the share of the provinces in the overall number of enterprises in the country, it was defined how many companies to select in which provinces (the above mentioned three provinces had to be excluded for technical reasons).

Being representative for the Lao business sector and for the business community there are still limitations, in particular regarding the representativeness of the findings on more disaggregated levels such as for particular industries or provinces. This is mathematically not avoidable since a sample is representative for the base population, not necessarily for subgroups of the base population. Otherwise the sample population would have had to be exponentially higher.

All statements regarding to particular provinces or industries therefore have a lower confidence level and must be regarded as indicative rather than representative.

5. The surveyed enterprises

In total, 424 enterprises have been surveyed, 385 Lao firms and 39 European firms. Lao companies have been surveyed over 12 provinces³ and Vientiane capital, while European surveyed companies were mostly spread over Vientiane capital, and Vientiane, Savannakhet and Luang Prabang provinces. Around 30% of total surveyed enterprises are located in Vientiane capital, which remains the main hub for business activities in the country.

³ As mentioned earlier, the provinces of Attapeu, Phongsaly, and Xekong, could not be covered for lack of a fully operational local chamber. Besides, the chamber of Salavan could not participate in the survey due to technical reasons. To make up for the missing company questionnaires from Salavan, additional enterprises have been interviewed in Vientiane Capital in order to maintain the necessary size of the survey for being representative.

In terms of industries, Lao surveyed companies are concentrated in the wholesale, retail trade and repair sector (19.22%), the manufacturing sector (18.70%), the accommodation and food service sector (13.51%), as well as the construction sector (11.17%). Surveyed European companies are mostly found in the hospitality business, in, other service, and manufacturing.

If we just take into account the local firms, whereas the census tried to cover all “business units” in the country, this survey is limited to enterprises that are registered on provincial or national level and thus may give a somewhat different picture when it comes to the share of the different subsectors. The census states that almost two thirds of the business units belong to the wholesale/retail/repair subsector whereas in this survey their share is around 19%. This difference may be explained by the fact that most of the trade and repair businesses are very small and tend to register on the local level, not with the provincial or central authorities. The 2014 GIZ study⁴, which uses the financial registers as a basis, estimates the trade sector’s share at about 44%.

As expected, the majority of the local and European companies are small with less than 20 employees (67% of Lao and 55% of European companies). Nevertheless, the share of large enterprises (100 or more employees) is much more important among European firms (24%) than in Lao firms (8%).

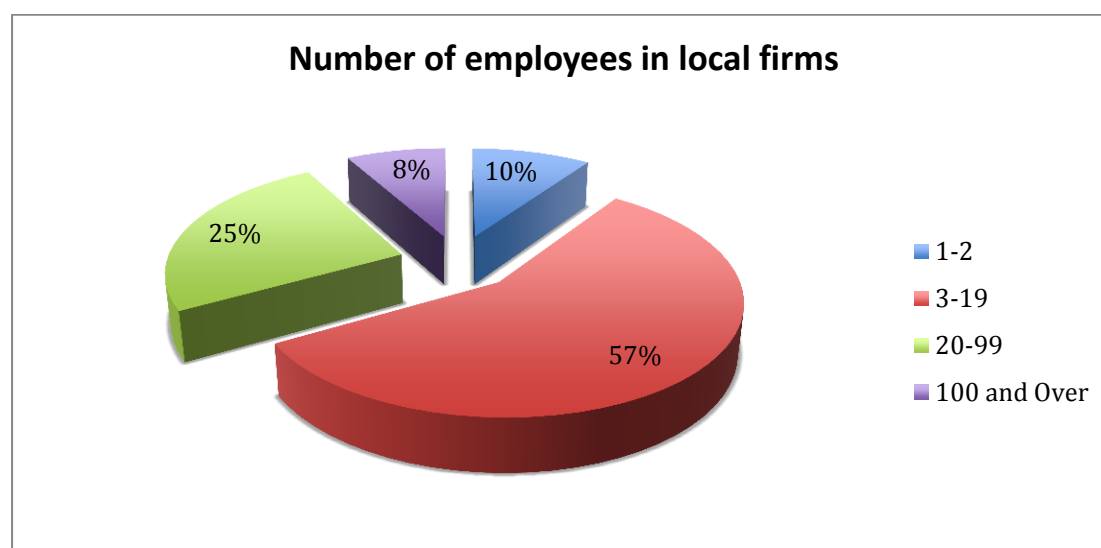


Figure 1: Number of employees in local firms

⁴ GIZ (Ed.) : HRDME Enterprise Survey 2013 for Lao PDR, Vientiane, July 2014, p. 46.

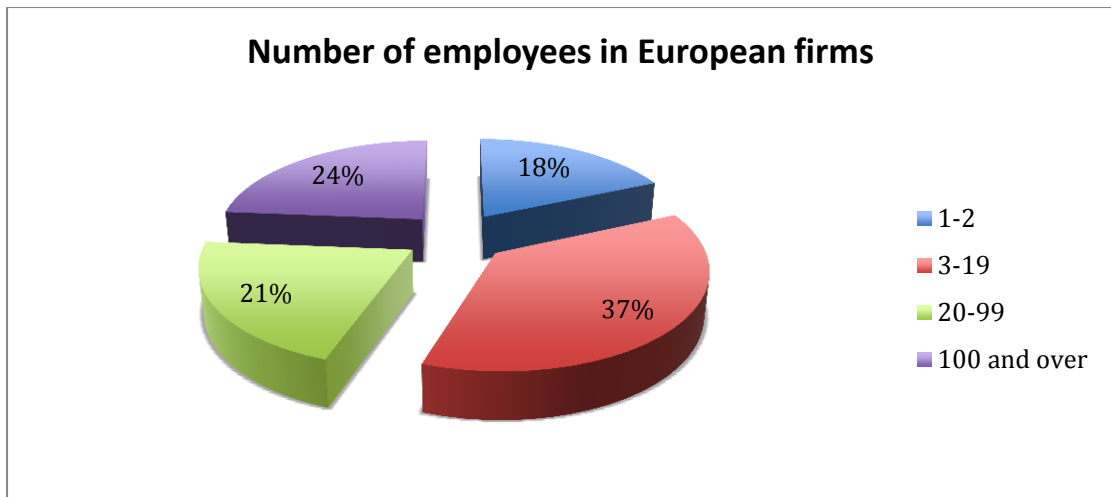


Figure 2: Number of employees in European firms

Among European companies, 61% are older than 5 years, while among local companies, this share comes to 70%. The sample may therefore consist of rather mature businesses. However the share of 'young businesses' (1 or 2 years) is greater among the European community (26%) than among Lao companies (5%). This can be explained by the fact that setting up of foreign businesses in Lao PDR (European businesses in that case) has become more important in recent years.

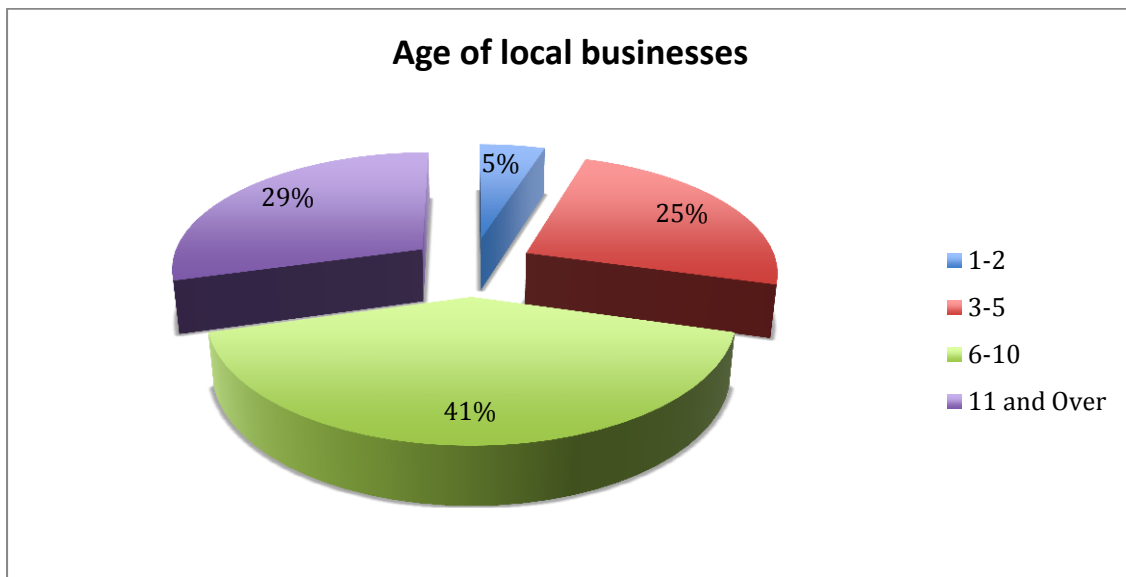


Figure 3: Age of local businesses

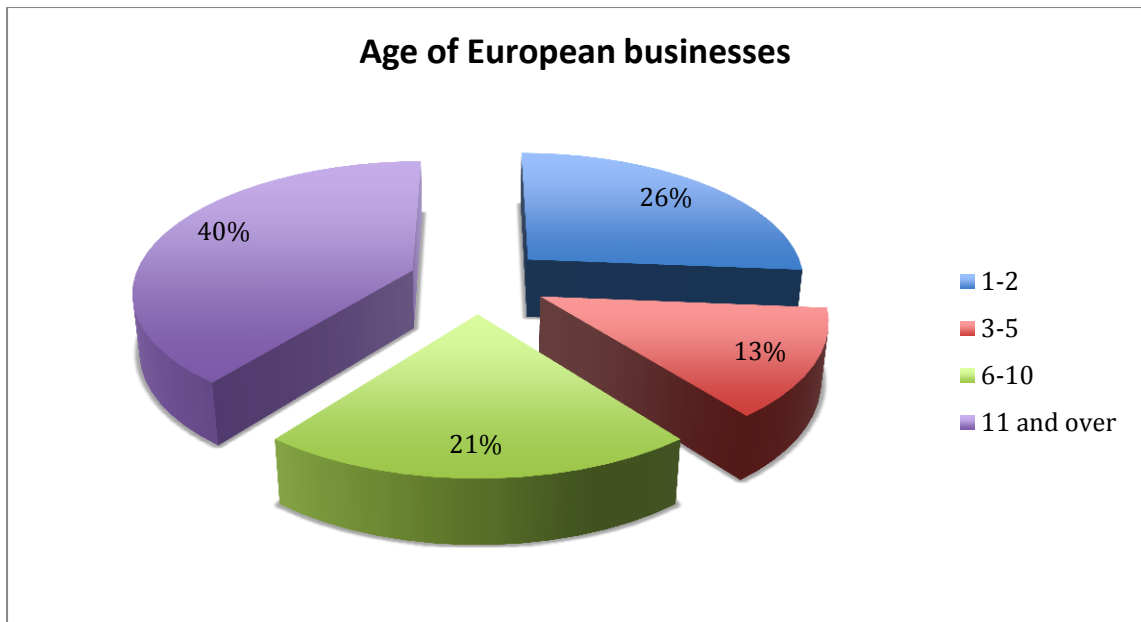


Figure 4: Age of European businesses

Part II: BUSINESS CONFIDENCE JANUARY 2015

6. Assessment of the overall economic situation

There is no significant difference of perception between Lao and European firms when assessing the overall economic situation, although fewer European firms have a positive vision. This finding was similar six months ago. Half of the local firms regard the overall economic situation in Lao PDR as 'average', a great part of local firms judge it as 'good' (38% compared to 27% in 2014), while only a minority has a pessimist perception (9%). European firms have slightly less positive judgments (21% 'good', 58% 'average', 11% 'bad').

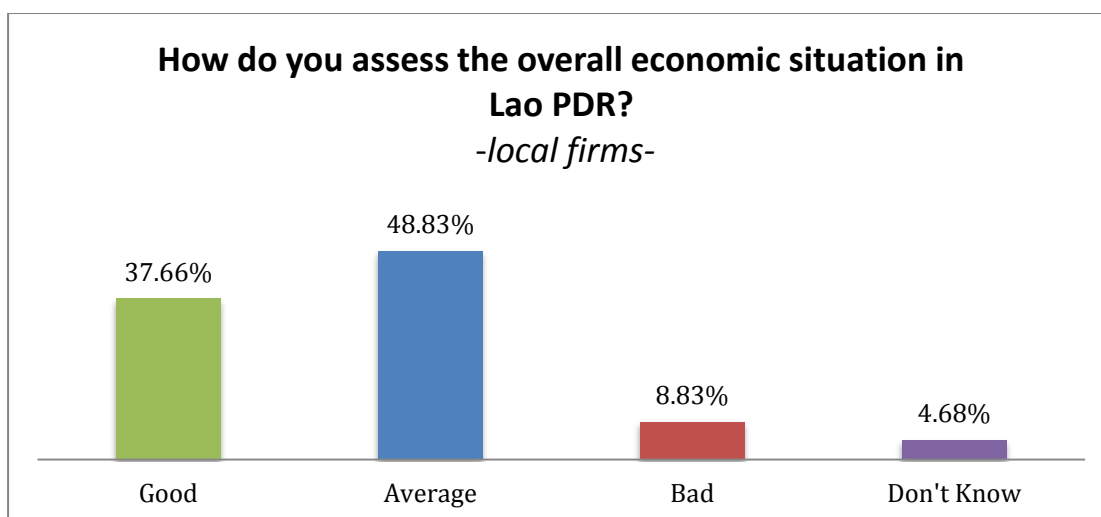


Figure 5: Assessment of the overall economic situation- local firms' perception

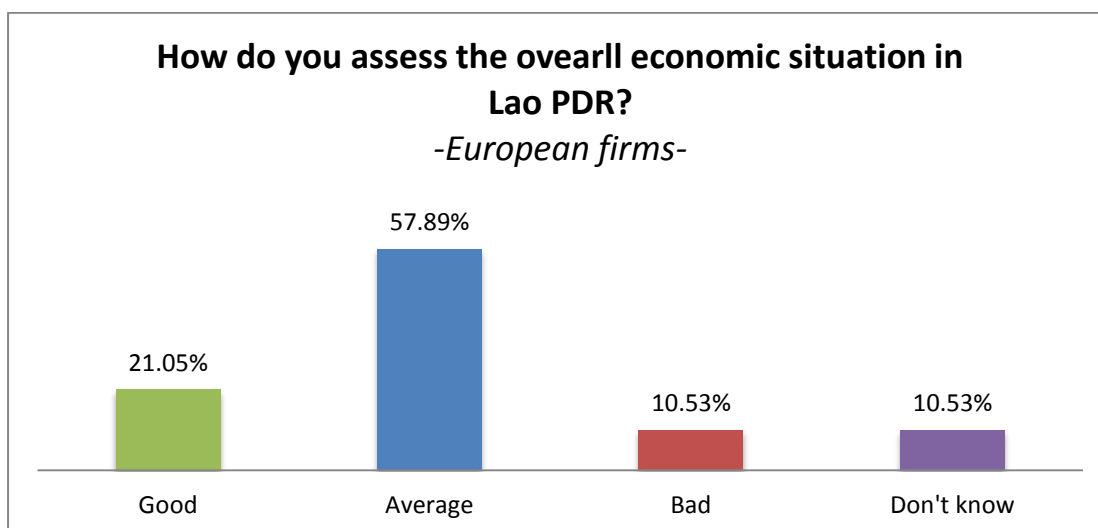


Figure 6: Assessment of the overall economic situation - European firms' perception

7. General business situation of the enterprises

The general assessment of the current business situation of enterprises shows a positive trend. A growing number of Lao enterprises have the perception their current business situation is doing well (37% against 26% in the first half of 2014), while the shrinking majority assesses it as 'average' (56% against 65% in H1/2014). Less enterprises have the perception their current business situation is not satisfactory (6.5% against 9% H1/2014). European firms are more optimistic when compared with six months ago (58% 'good'

against 43.5% in H1/2014; 34% 'average' against 43.48% in the previous period; and only 3% 'bad' against 11% in H1/2014).

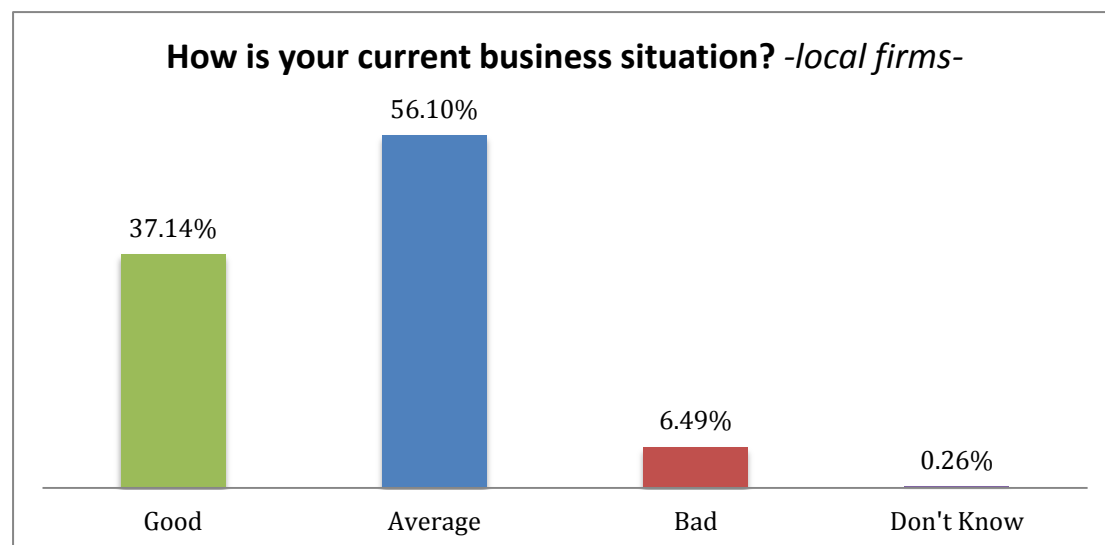


Figure 7: Current business situation- local firms' perception

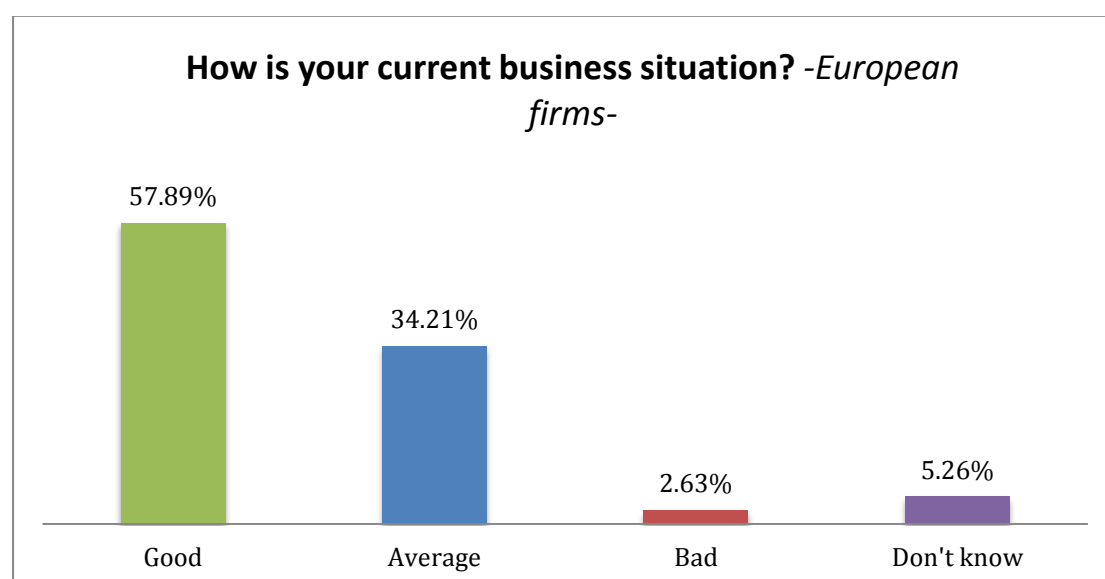


Figure 8: Current business situation- European firms' perception

For local firms, the optimist perception of the current business situation has considerably increased. Regarding the current perception of Lao companies' own businesses, the general judgment (only 6.5% assessing their current business situation as 'bad') is relatively more positive than the perception of the overall economic situation (9% assessing the overall economic situation as 'bad'). This is similar for European companies, which are 58% to assess their current business situation is 'good' and only 21% to judge the same about the overall economic situation.

In most of the different industries 30 to 40% describe their current business situation as positive – with two notable exceptions: electricity/gas is doing very well (as in the first half of 2014) whereas the hospitality sector is performing below average with the fewest companies describing their situation as good and 15% reporting their business situation as bad.

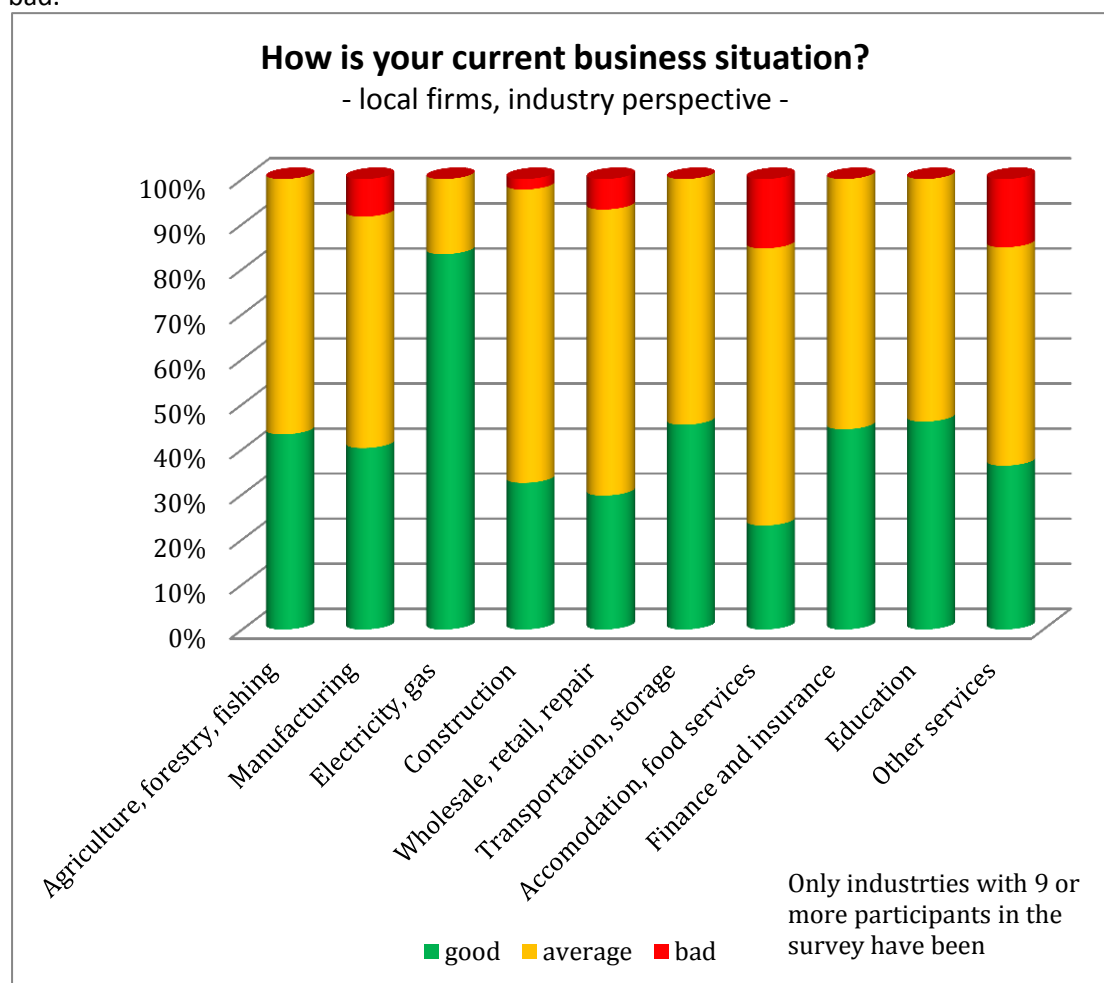


Figure 9: How is your current business situation?

With a provincial perspective⁵, we see that the highest rates of ‘good’ perceptions are found in Khammouan (87%), Bokeo (78%), Oudomxay (77%) and Champasak (60%) provinces. The provinces that went through a significant positive change in their perceptions over the last six months are Luang Namtha (44% against 0% in h1/2014), Vientiane province (16% against 2% in H1/2014), and Huaphan (30% against 8% in H1/2014).

Another interesting trend is that the pessimist perception of the current business situation is only expressed in a few provinces: Savannakhet (31%), Bolikhamxay (10%), Vientiane province (2%), and Vientiane capital (8%). These results differs from the assessment done six months ago, in which Bokeo had the highest rate of companies assessing their current business situation as ‘bad’ (22%).

⁵ Only for Lao firms because 80% of European companies are located in Vientiane Province or Vientiane Capital

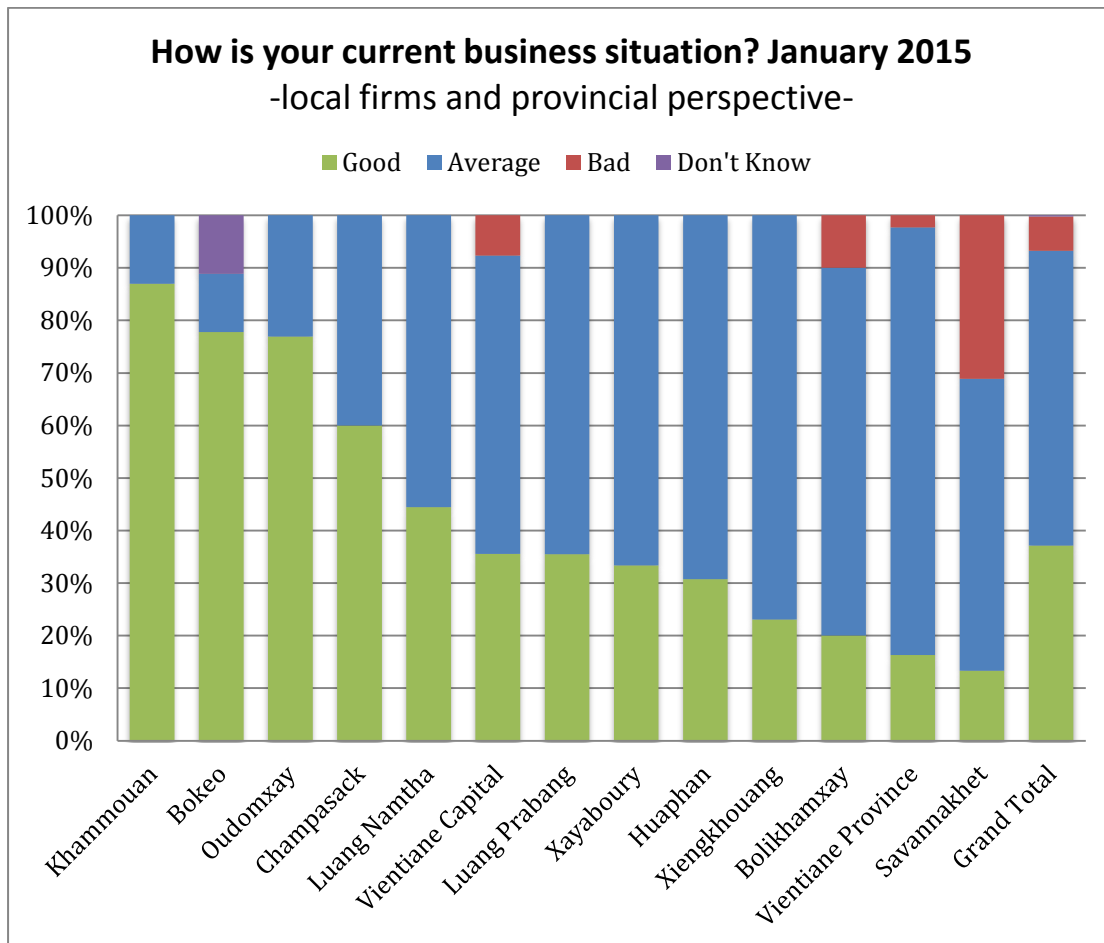


Figure 10: Current business situation- local firms' perception, provincial perspective, July-December 2014

Regarding the business situation development over the last six months, there is no significant difference between Lao and European firms, which was also the case in the first half of 2014. The majority of companies have expressed positive results; the business situation improved for more than half of the companies, both Lao and European ones.

The figure below (table 11) is reflecting the positive trend expressed above among Lao firms: 53% of Lao firms have the perception that their business situation has improved over the last six months (against 45% in H1/2014). Only 6.75% have the perception it has deteriorated, against 11% in H1/2014. European firms (table 12) follow a similar trend, with 60,5% of companies assessing an improvement, 32% 'no change', and only 5% a deterioration.

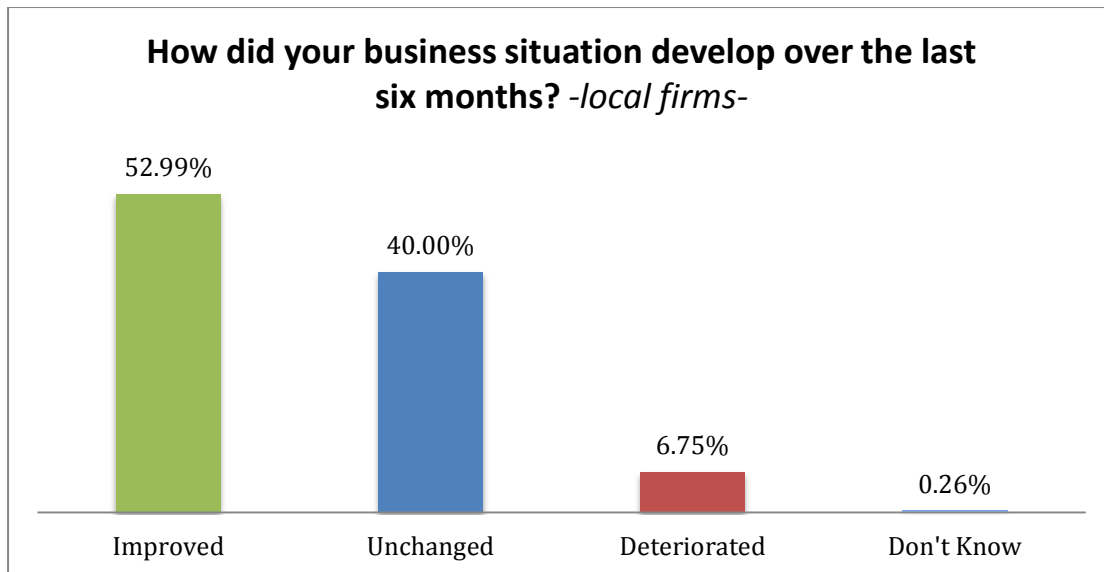


Figure 11: Development of business situation over the last six months- local firms' perception

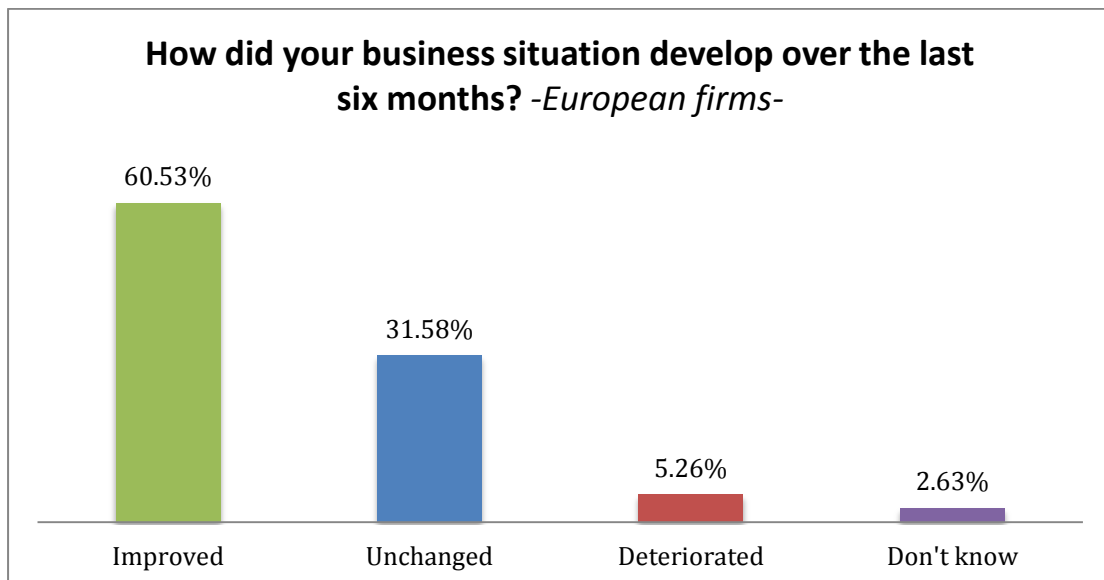


Figure 12: Development of business situation over the last six months- European firms' perception

When it comes to the assessment of what the next six months will bring for the business situation, tendencies are optimistic and quite similar in both groups: 70% of local and 56% of European firms expect an improvement; respectively, 21% and 31% don't expect any change; and less than 6% in both groups of companies fear a deterioration.

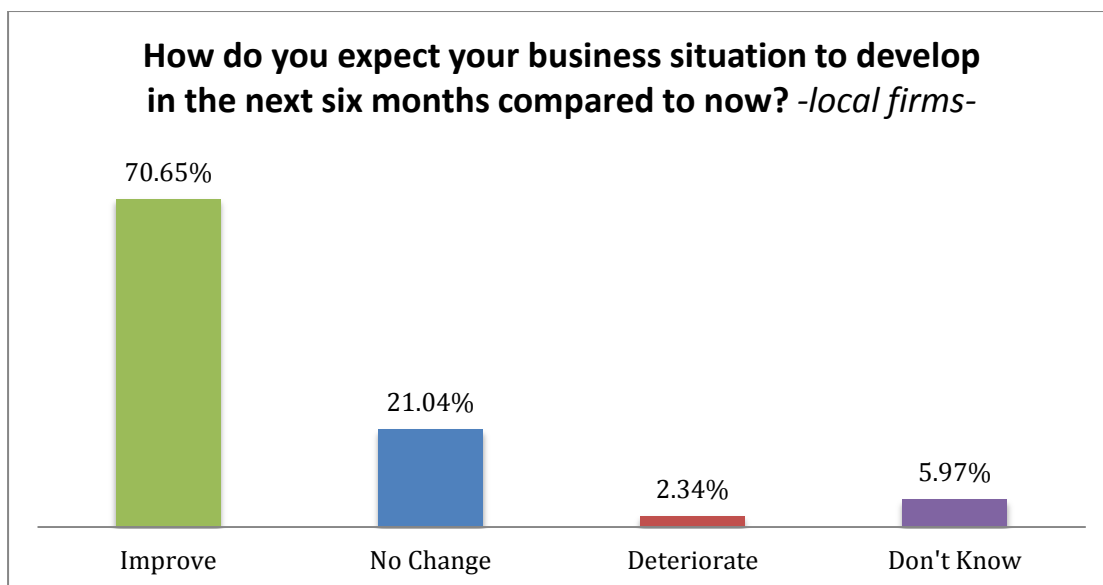


Figure 13: Expected development of the business situation during the next six months- local firms' perception

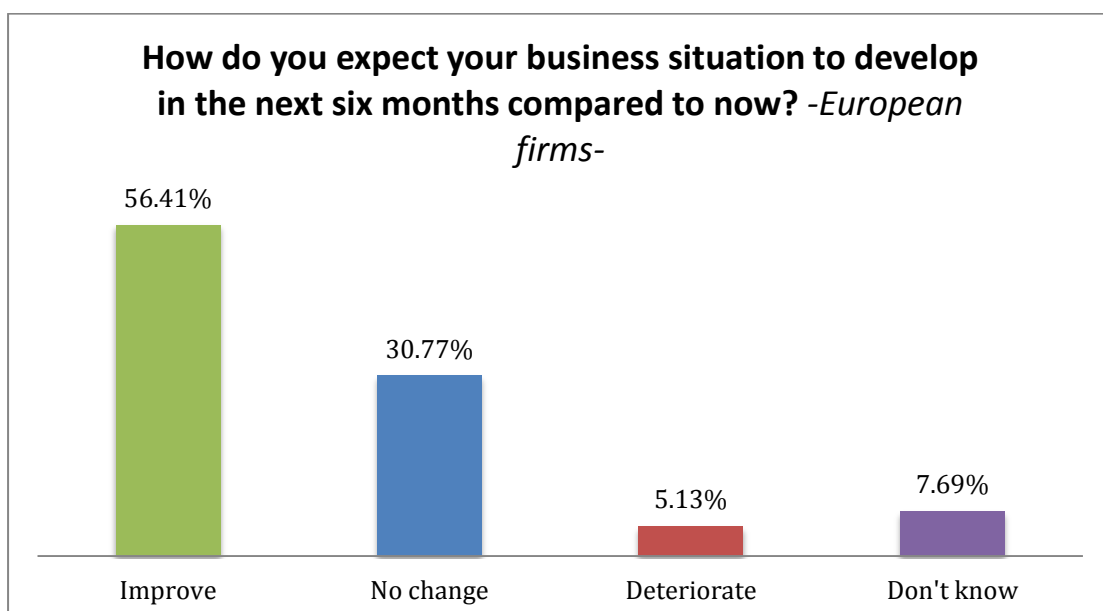


Figure 14: Expected development of the business situation during the next six months- European firms' perception

In a provincial perspective, optimism is especially strong in Luang Namtha and Oudomxay, where all companies expect an improvement in their business situation (similar results in the first six months of 2014). The highest rates of companies expecting a deterioration of their business in the first half of 2015 are located in Bolikhamxay (10%), Savannakhet (9%) and Huaphan (8%) with businesses in Bolikhamxay and Savannakhet having already experienced a less than positive second half of 2014.

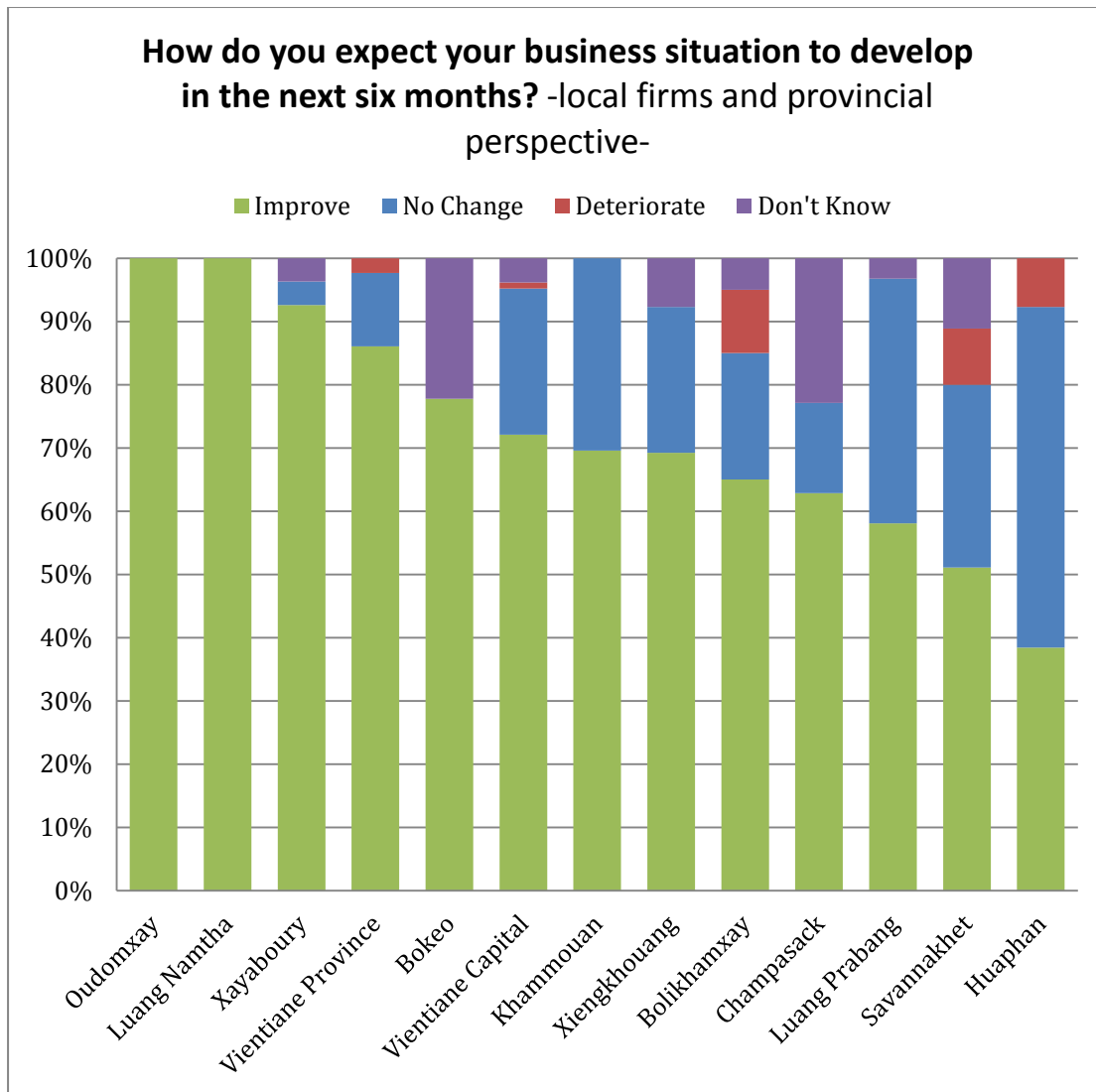


Figure 15: Expected development of the business situation during the next 6 months- local firms' perception, provincial perspective

8. Turnover

More European firms state an improvement in their turnover development over the last six months than the Lao ones (57% of surveyed companies against 44.5% of Lao surveyed companies). Around 41% of local firms do not report any change in their turnover, against 29% for European firms. The rate is approximately the same for both groups regarding those who declare their turnover has decreased in the last six months (11.5% for Lao firms, 10% for European firms).

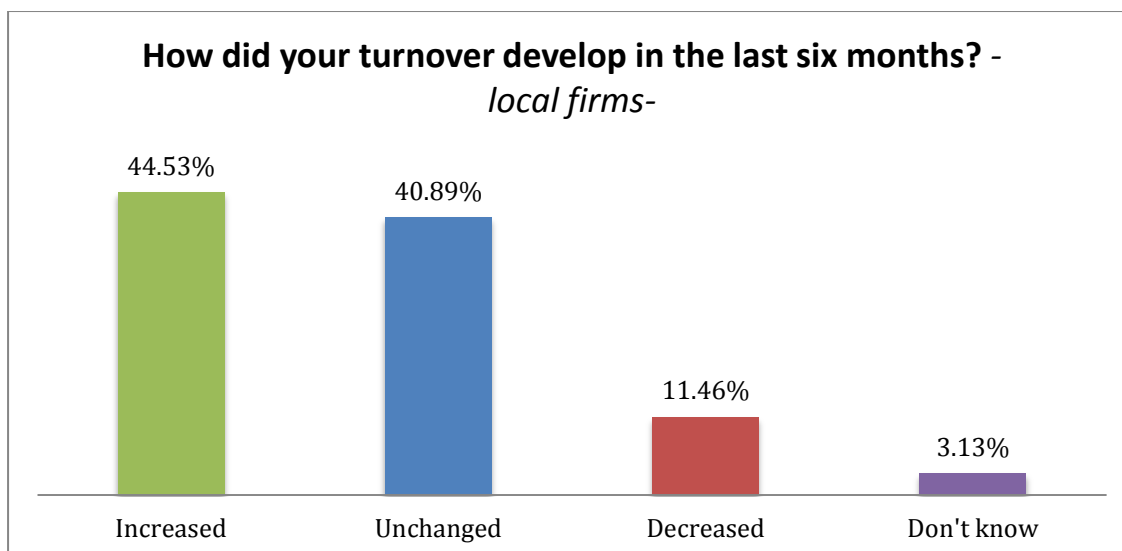


Figure 16: Development of turnover over the last six months- local firms' perception

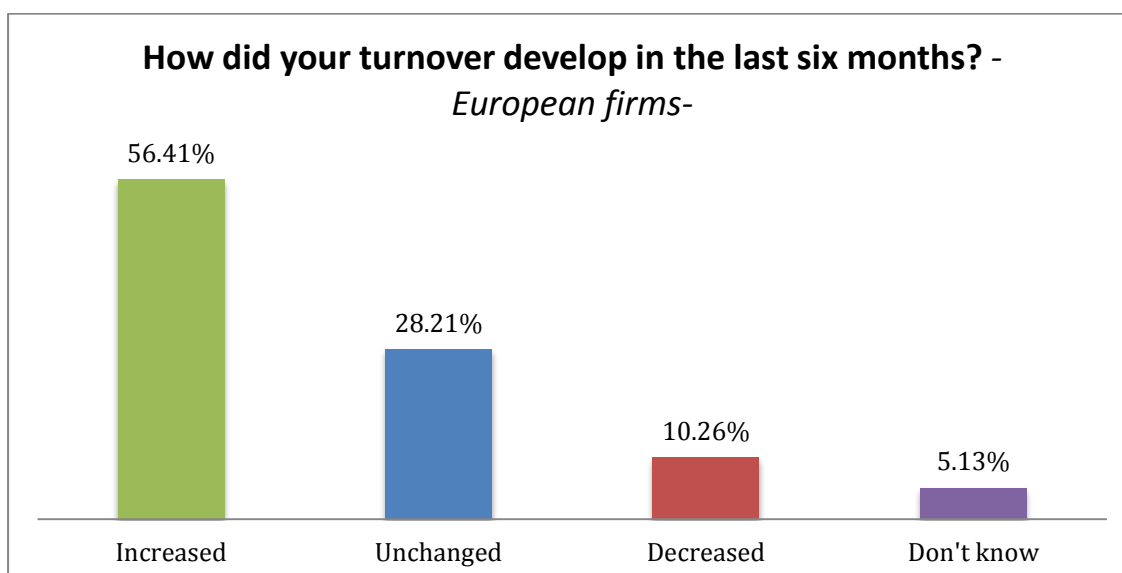


Figure 17: Development of turnover over the last six months- European firms' perception

On a provincial perspective, Lao firms have made different experiences regarding their turnover. Highest turnover increases are found in Luang Namtha (89%), Oudomxay (77%), Xayaboury (67%) and Bokeo (67%) provinces. On the opposite, the biggest turnover decreases in the last six months have occurred in Savannakhet (27%) and Vientiane province (21%). The turnover of the companies in Vientiane province and Vientiane capital has decreased since the last assessment –respectively 35% and 22% in H1/2014.

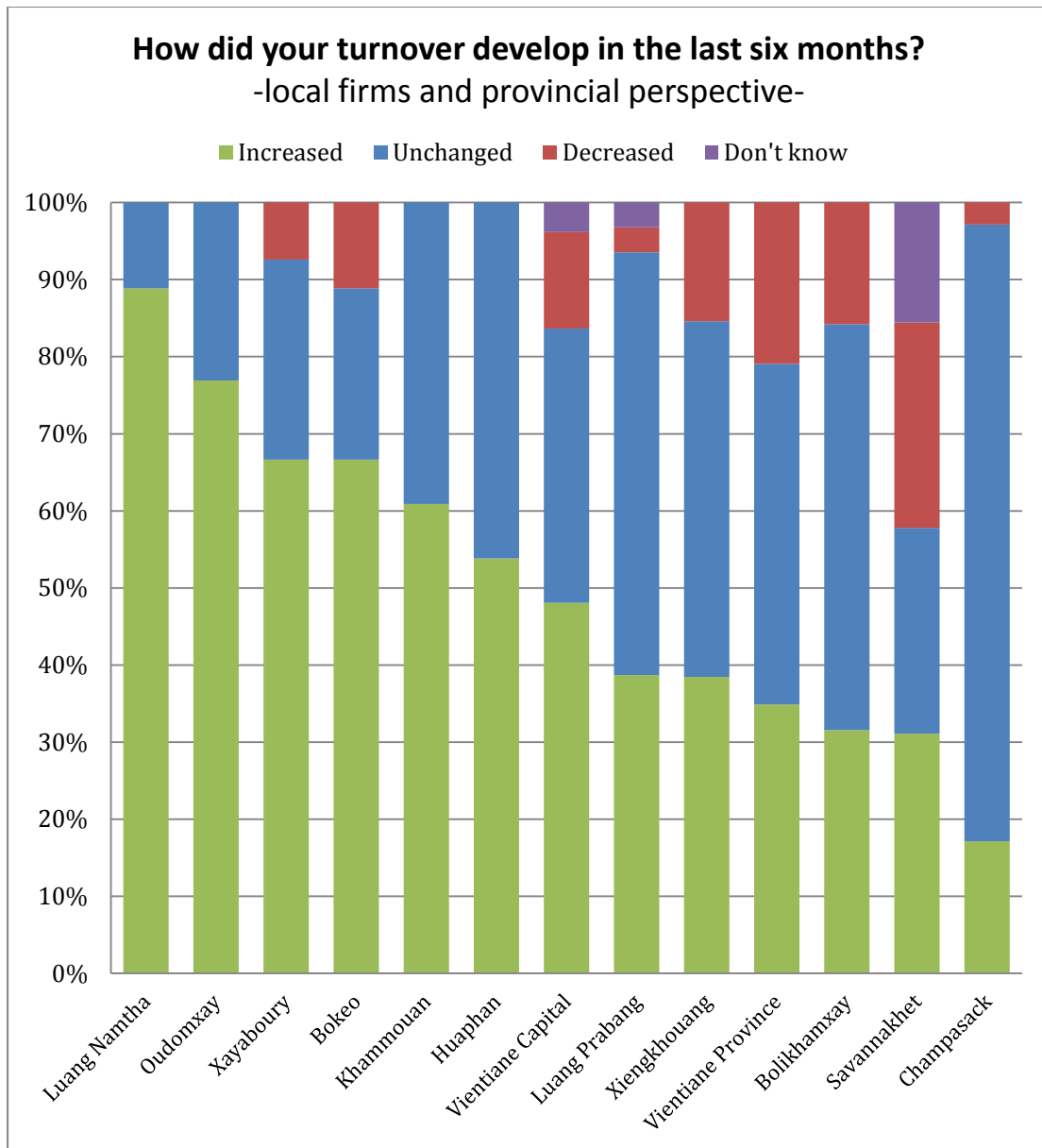


Figure 18: Turnover development - local firms, provincial perspective

Local firms' turnover rates are differing depending on the types of industry, although these are relatively high in general. The rate of enterprises who have seen an increase in their turnover is above 70% in the following sectors: (i) finance and insurance (78%); (ii) education (75%). Companies in the real estate sector are not expressing any positive or negative trend, and half of them are not able to evaluate the turnover development in the last six months. Other companies that have experienced a decreasing turnover rate are those in 'other service activities' and in the tourism industry. Whereas the expectations regarding the turnover in the first half of 2015 are somewhat muted in the "other services" the hospitality sector is in a more bullish mood.

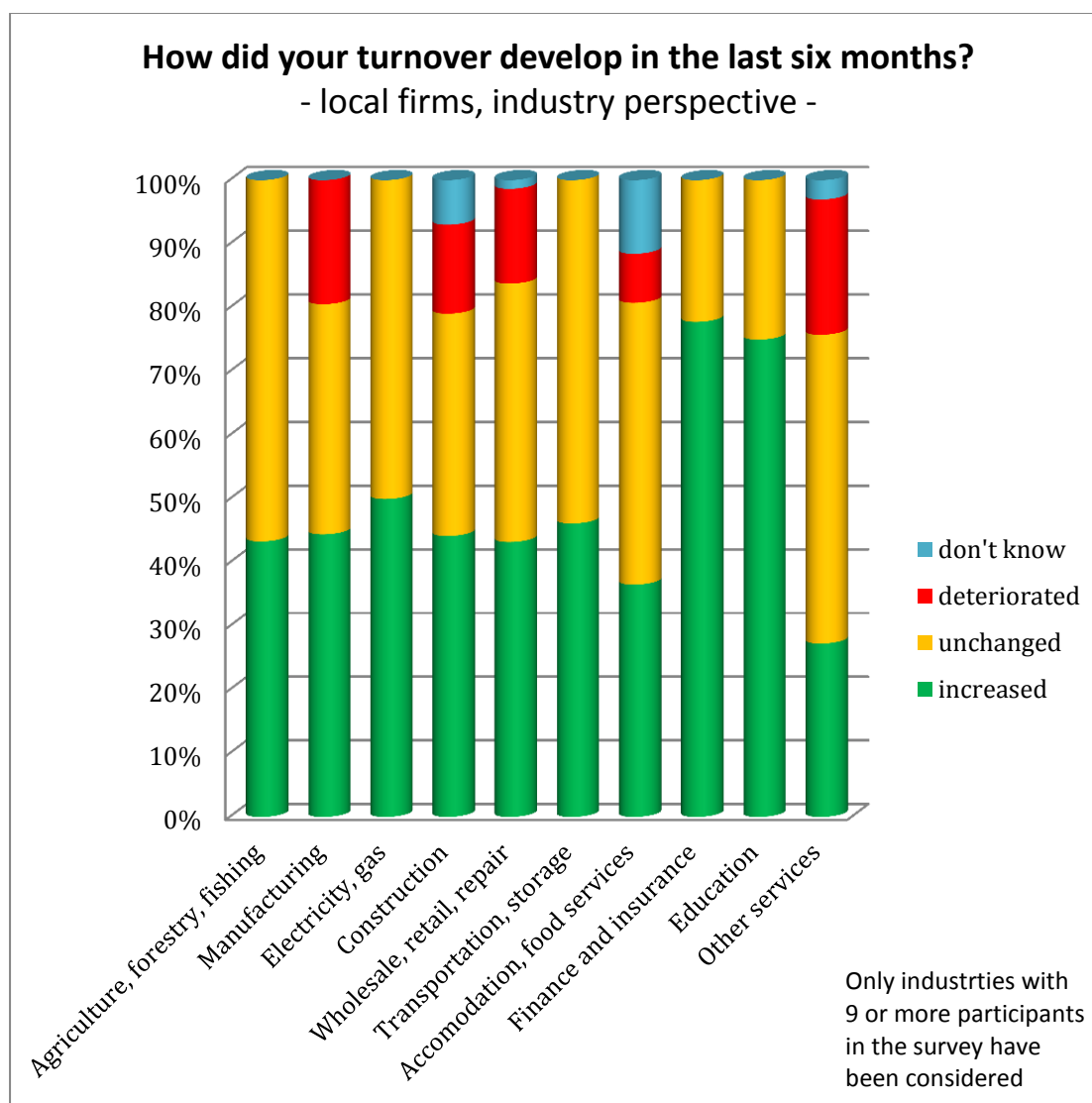


Figure 19: Turnover development per industry during the last six months- local firms' perception

Two thirds of the local firms expect their turnover to increase in the next six months, while very few are expecting their turnover to worsen (4.42%), which indicates a positive trend. European firms are fewer to expect an improvement in the future, which is a different trend from six months ago: 56% of them expect an increase in their turnover, against 67% in the first half of 2014. A small minority of European companies foresees a deterioration of their turnover in the next six months (2.5%) whereas none of them was six months ago.



Figure 20: Expected turnover development over the next six months- local firms' perception



Figure 21: Expected turnover development over the next six months- European firms' perception

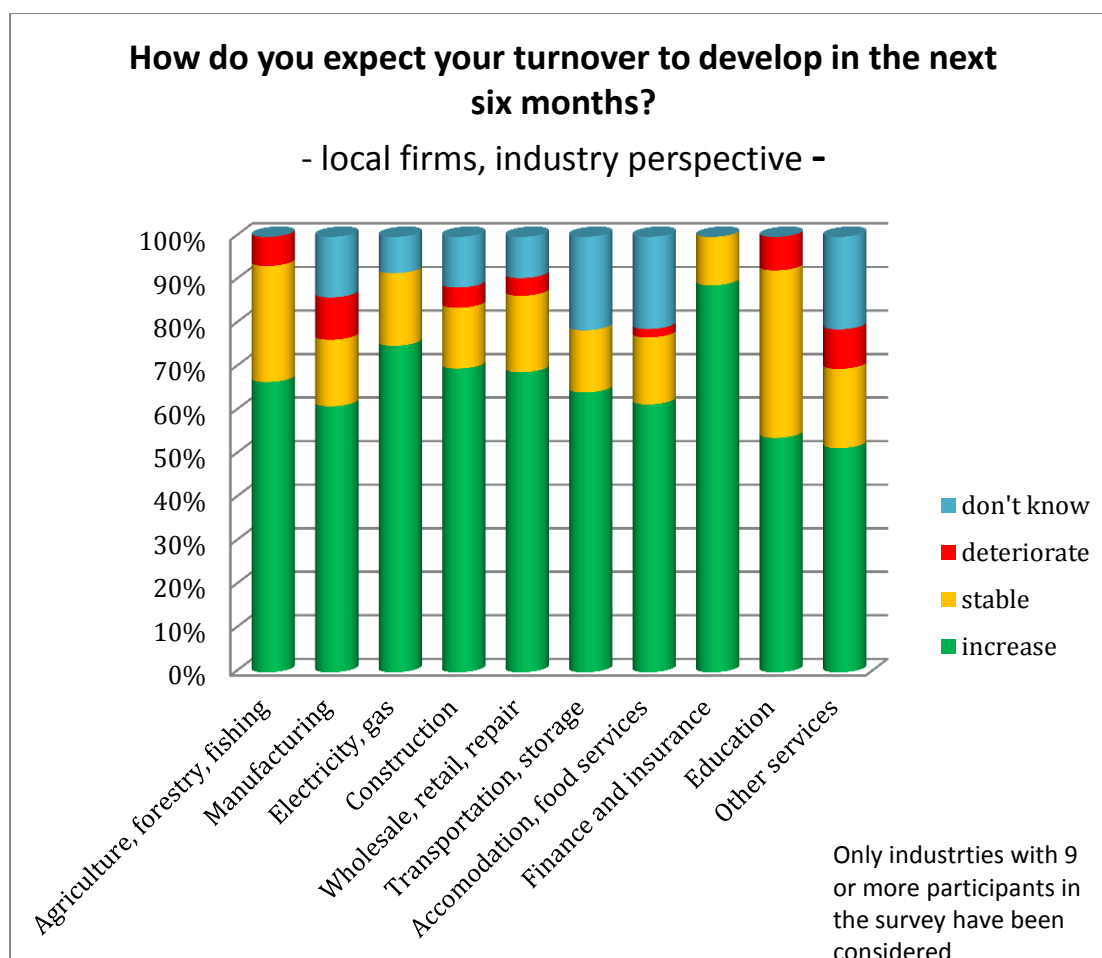


Figure 22: How do you expect your turnover to develop in the next six months?

9. Profits

Profits development over the second half of 2014 have improved when compared with the first half of the year. During the first half of 2014, the profits of Lao and European surveyed companies stayed more or less stable. In this second half of 2014, we note that a greater number of companies have increased their profits (41% of Lao companies compared to 29% in H1/2014; 51% of European companies compared to 35% in the first half of 2014) and relatively less have seen shrinking profits (16% of Lao companies compared to 20% in H1/2014; 5% of European companies against 19.5% in the previous period). Fewer enterprises have had stable profits in the last six months, although they remain numerous (42% of Lao companies against 49% the first six months of 2014; 36% of European companies against 40% in H1/2014).

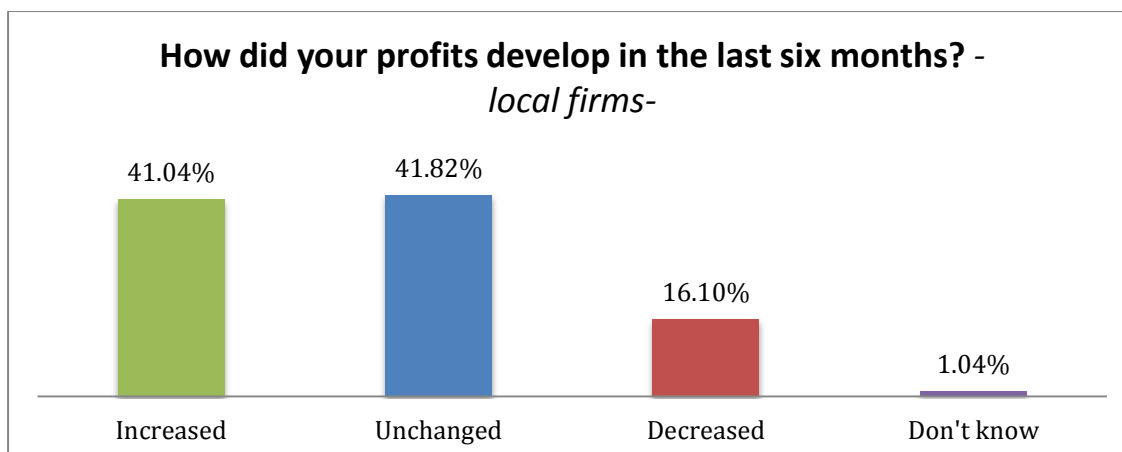


Figure 23: Profit development over the last six months- local firms' perception

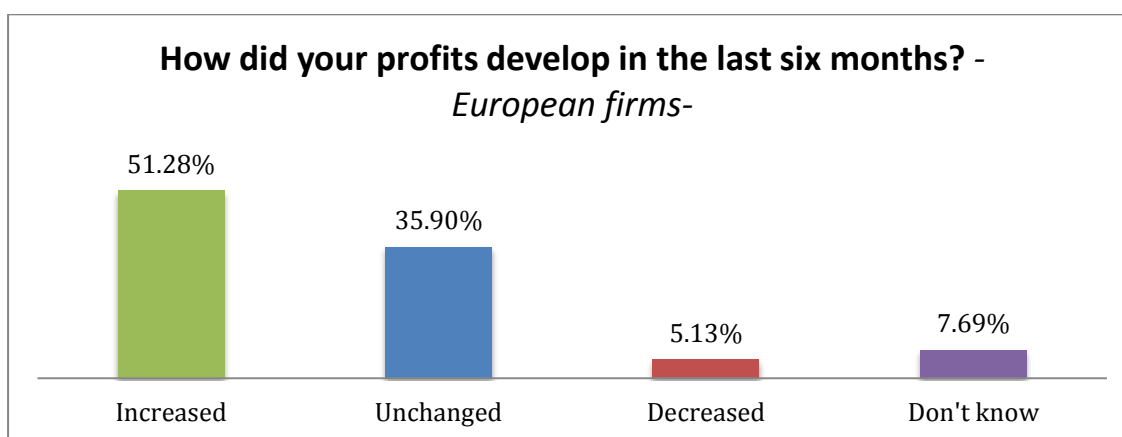


Figure 24: Profit development over the last six months- European firms' perception

Looking at individual provinces, those who have the best results in terms of profit development in the last six months are Bokeo (78%), Xayaboury (70%), Oudomxay (69%) and Luang Namtha (67%), followed by Khammouan (56.5%) and Huaphan (54%). The worse declines in profit development are reported in Savannakhet (36% 'decreased'), Bolikhamxay (30%) and Vientiane Province (28%). In Champasak province, very few have declared their profits have increased in the last six months (14%). The situation is although clearly positive as they had the highest rate of profit development improvement in the first half of 2014 (nearly 50%).

Looking at the data from the different industries it seems that for finance and insurance the second half of 2014 must have been excellent. About three quarters of the surveyed company report an increase in profits, no one a decrease. Education did also well, but apparently with less profitability – significantly more companies reported an increased turnover than increased profits.

In agriculture the profit development was better than the turnover development, hinting at increased profit margins. Not so in construction and the logistic sector – here more companies saw a growth in turnover than in profits.

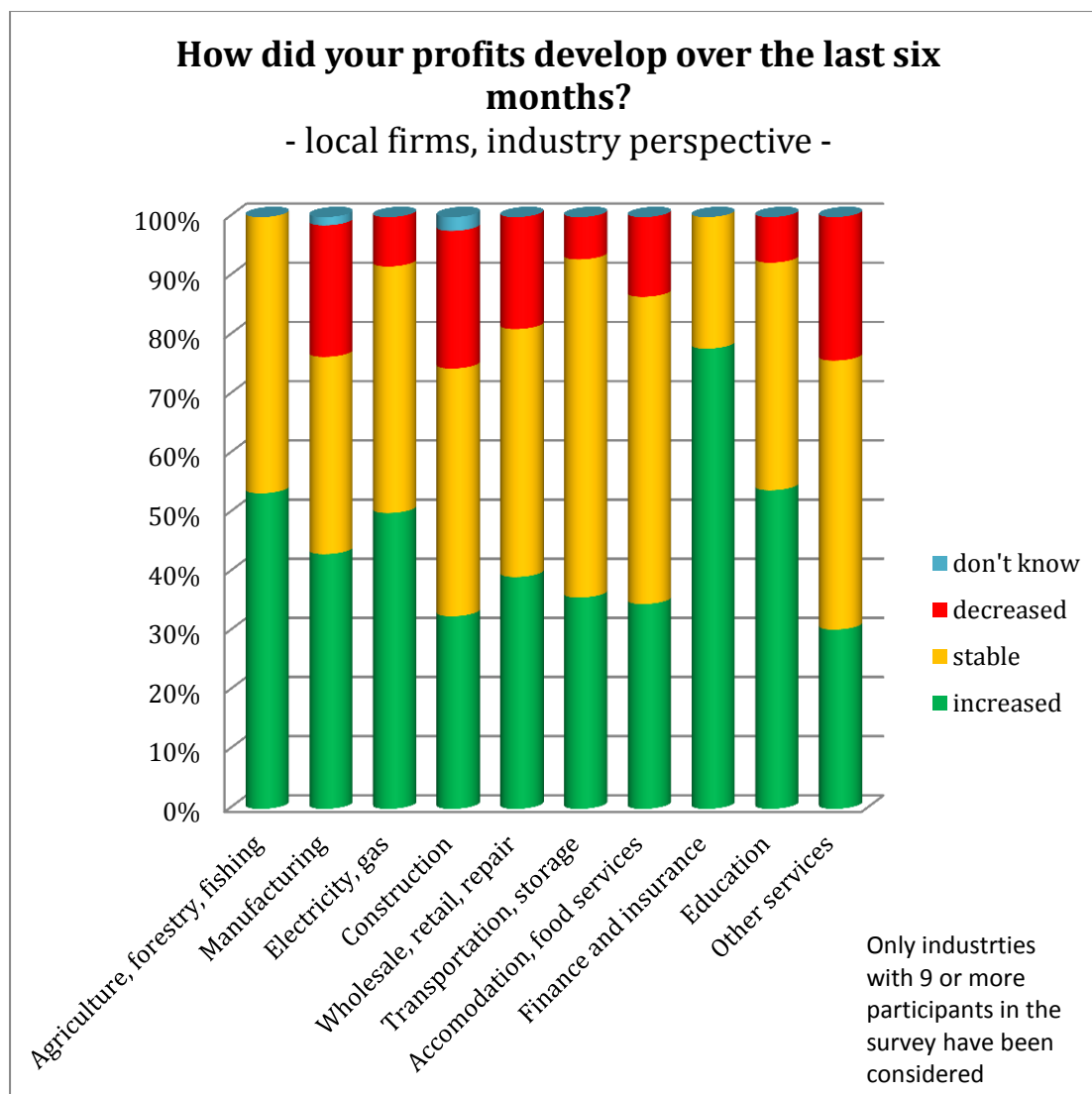
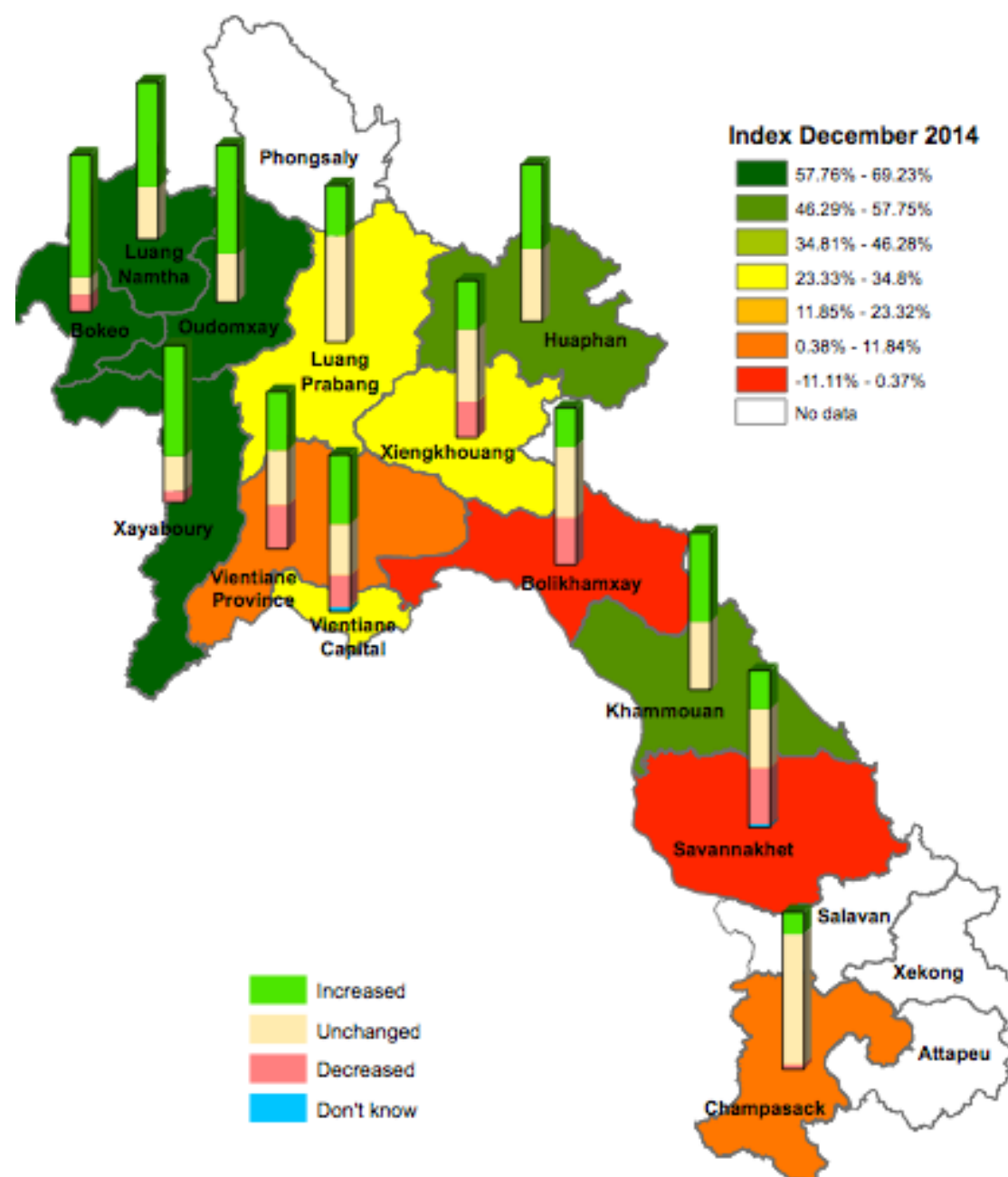


Figure 25: How did your profits develop over the last six months?

Figure 26: Profit development of Lao companies in the second half of 2014



The profit prospects for the first half of 2015 are assessed quite optimistically for most of the surveyed companies. These are brighter than six months ago for Lao companies (63% against 50% in H1/2014) and continue to be positive – albeit less so - for European companies (41% against 54% in the first half of 2014). Around 20% of Lao firms are not expecting any change (30% in the previous period) while ⅓ of the European companies are not expecting any change (against 30% in H1/2014). Finally, less than 6% of Lao and European firms are expecting a decrease in their profits (respectively 6.5% and 9% in H1/2014).

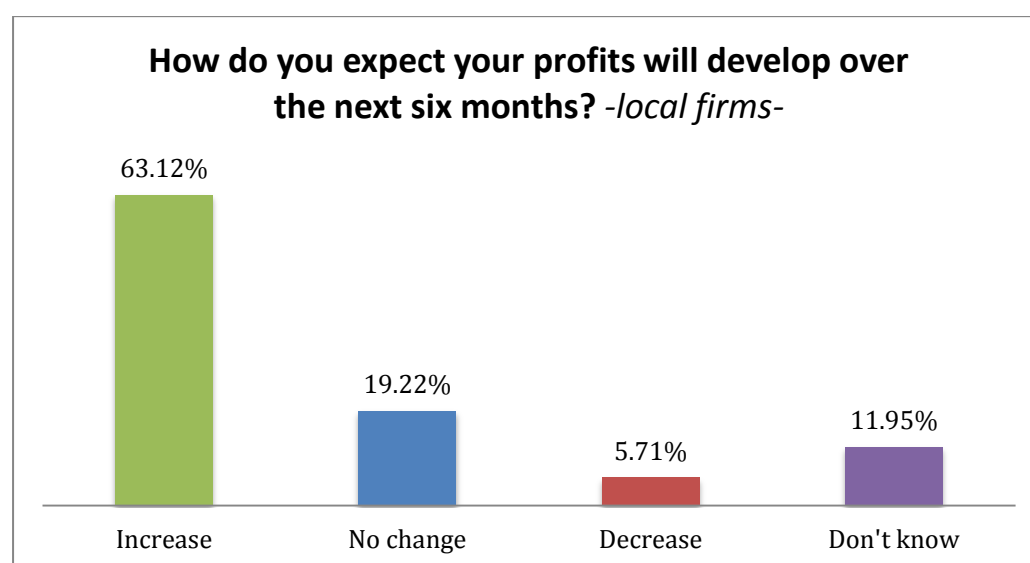


Figure 27: Expected profit development over the next six months- local firms' perception



Figure 28: Expected profit development over the next six months- European firms' perception

The profit expectations for the 1st half of 2015 are bullish throughout. In every industry but for “other services” the majority of companies expect increased profits. In finance and insurance the expectations could hardly be higher, and even in the tourism industry that has apparently seen a recent past which was not completely rosy, the mood is rather upbeat.



Figure 29: How do you expect your profits to develop over the next six months?

For Lao companies, the highest rates of positive expected profit development in the next six months are found in Oudomxay (100%), Xayaboury (96%), Bokeo (78%), all of which have already seen a rather bullish development in the 2nd half of 2014, Vientiane province (74%), Luang Prabang (74%) and Khammouan (70%). Optimism about future profit prospects is generally widespread among provinces, except in Savannakhet (27%) and Champasak (40%). The widest decreases in profits are expected in Savannakhet and Xiengkhouang, with respectively 22% and 15% of surveyed companies expecting a decrease in their profits in the next six months.

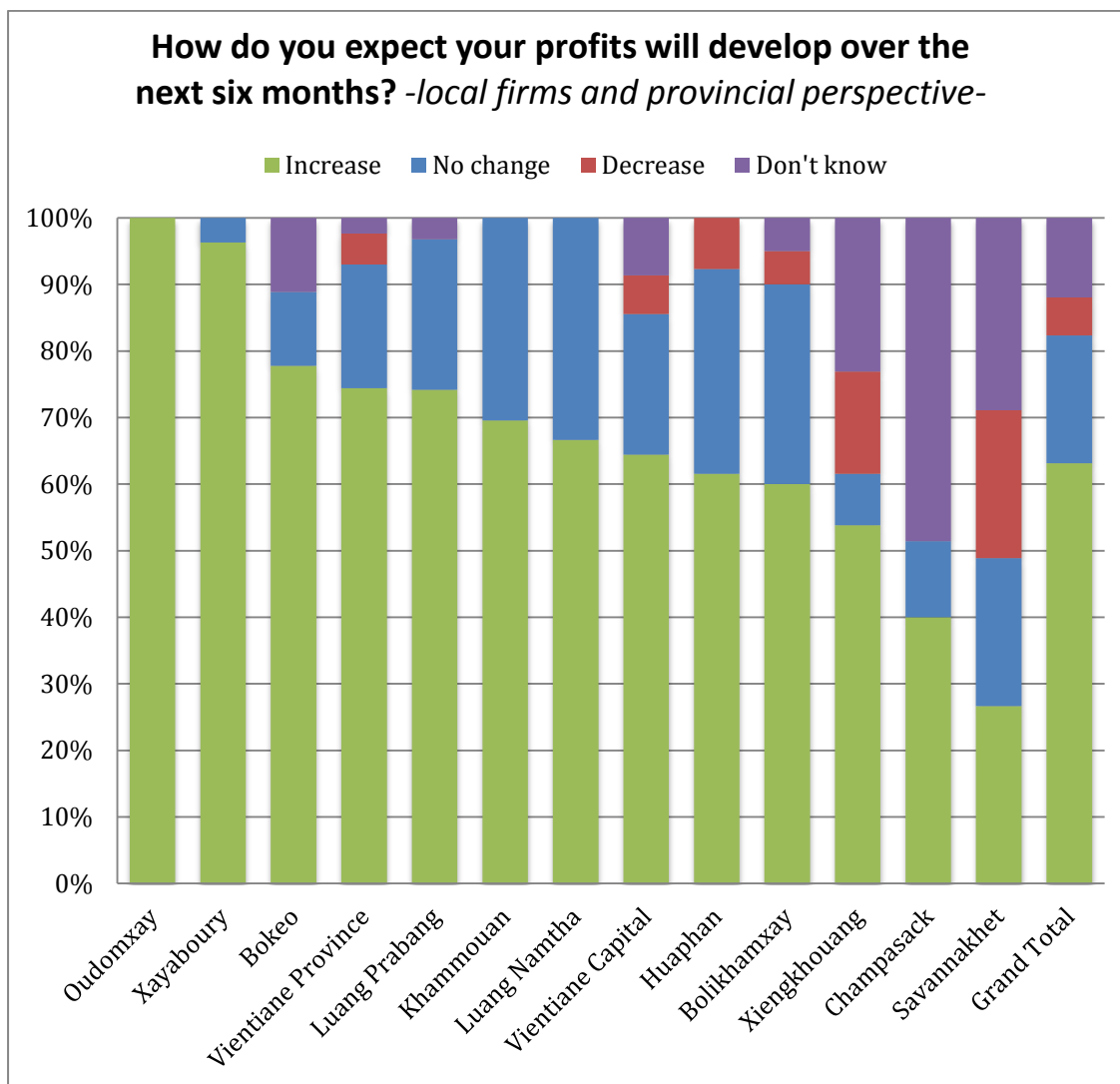


Figure 30: Expected profit development over the next six months- local firms' perception, provincial perspective

10. Financial situation

The majority of surveyed companies have assessed an improvement in their financial situation, which was not the case six months ago (47% of Lao companies against 34% in the first half of 2014; 51% of European companies against 35% in H1/2014). Fewer enterprises have seen their financial situation worsen in the second half of 2014 (14% of Lao enterprises against 19% in the first six months of 2014; 5% of European enterprises against 18% in H1/2014).

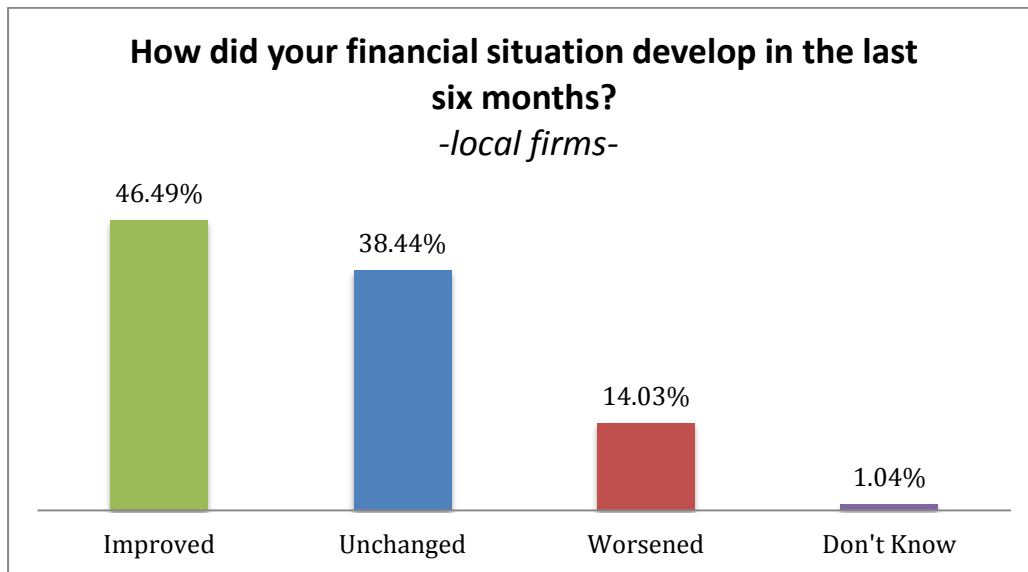


Figure 31: Development of financial situation over the last six months- local firms' perception

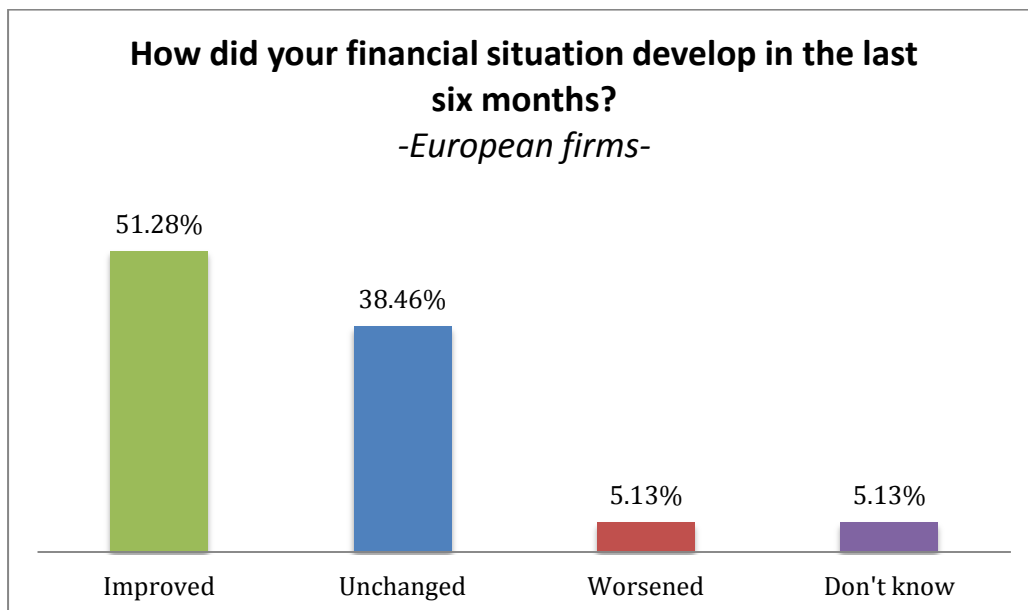


Figure 32: Development of financial situation over the last six months- European firms' perception

The expectations for the future financial situation in the next six months are quite optimistic for a majority of local and European firms. Again, the situation is relatively brighter compared with six months ago for Lao companies (68% expect an improvement against 55% in H1/2014), and has not changed much for European companies (49% assume an improvement; 50% in the first half of 2014). A positive note is that only 5% of Lao and none of the European companies have declared expecting a worsening of their financial situation in the next six months (respectively 6.5% and 4% in the previous period).

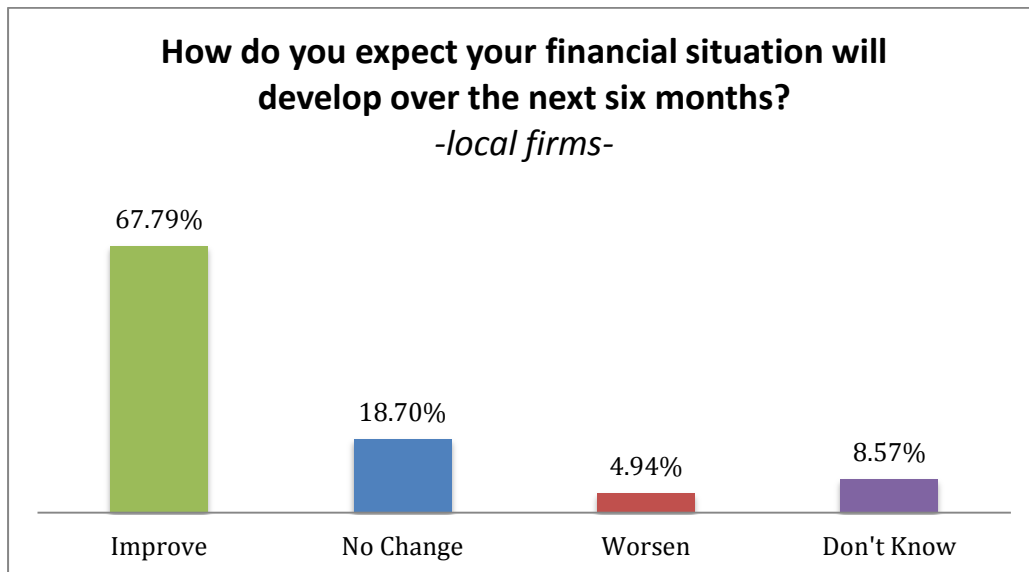


Figure 33: Expectation of financial development over the next six months- local firms' perception



Figure 34: Expectation of financial development over the next six months- European firms' perception

11. Investment

The majority of both Lao and European companies are investing in their business. In the past six months, 65% of surveyed Lao companies have invested in their businesses (68% in the first six months of the year), whereas 35% did not. There is an important difference with

European companies on that same period as only 56% have invested in their business (57% in the 1st half of 2014) and 44% did not.

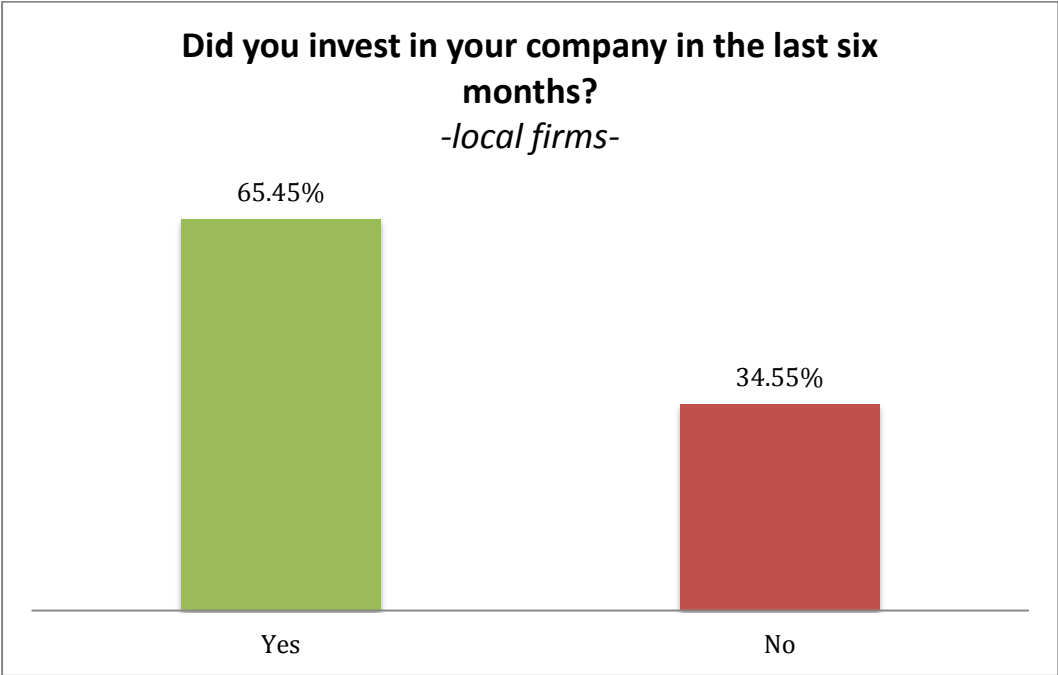


Figure 35: Investment in the last six months- local firms

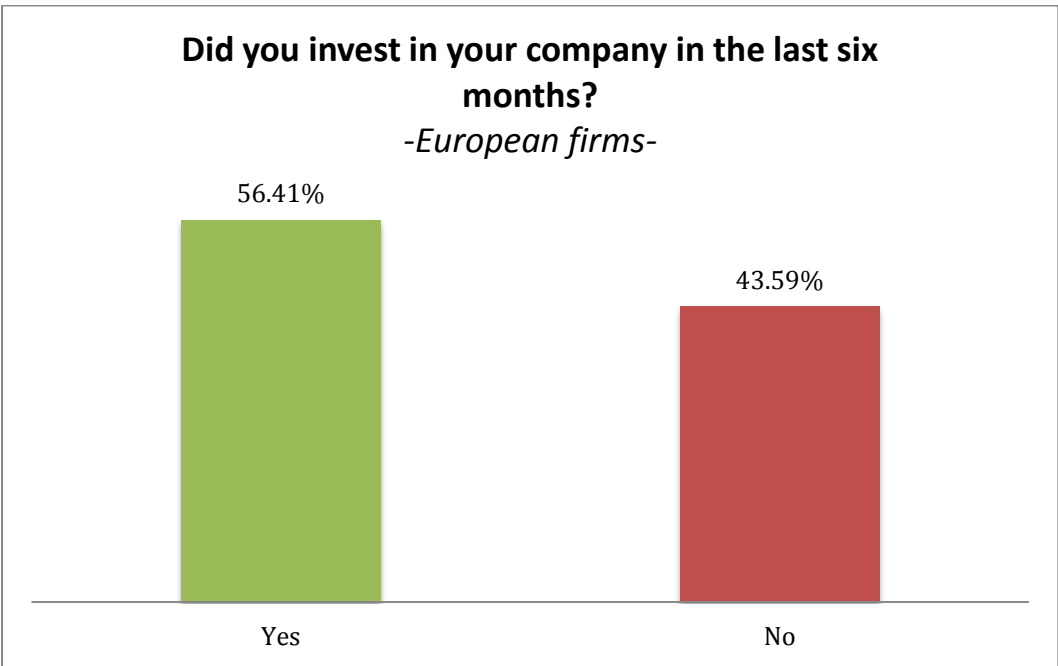


Figure 36: Investment in the last six months- European firms

At the provincial level, Luang Namtha continues to have the highest rate of companies that invested in their business in the past six months (100%). The majority of companies in Laos have invested. However, in Xiengkhouang and Champasack, numerous enterprises did not

so in the last six months (respectively 71% and 62% of surveyed enterprises in these provinces).

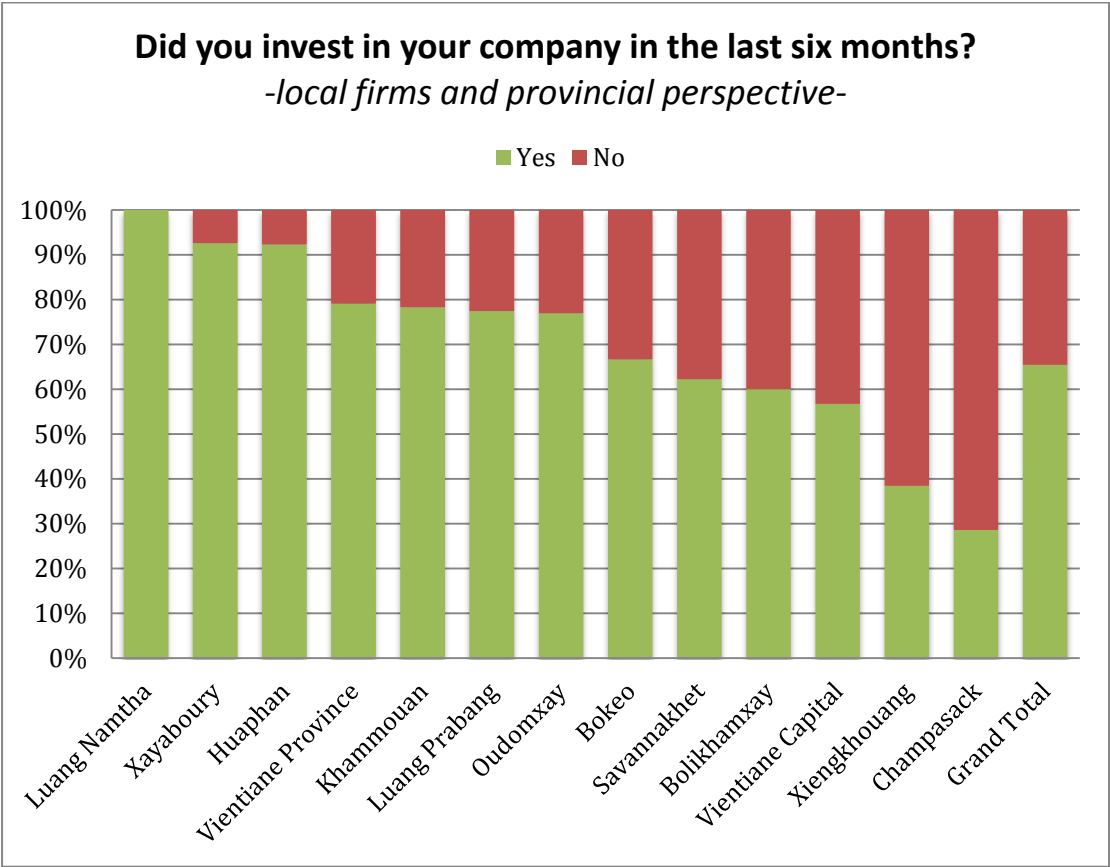


Figure 37: Investment in the last six months- local firms and provincial perspective

There is a notable difference between Lao and European companies regarding their plan to invest in their business in the next six months: while 71% of Lao companies are planning to invest, only 56% European companies do so. These results are similar to the assessment conducted six months ago.

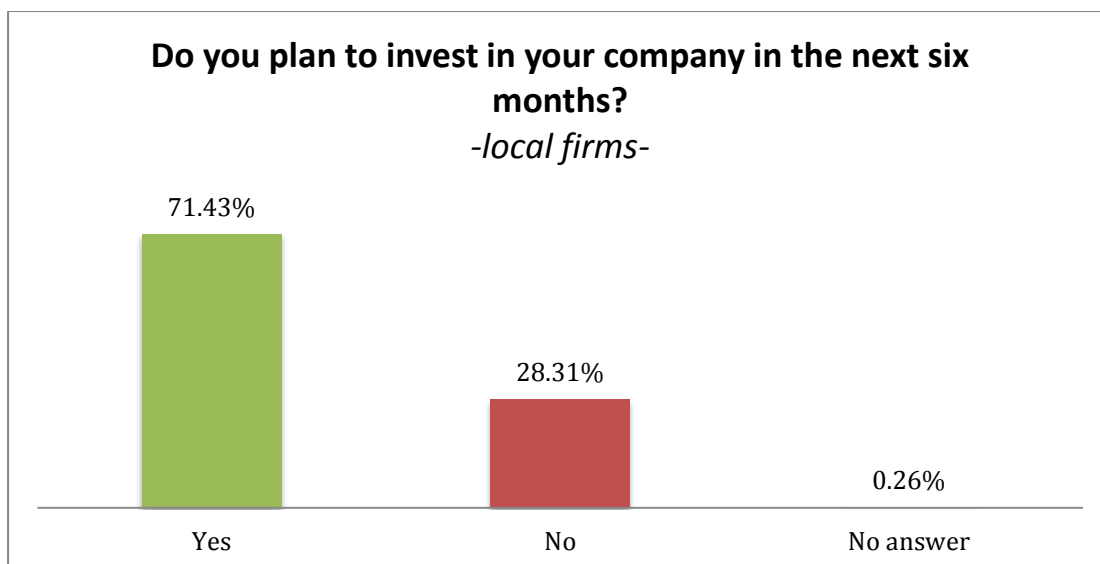


Figure 38: Planned investment for the next six months- local firms' perception

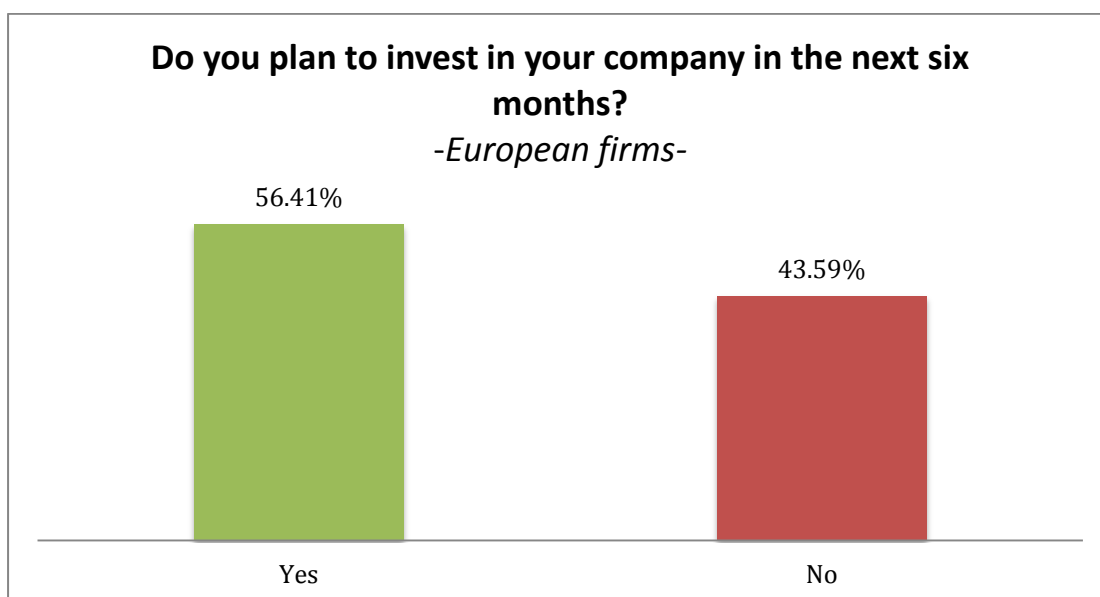


Figure 39: Planned investment for the next six months- European firms' perception

12. Employment

The development of employment in the second half of 2014 is relatively similar for Lao and European companies. For Lao companies, 28% have reported an increase in the number of their employees (21% in the first 6 months of 2014), while there are 33% of European companies to declare so (41% in H1/2014). A major difference is the number of enterprises declaring a decrease: while 8% of Lao firms have reported a decrease (8.6% the first half

year), only 5% of European companies have declared so (they were 24% in the previous period). The main tendency is an unchanged number of employees (around 63% of surveyed companies). For the first half year of 2014, it was noted that the staff turnover stayed more stable for local firms than for European firms. This is not the case this time.

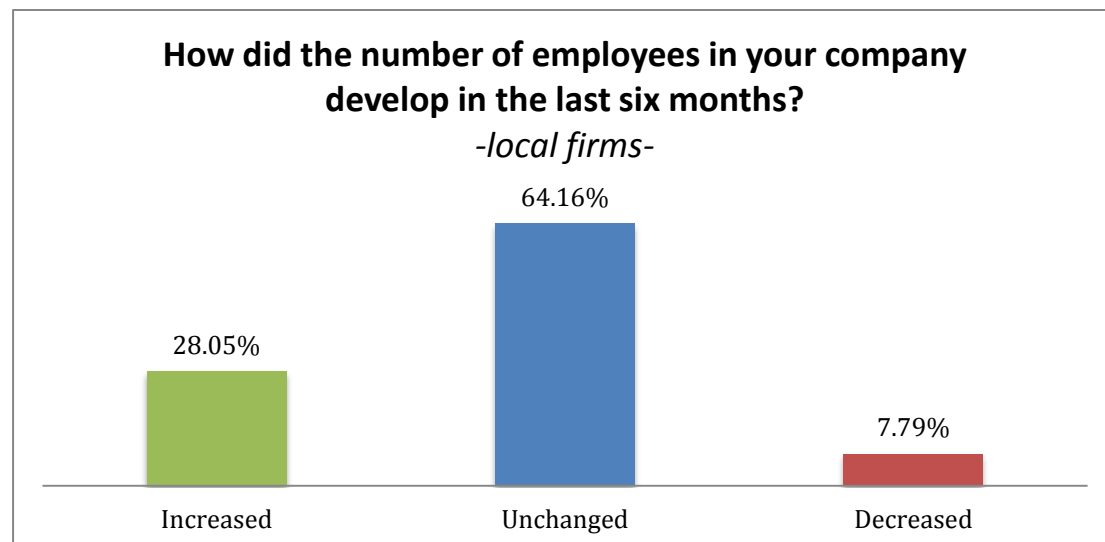


Figure 40: Development of employment over the last six months- local firms' perception

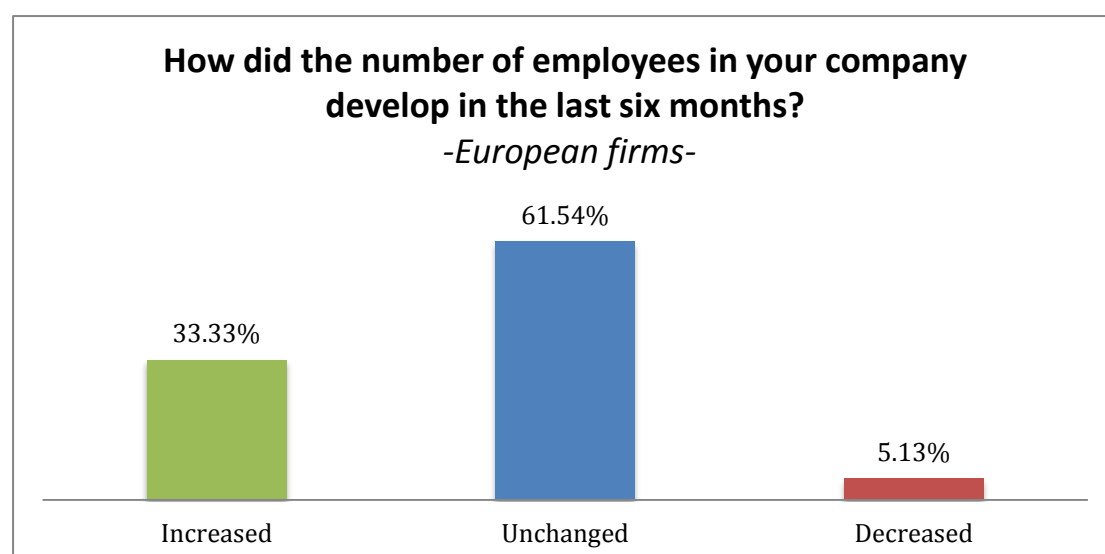


Figure 41: Development of employment over the last six months- European firms' perception

The main tendency in all provinces is that the number of employees in surveyed companies did not change over the last six months. Some provinces have recorded an increase in the number of employees in the last six months: Huaphan (77%), Luang Namtha (56%), and Oudomxay (54%). Those who have recorded the higher decrease are Xiengkhouang (31%) and Savannakhet (18%).

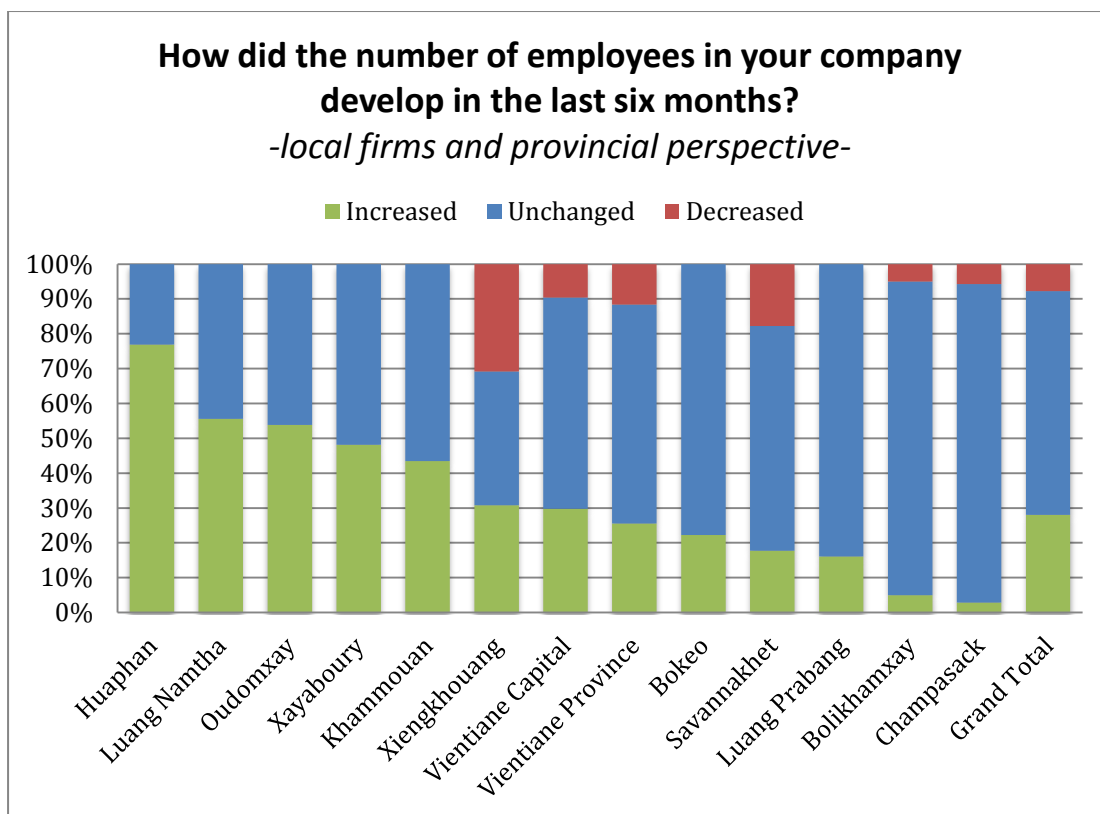


Figure 42: Development of employment over the last six months - local firms' perception, provincial perspective

Lao and European firms have relatively similar perspectives this time (not the case the first six months of 2014) on the development of the number of employees in their firms in the next six months. While 50% of Lao enterprises are planning an increase their number of staff (41% H1/2014), they are 44% of European enterprises declaring to do so (57% in the previous period). Few enterprises are expecting a decrease in personnel.

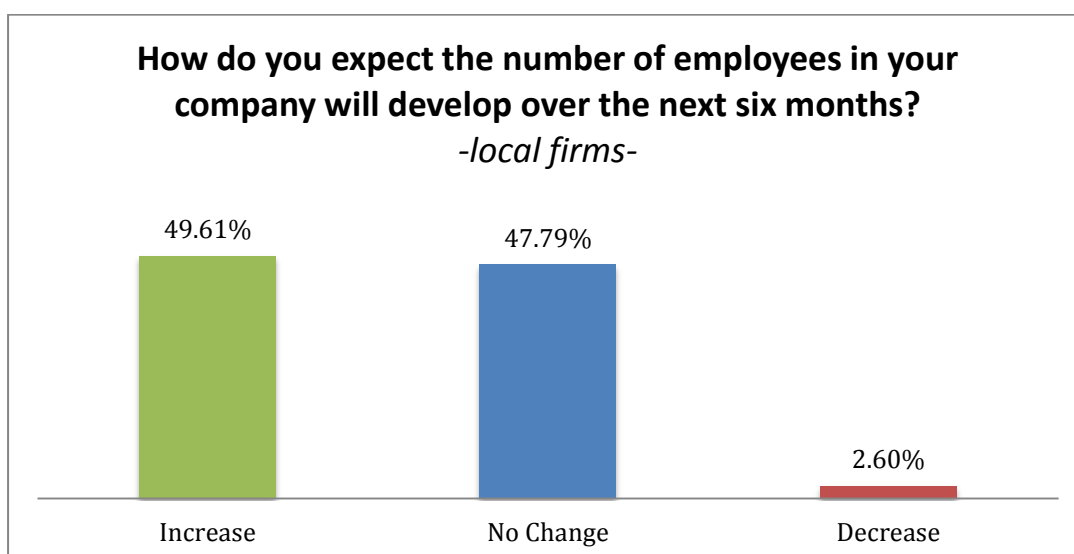


Figure 43: Expected development of employment over the next six months- local firms' perception

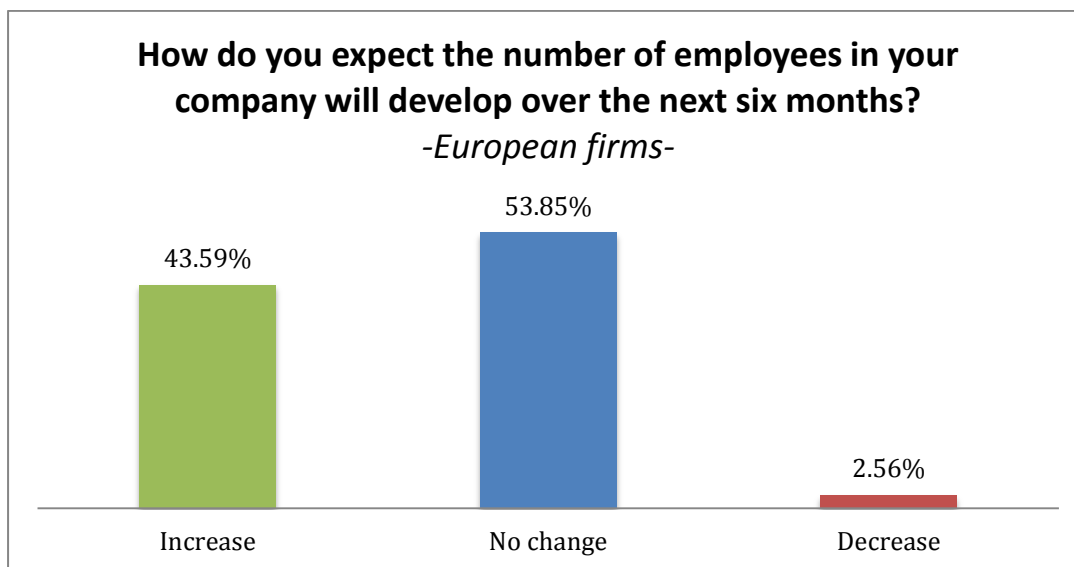


Figure 44: Expected development of employment over the next six months- European firms' perception

13.ASEAN Economic Community

There has been an evolution in the perception of Lao enterprises towards the AEC. A greater number of Lao enterprises are expecting no impact from the AEC when compared with six months ago (43% against 39% in H1/2014), fewer are expecting a negative impact (16% against 27% in the previous period), and more are expecting a positive impact (26% and 18% respectively). A number of Lao enterprises are still expressing that they don't know what kind of impact will the AEC have on their business (15%).

The difference of vision between Lao and European firms regarding the ASEAN Economic Community (AEC) is quite significant, although is less apparent than in the first half year of 2014. In general the European companies seem to be more unsure than the Lao businesses: a greater number of European firms are declaring they 'don't know' (44% against 26% in H1/2014); fewer are expressing 'no impact' (18% against 22% in the first six months of 2014); fewer are expecting a negative impact (5% against 11% respectively); and also fewer are expecting a positive impact (33% against 41% respectively).

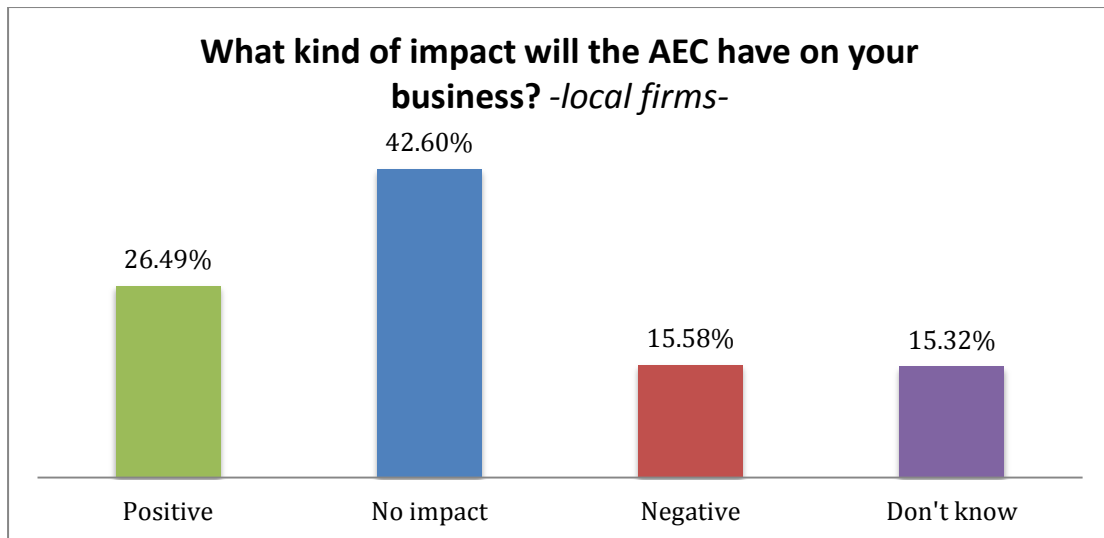


Figure 45: Impact of the AEC on businesses- local firms' perception

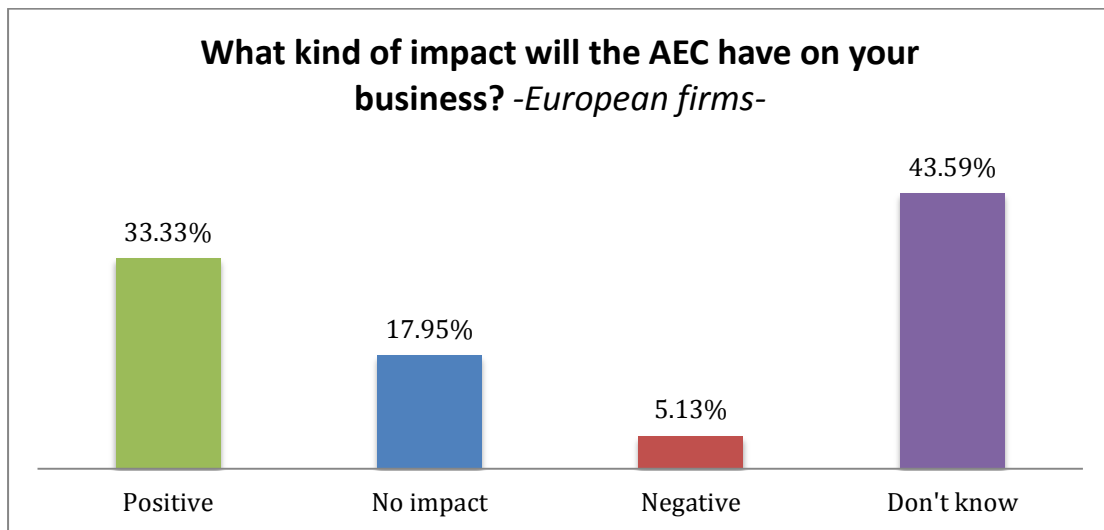


Figure 46: Impact of the AEC on businesses- European firms' perception

Disparities are significant among provinces on the kind of impact the AEC will have on their businesses. For 89% of surveyed enterprises in Luang Namtha and 85% of those in Oudomxay, the AEC will have a positive impact on their business. For 39% of enterprises located in Xiengkhouang, 26% of those located in Vientiane Province and 26% of those located in Luang Prabang, the impact of the AEC on their activities is expected to be negative. An important part of the enterprises have difficulties to assess the question, with high level of responses such as 'no impact' or 'I don't know'.

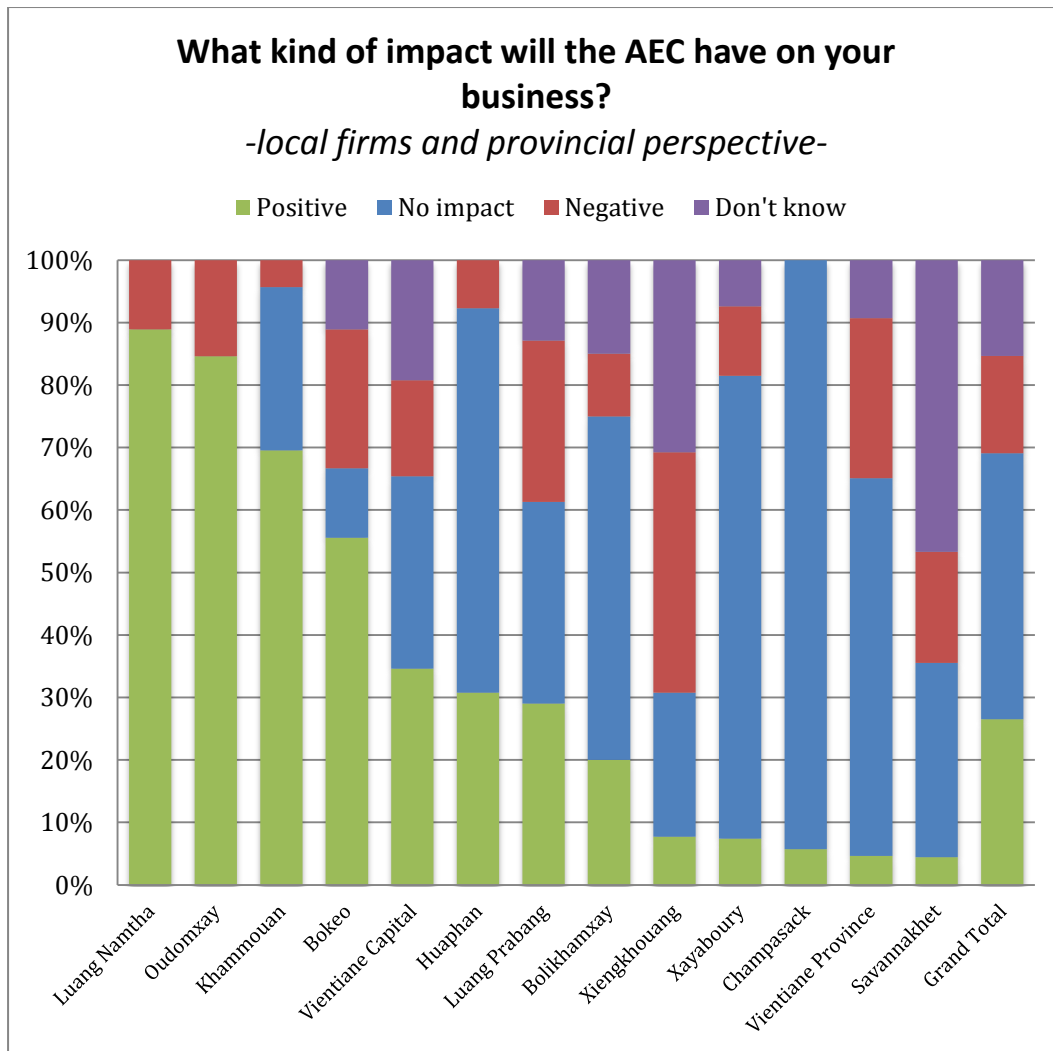


Figure 47: Impact of the AEC on businesses- local firms' perception and provincial perspective

The various industries have significantly different attitudes towards the AEC. Whereas the companies in electricity and gas see the implications of the Community as positive –if there are implications at all, that is – insurance and construction have more mixed feeling. Logistics and other services have the highest share of companies that do not really know what to expect.

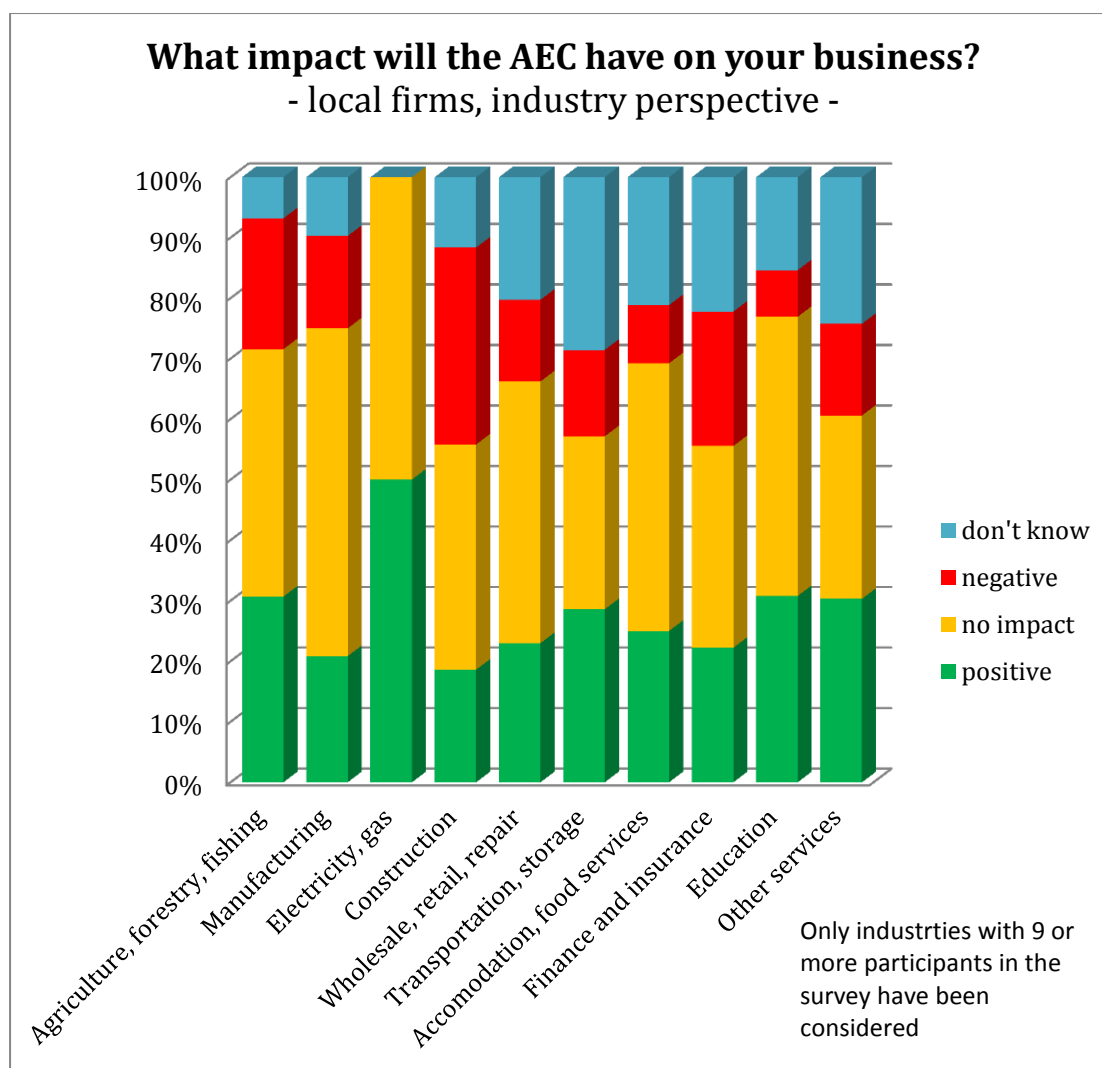


Figure 48: What impact will the AEC have on your business?

Disparities are less important for Lao companies depending on the types of industry. The arts, entertainment and recreation sector, together with the professional, scientific and technical sector, are quite optimistic, with respectively 100% and 67% of enterprises expecting a positive impact from AEC on their business activities. The real estate sector is not expressing any kind of expectation, with 100% of surveyed enterprises declaring they 'don't know'. The construction and the agriculture/forestry/fishing sectors are those with the highest rate of companies expecting a negative impact (respectively 33% and 23%).

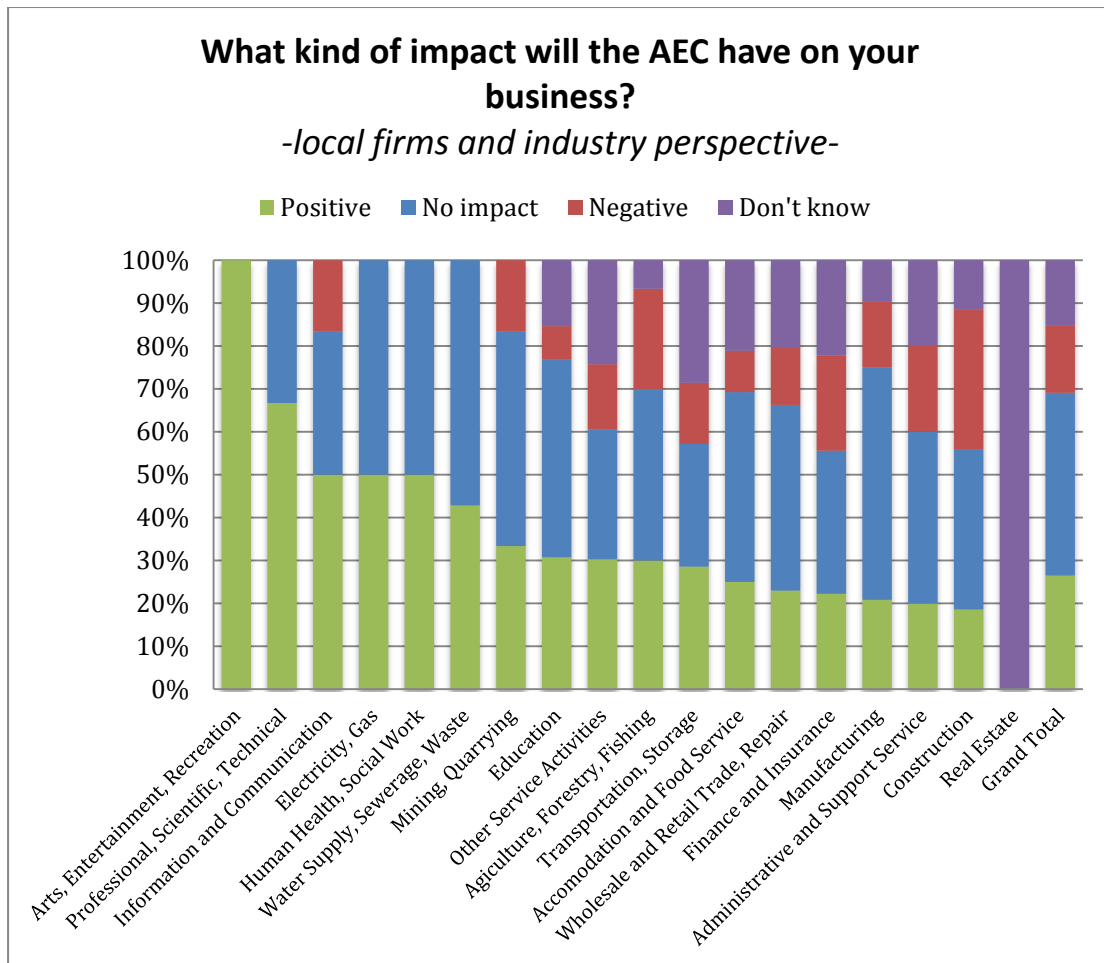


Figure 49: Impact of the AEC on businesses- local firms' perception and industry perspective

A second question related to the ASEAN Economic Community was asked in order to know if the companies feel adequately prepared for the AEC. No significant change is noticed in the replies received from Lao and European companies in summer 2015 and in January 2015. Again, the main tendency is 'somewhat' because 40% of local and European firms declare that they are only a bit prepared. However, the proportion of businesses very well prepared is much more important among local firms: 35% declare they are well prepared for the AEC (29% in H1/2014), against 13% for European companies (similar in H1/2014).

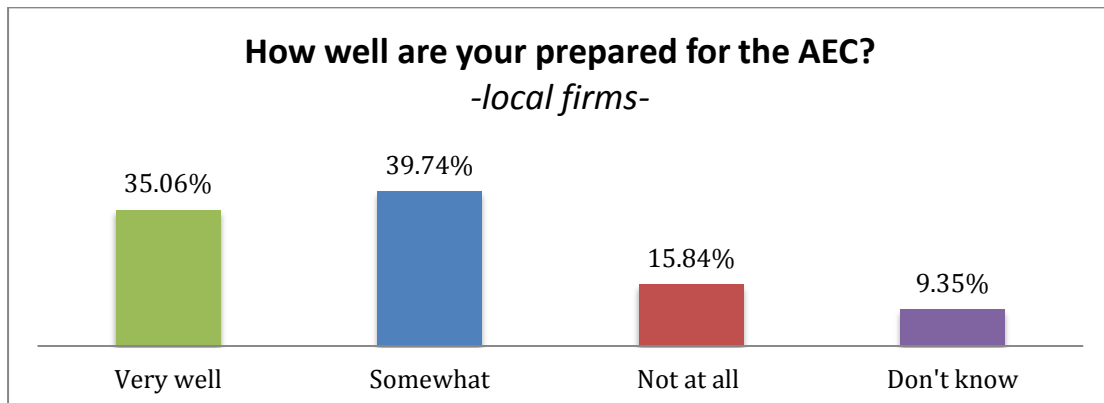


Figure 50: Preparation for the AEC- local firms' perception

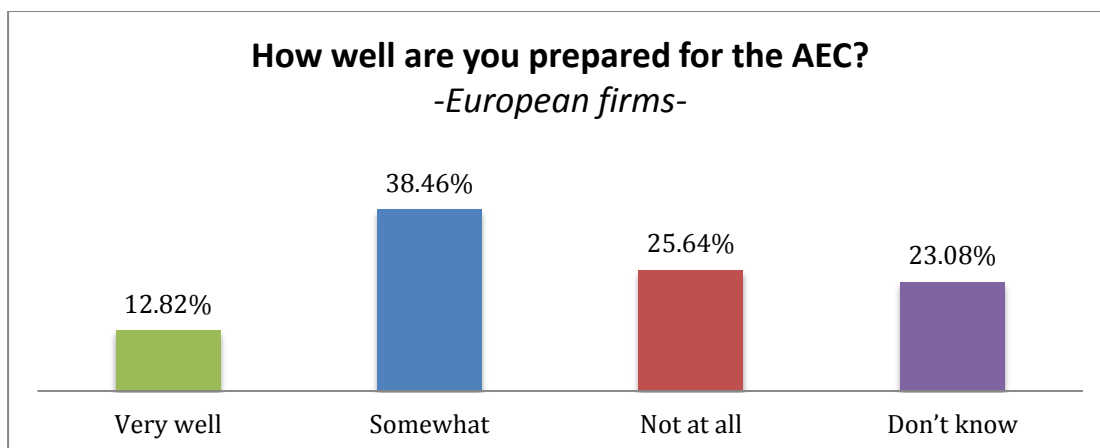


Figure 51: Preparation for the AEC- European firms' perception

A significant number of enterprises are declaring being very well prepared for the AEC, with the highest rates found in Oudomxay (92%), Khammouan (78%), Champasak (71%) and Xayaboury (56%) provinces. On the contrary, high rates of enterprises declaring they are not at all prepared are found in Vientiane province (51%) and Savannakhet (27%).

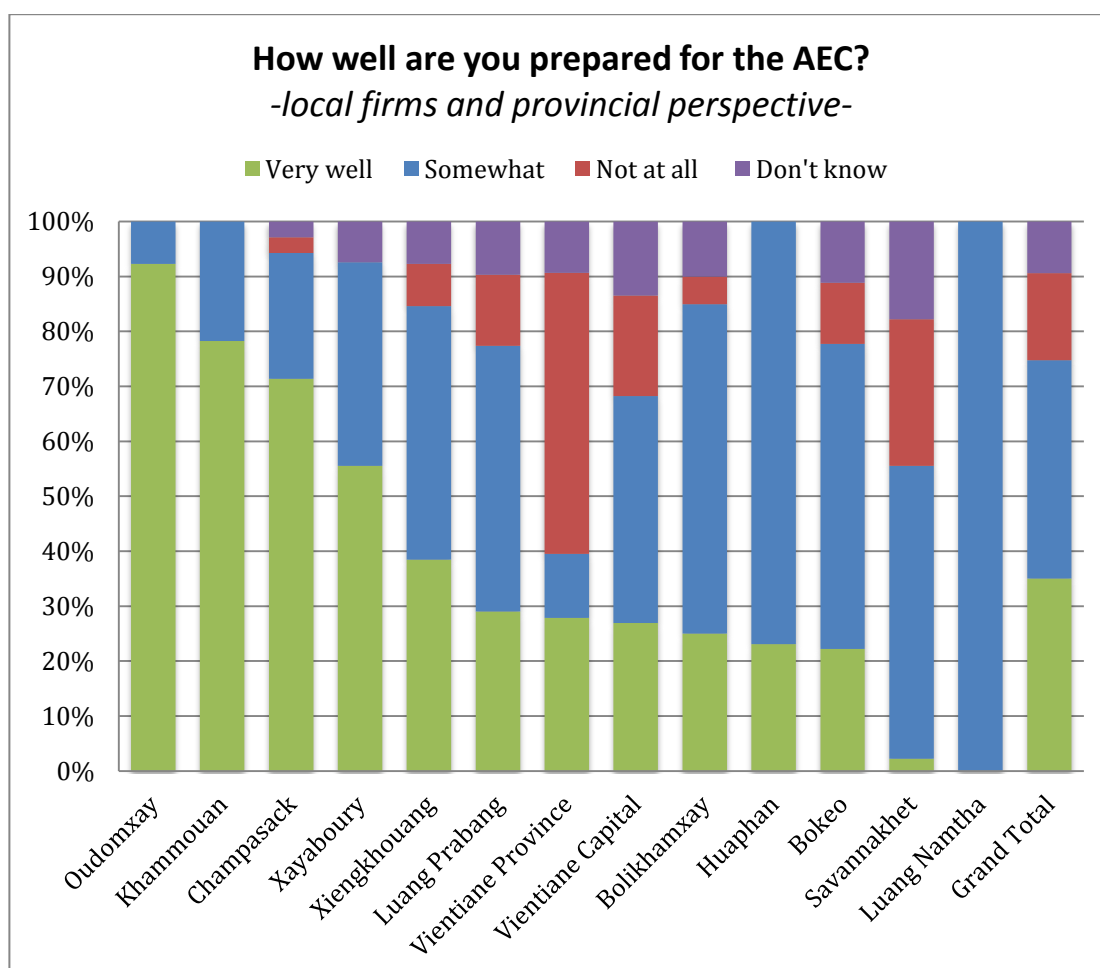


Figure 52: Preparation for the AEC- local firms' perception and provincial perspective

Differences regarding AEC preparedness in local companies are less important depending on the types of industry. Very well prepared enterprises are those in the human health/social work (100%), information and communication (67%), and education (54%). Those less prepared are found in real estate (50%), wholesale/retail trade/repair (29%) and accommodation/food service (23%).

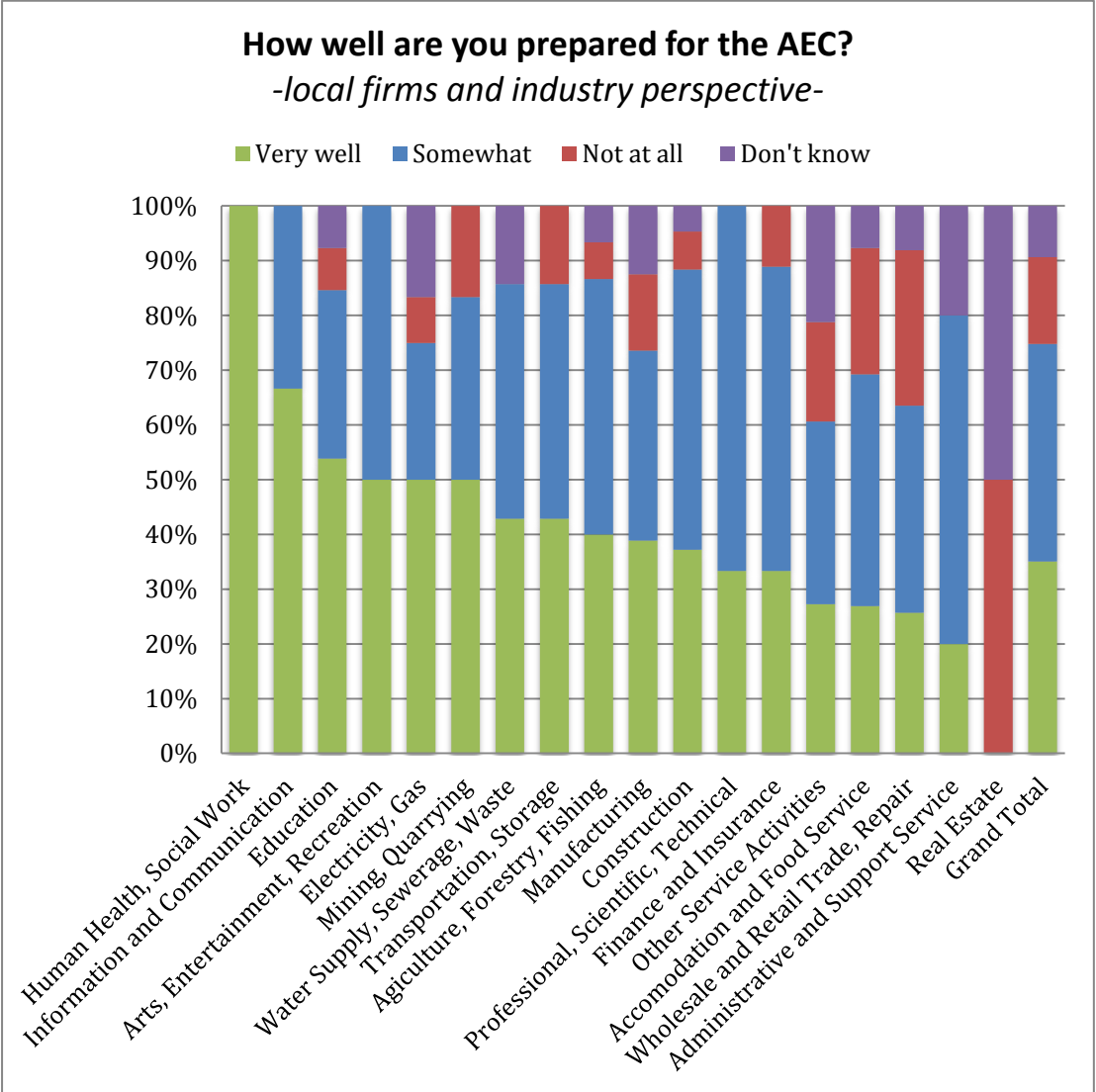


Figure 53: Preparation for the AEC- local firm’s perception and industry perspective

14. Exports

Out of the 385 surveyed Lao companies, 124 were engaged in exports; among European companies, only 13 out of 39 were concerned. Despite the differences between both groups, results are generally positive. Among local firms, 44.5% have declared that their exports have increased in the last six months (31% in H1/2014), and 14% have reported a decrease (19% in H1/2014). Among European firms, a majority has declared no change (54% against 40% in the previous period); 38.5% have declared an increase (34% in the first six months of 2014); and 8% have declared they don't know (27% respectively). None of them have declared a decrease.

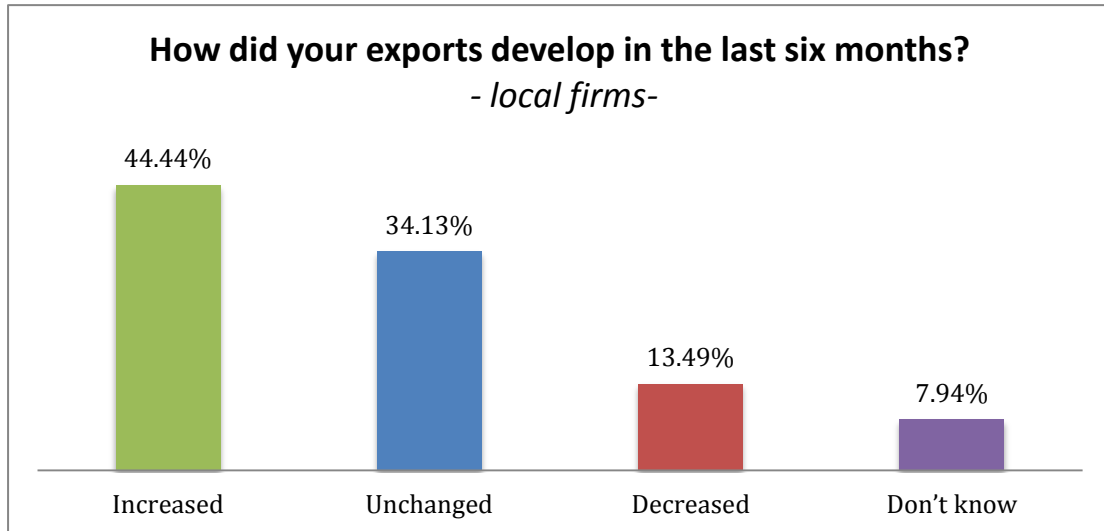


Figure 54: Export development over the last six months- local firms' perception

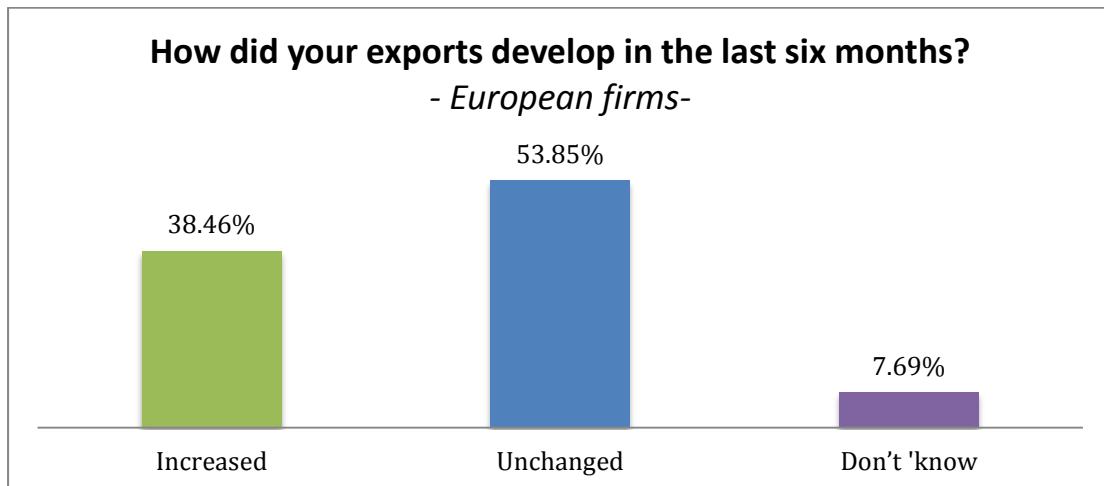


Figure 55: Export development over the last six months- European firms' perception

Future expectations for exports in the next six months are positive, with 70% Lao firms expecting an increase (61% in first half of 2014) and only 6.3% expecting a decrease (6.9% respectively). Among European companies, 38% are expecting an increase, 54% are not expecting any change, and none of them is expecting a decrease.

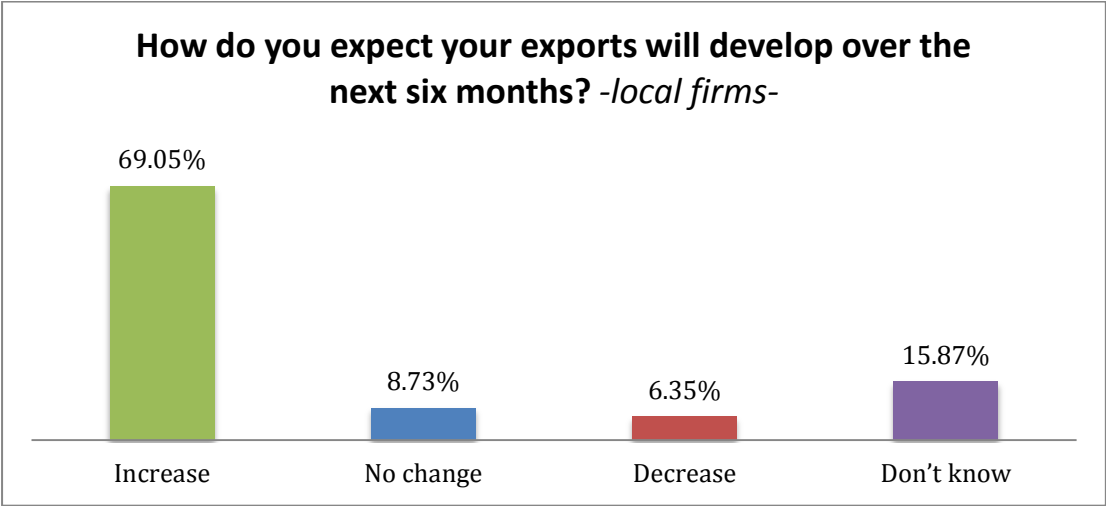


Figure 56: Export expectations for the next six months- local firms' perception

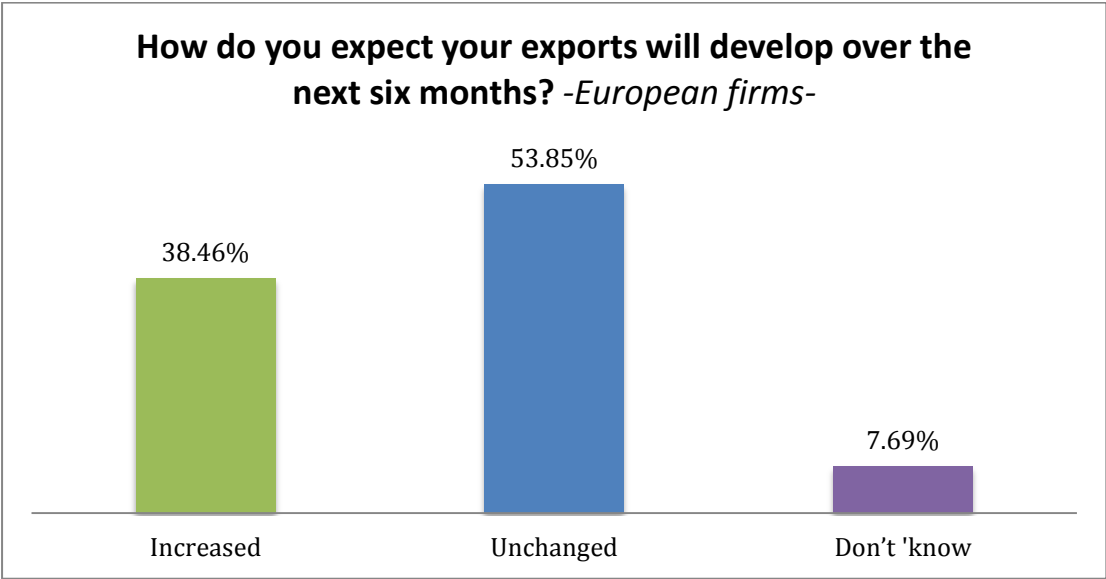


Figure 57: Export expectations for the next six months- European firms' perception

Part III: BUSINESS CONFIDENCE DEVELOPMENT AND BUSINESS CONFIDENCE INDICES

15. Brief methodology

The main purpose of this part of the study is to compare the present results with those given in the Business Confidence Assessment for the first half of 2014. Based on these results, indices were calculated in order to evaluate the current development of the business situation. For this purpose the authors compared the positive and the negative answers (good/increased vs. bad/decreased) and omitted the neutral answers (unchanged/average) as well as the “don’t knows”. Negative answers (bad/decreased) were subtracted from the positive ones. The resulting figure is the index value. The values from the first half of 2014 are used as the basis for comparison with the second half of the year. The data from Lao companies were used to provide a global representation of the business sector in Lao PDR.

16. Development of the overall economic situation

The assessment of the overall economic situation in Lao PDR by the businessmen themselves is relatively more positive today than it was six months ago. This is reflected in a economic confidence index rising from 14 to 29.

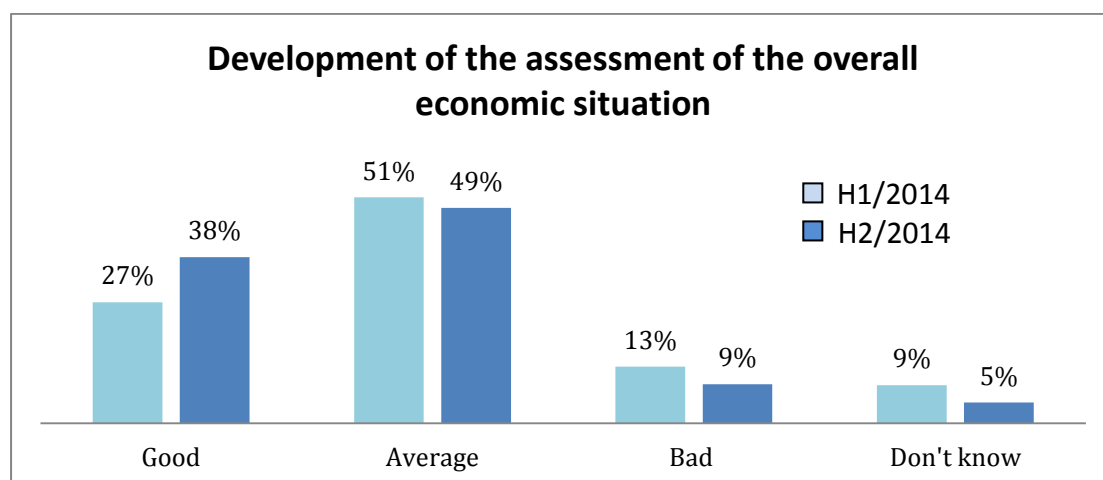


Figure 58: Development of the assessment of the overall economic situation

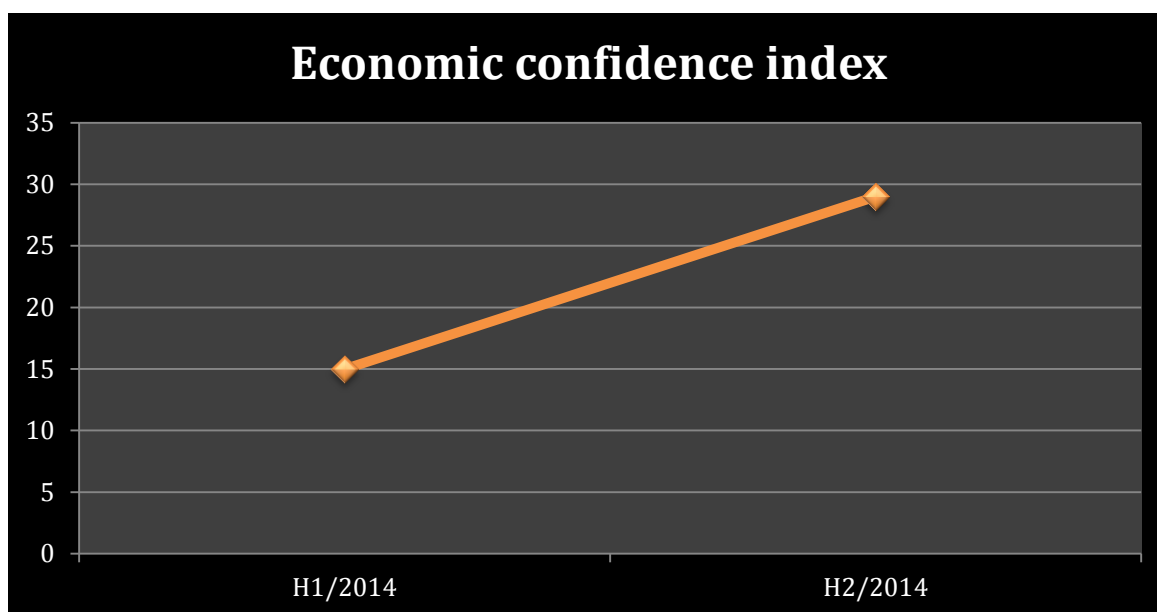


Figure 59: Economic confidence index for Lao PDR

17. Development of the current business situation

The current business situation is also relatively more positive for the second half of 2014 when compared with the first half of the year, with a business situation index rising from 17 to 31. When comparing the actual developments in December 2014 with prior expectations in Summer 2014, we observe that a relatively high number of enterprises have well assessed their expected business situation in the second half of 2014 (average deviation: 13). For 21% of companies who did not expect any change, they are actually 40% of companies who experienced no change in their business situation. Others have not reached their expectations: from 69% of total enterprises expecting an improvement, only 53% of them experienced an actual improvement in their business situation.

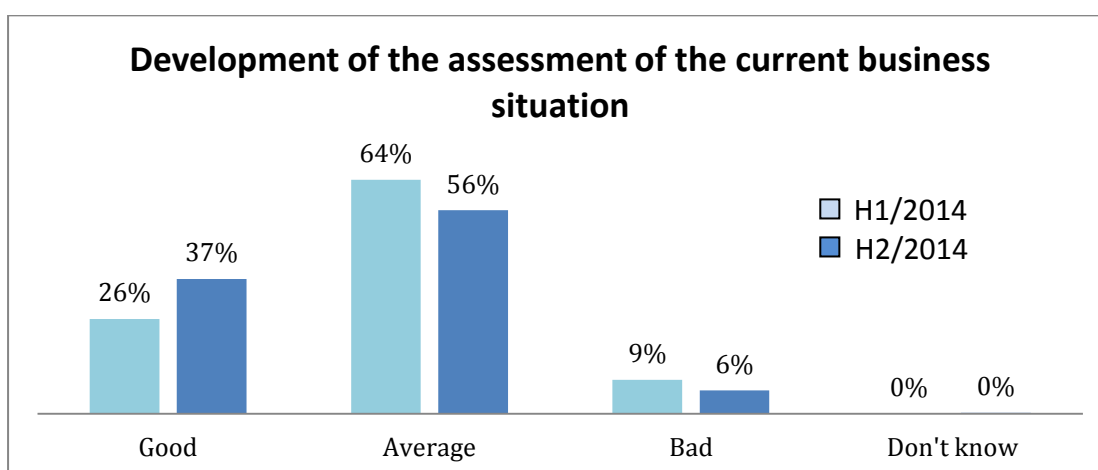


Figure 60: Development of the assessment of the current business situation

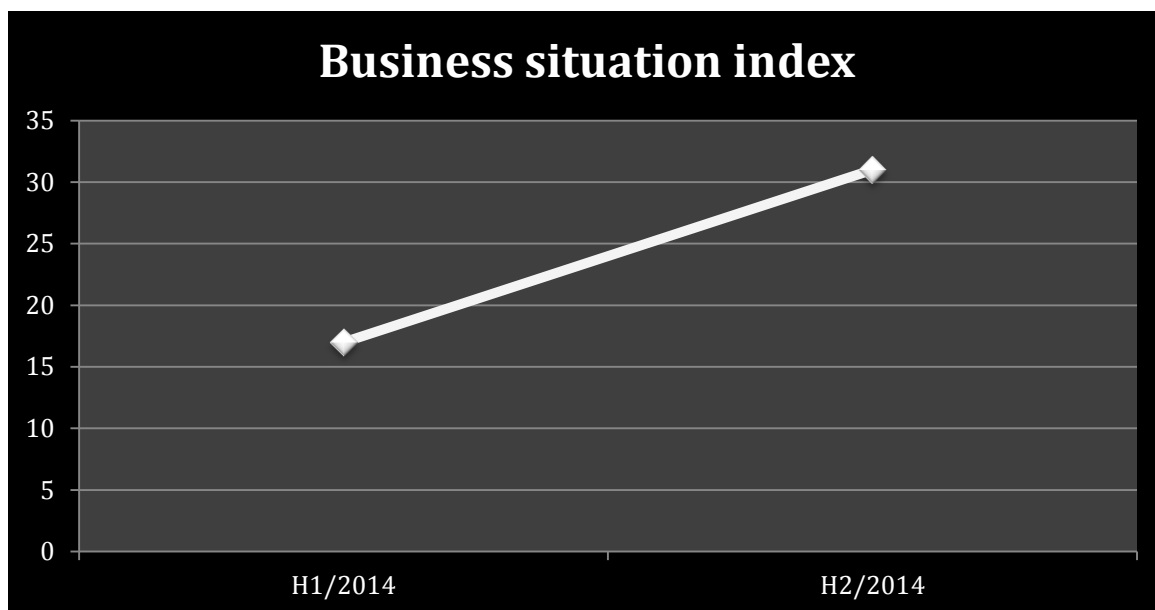


Figure 61: Business situation index

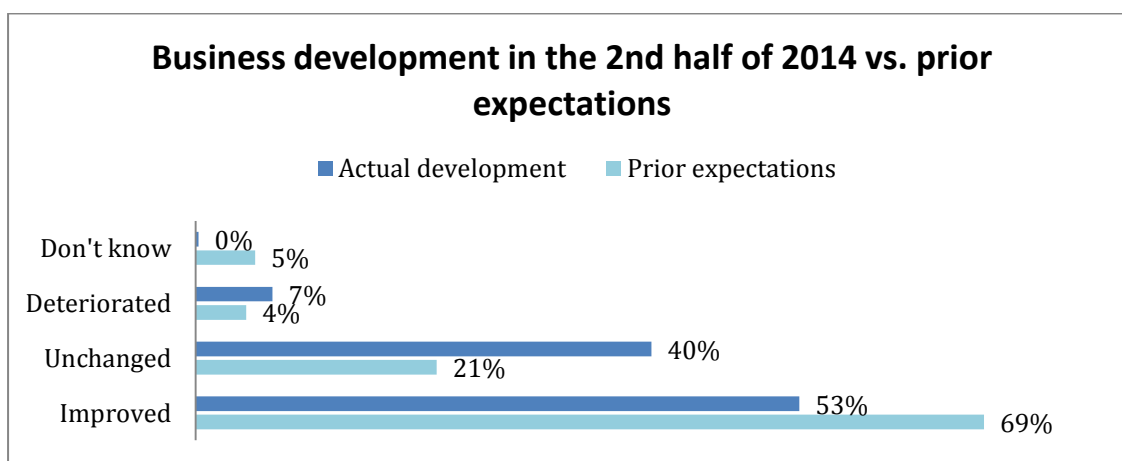


Figure 62: Business development in the second half of 2014 VS prior expectations

18. Turnover development

Turnover development between the first half and the second half of 2014 is positive, with a turnover index rising from 17 to 33. More enterprises have increased their turnover and less have seen their turnover decrease. When comparing prior expectations with actual developments, we note that some enterprises have experienced an unexpected deterioration (deviation: 6); some have not reached the expected increase in turnover (deviation: 9); while others did not expect their turnover to remain unchanged (deviation: 12).

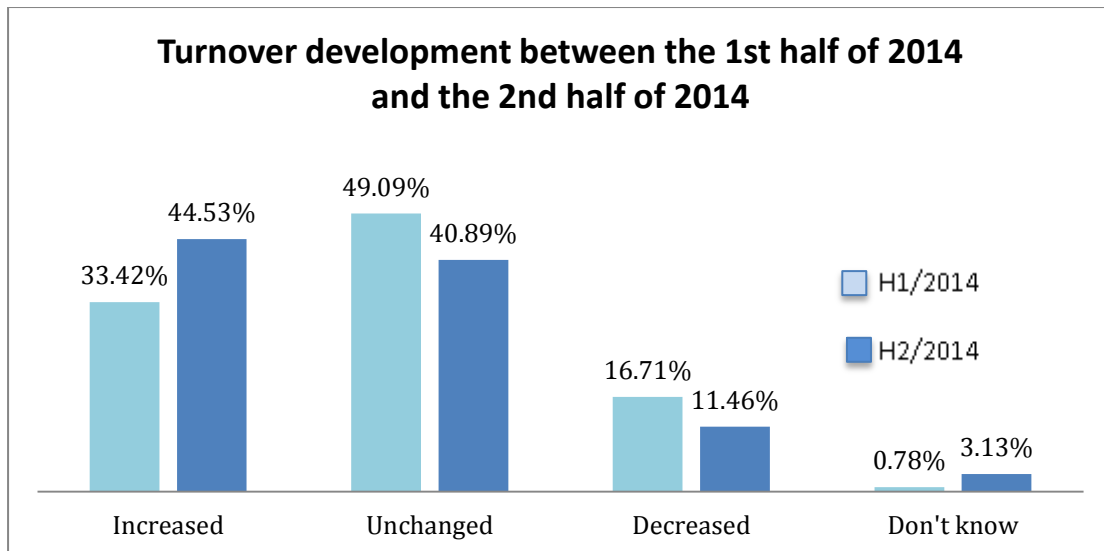


Figure 63: Turnover development between the 1st half of 2014 and the 2nd half of 2014

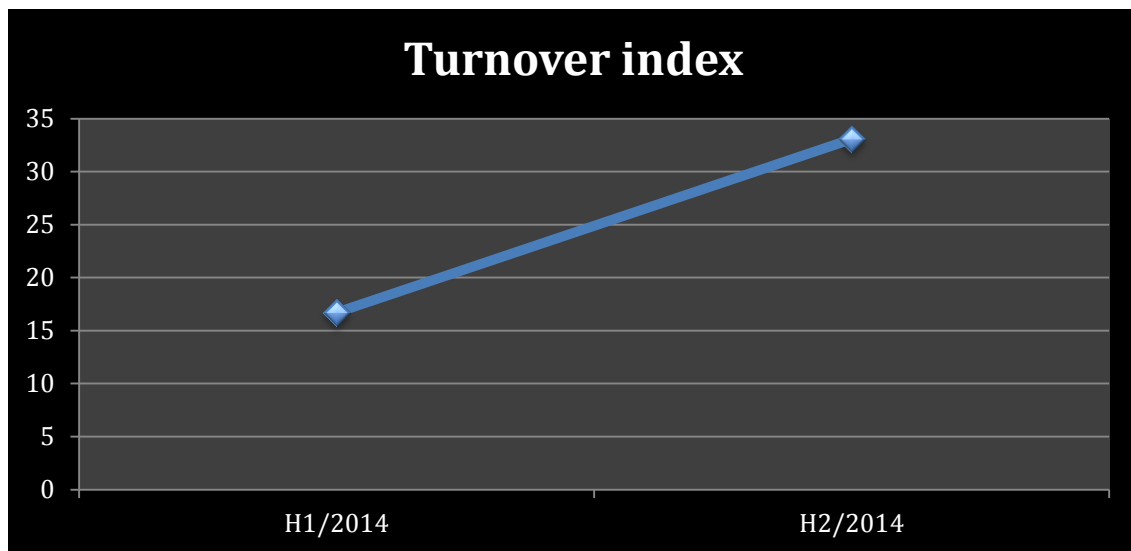


Figure 64: Turnover index

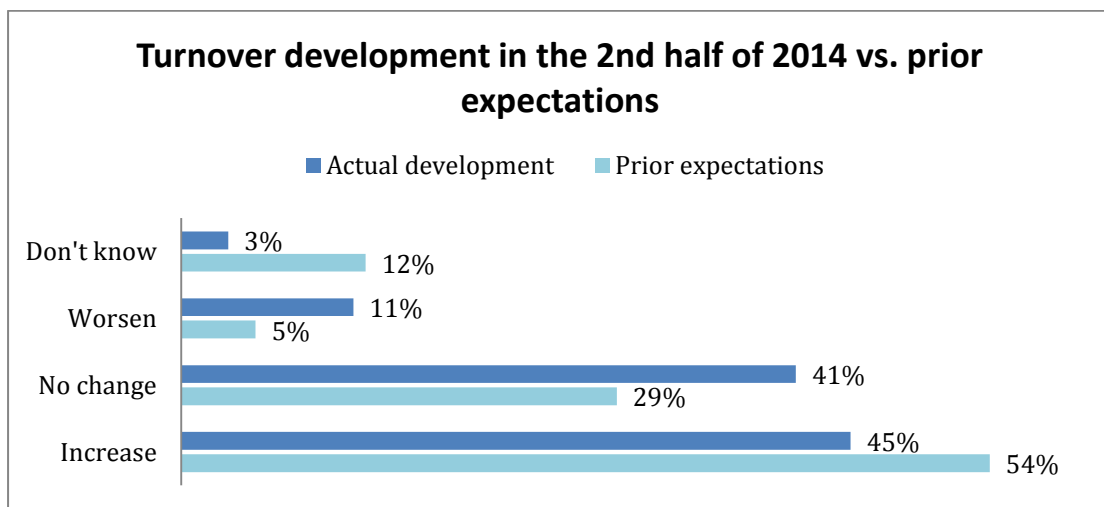


Figure 65: Turnover development in the 2nd half of 2014 vs. prior expectations

19. Profit development

When analysing profit development, we observe again a positive trend when compared with six months ago. Fewer companies have reported a decrease in profits while a greater number of companies have reported an increase. This is illustrated with a profit development index rising from 9 to 25. Regarding the profit development in the second half of 2014 vs. prior expectations, some companies have not reached the expected level of profits (deviation: 9) and others did not expect to have a decrease in their profits (deviation: 9). Profit development with a provincial perspective highlights strong improvements in Bokeo, Luang Namtha, Xayaboury, and Oudomxay. It also highlights strong deterioration in Savannakhet and Bolikhamxay (see map 2).

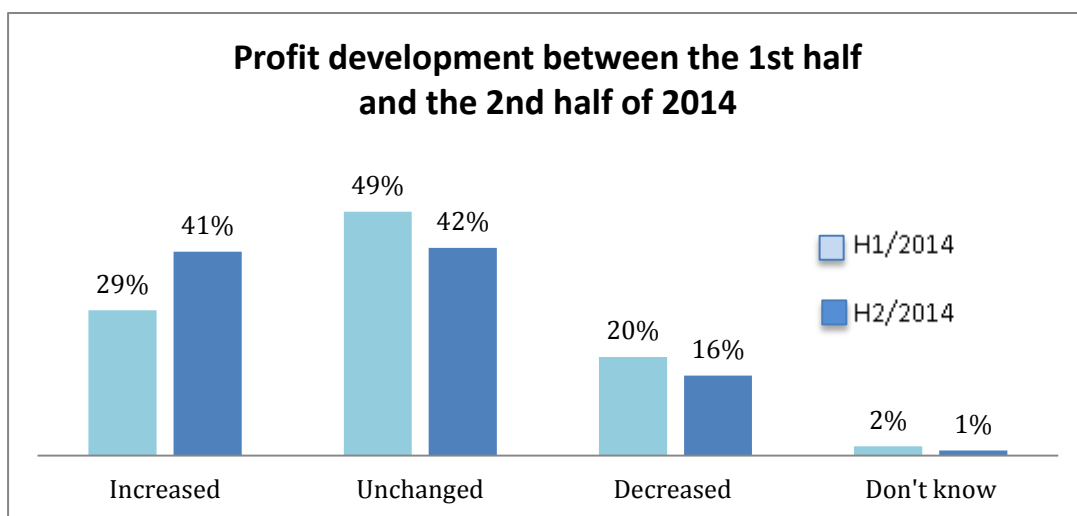


Figure 66: Profit development between the 1st half and the 2nd half of 2014

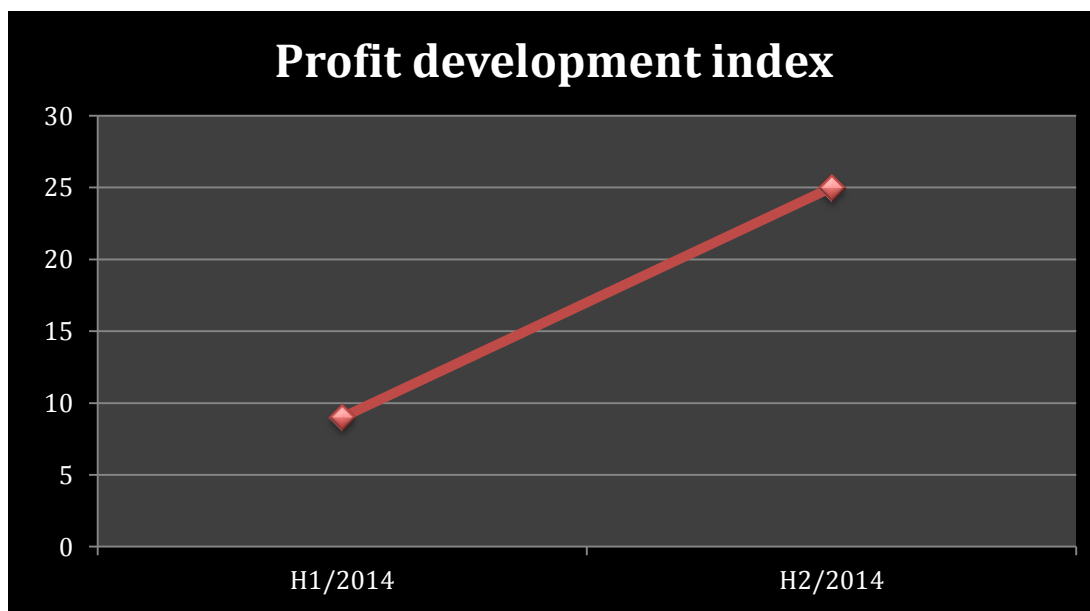


Figure 67: Profit development index

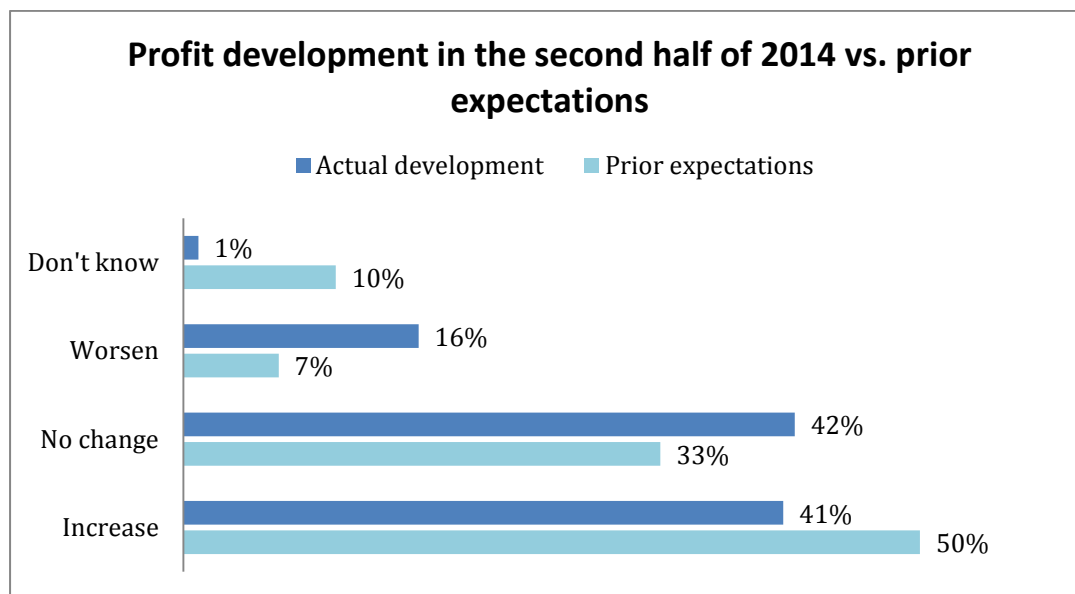
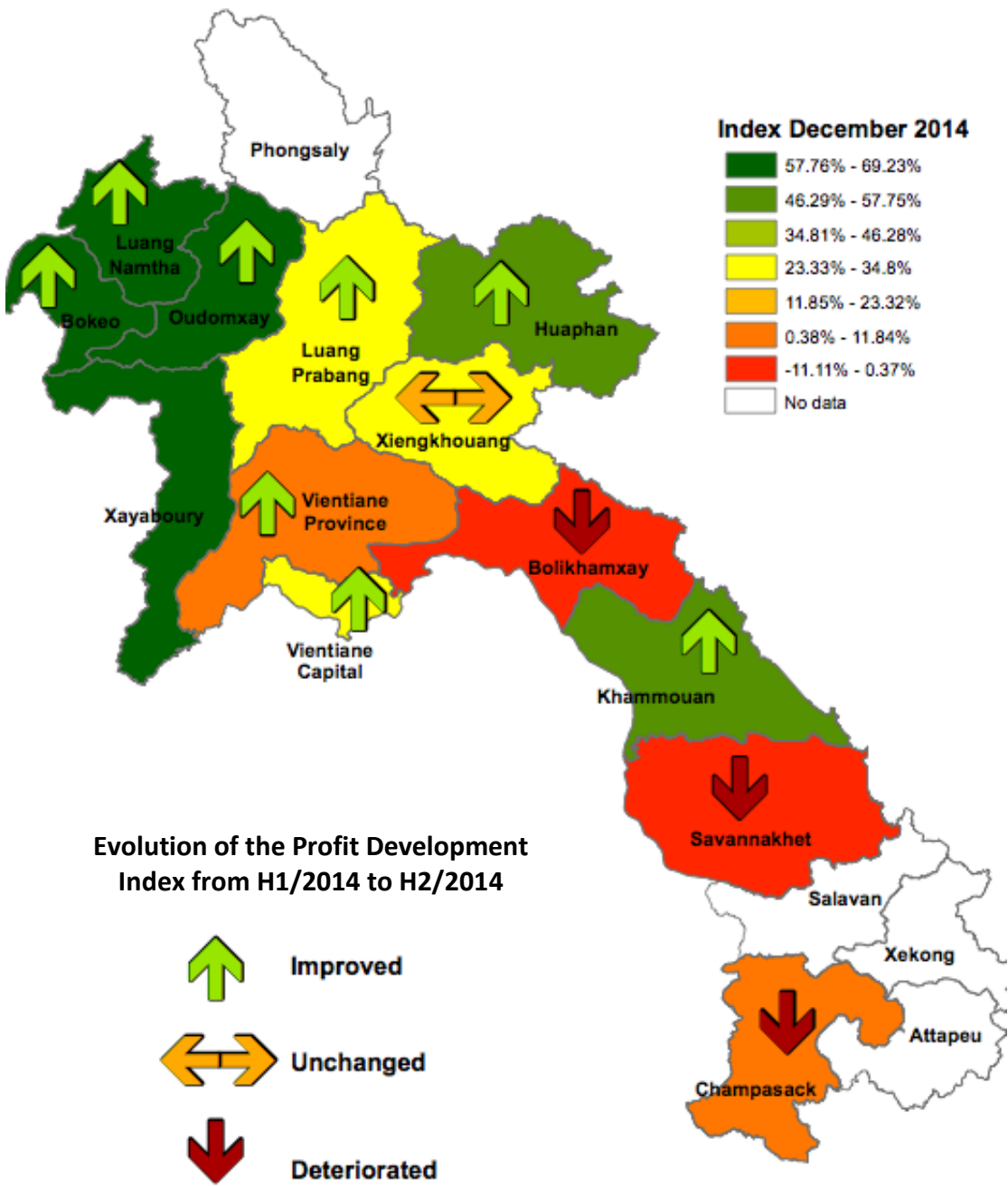


Figure 68: Profit development in the second half of 2014 vs. prior expectations

Figure 69: Profit development Index December 2014 and its evolvement since August 2014



20. Development of the financial situation

The assessment of the financial situation is also more positive than it was six months ago, with a financial situation index rising from 15 to 32. The prior expectations with regards to the financial situation were quite adequate, with an average deviation estimated at 7.

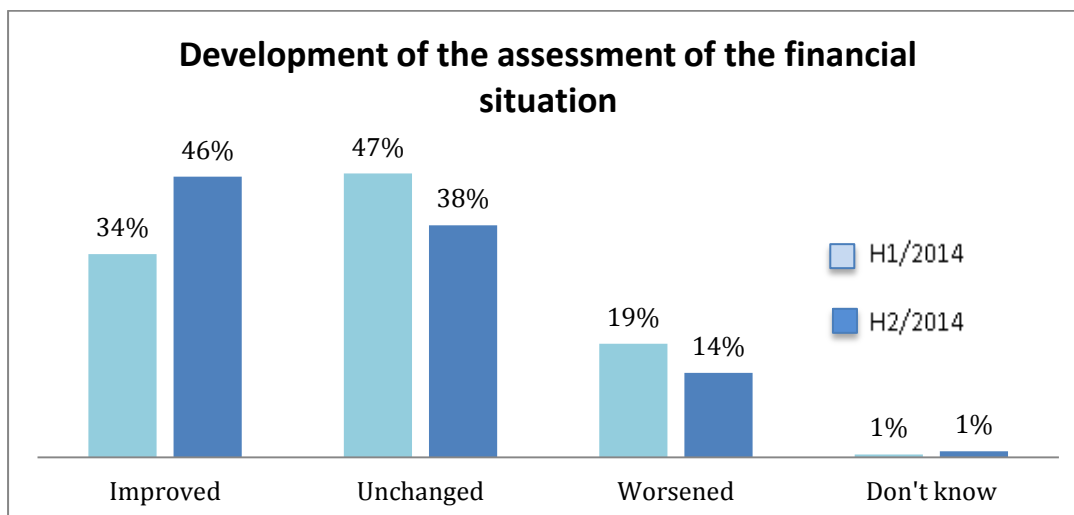


Figure 70: Development of the assessment of the financial situation

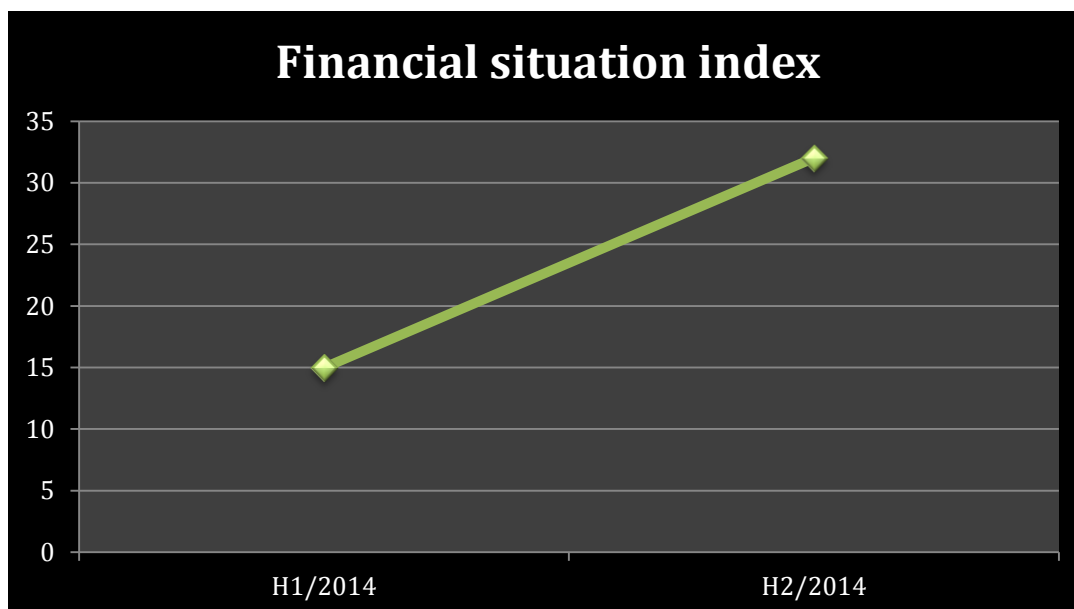


Figure 71: Financial situation index

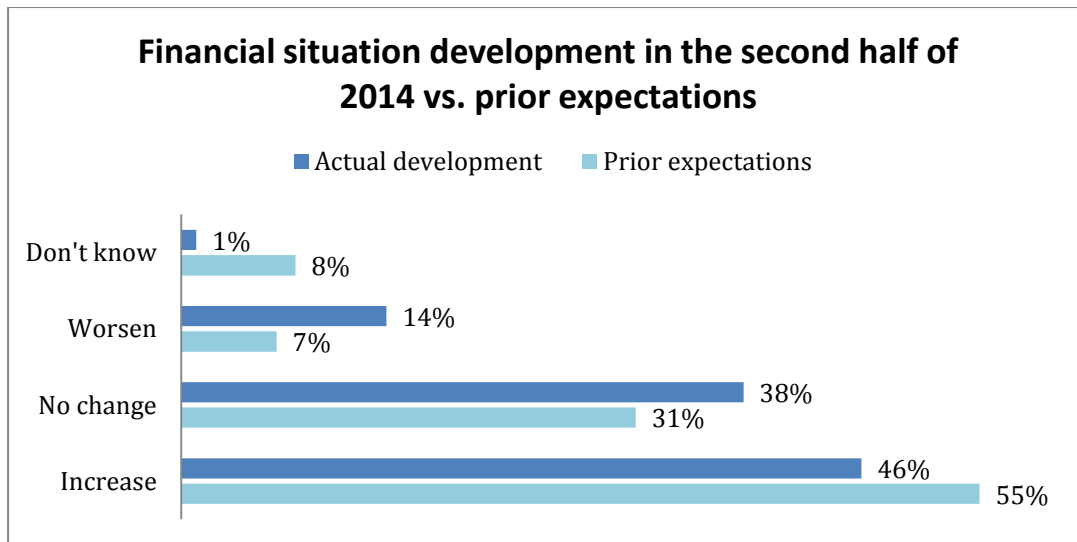


Figure 72: Financial situation development in the second half of 2014 vs. prior expectations

21. Investment development

The number of companies that have declared investing in their company remain relatively unchanged, with a similar number of companies investing (around 66.5% of companies). The investment situation index goes down from 36 to 30, illustrating a minor decrease in investment when comparing the first and second half of the year (from 68% to 65%). The enterprises have been able to relatively well assess their future investment for the second half of the year 2014 as reflected with an average deviation at 5.

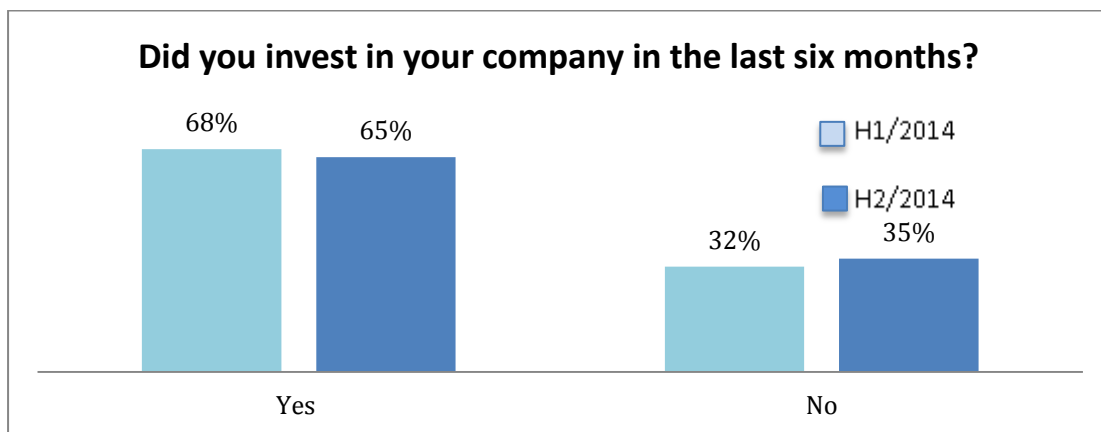


Figure 73: Investment development between the 1st half and the 2nd half of 2014

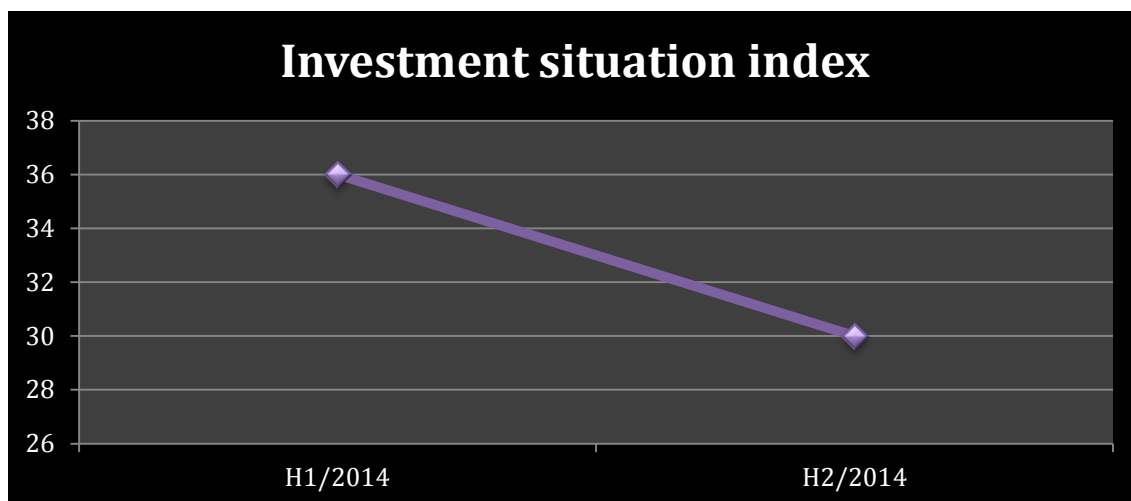


Figure 74: Investment situation index

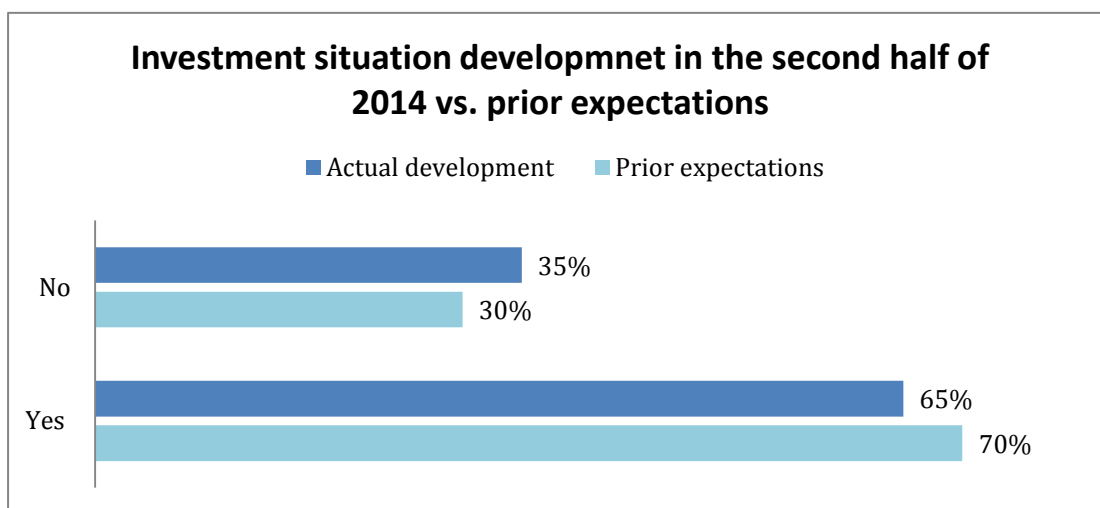


Figure 75: Investment situation development in the second half of 2014 vs. prior expectations

22. Employment development

The number of employees has relatively increased between the first and second half of 2014 as illustrated below, with an employment situation index rising from 12 to 20. Prior expectations with regards to employment development in the second half of 2014 correspond relatively well with actual developments, despite the fact that a higher number of enterprises were expecting an increase, and fewer were expecting no change.

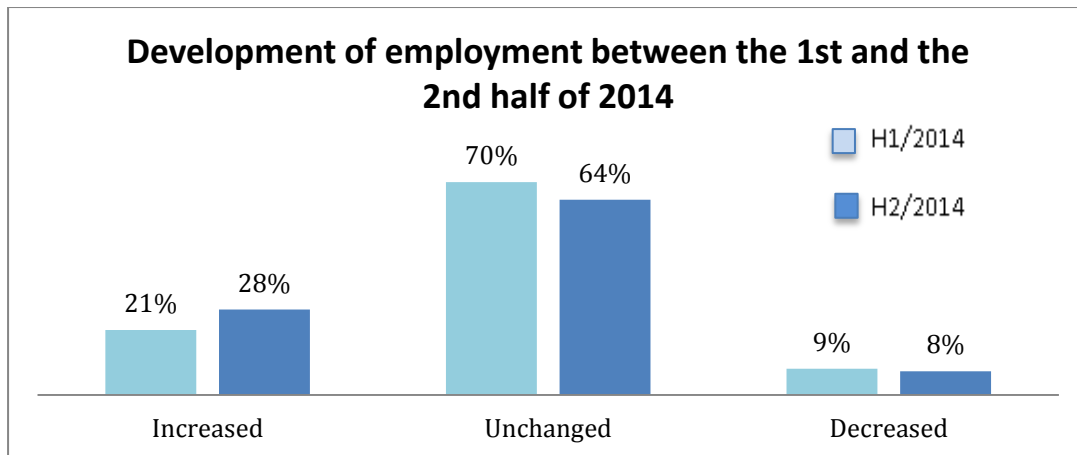


Figure 76: Development of employment between the 1st half and 2nd half of 2014

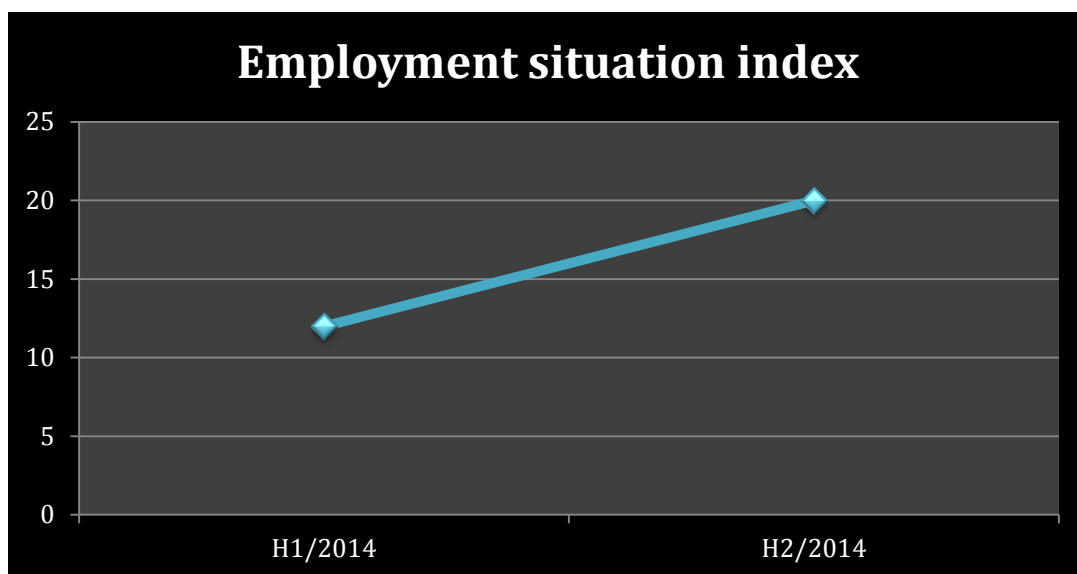


Figure 77: Employment situation index

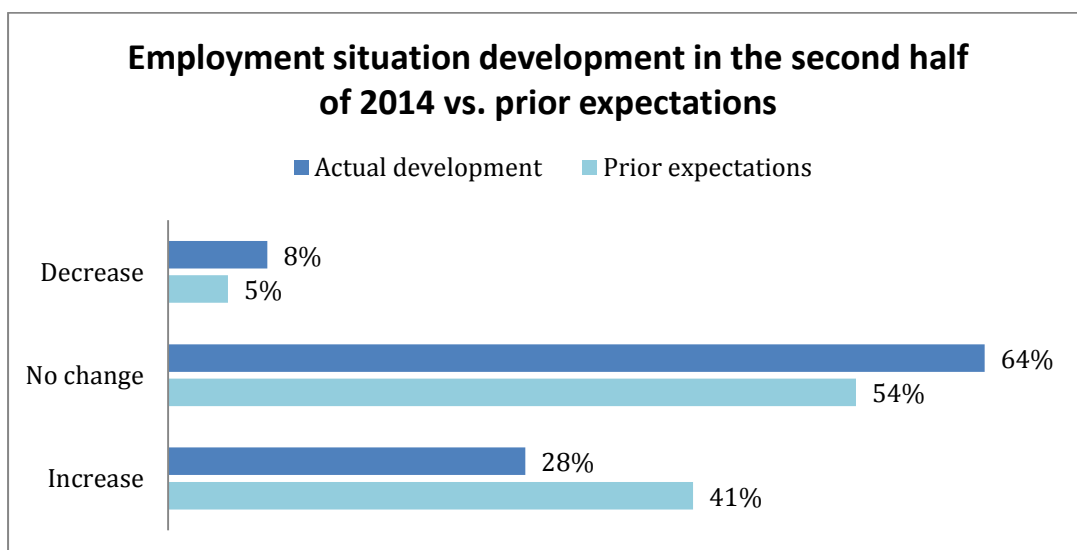


Figure 78: Employment situation development in the second half of 2014 vs. prior expectations

23. Development of ASEAN Economic Community awareness

The development of ASEAN Economic Community (AEC) awareness is positive, with more companies expecting a positive impact and fewer expecting a negative one. Regarding the preparedness, there is slightly no change between the situation in the first half and in the second half of 2014, despite that a few more companies assess themselves very well prepared for the AEC.

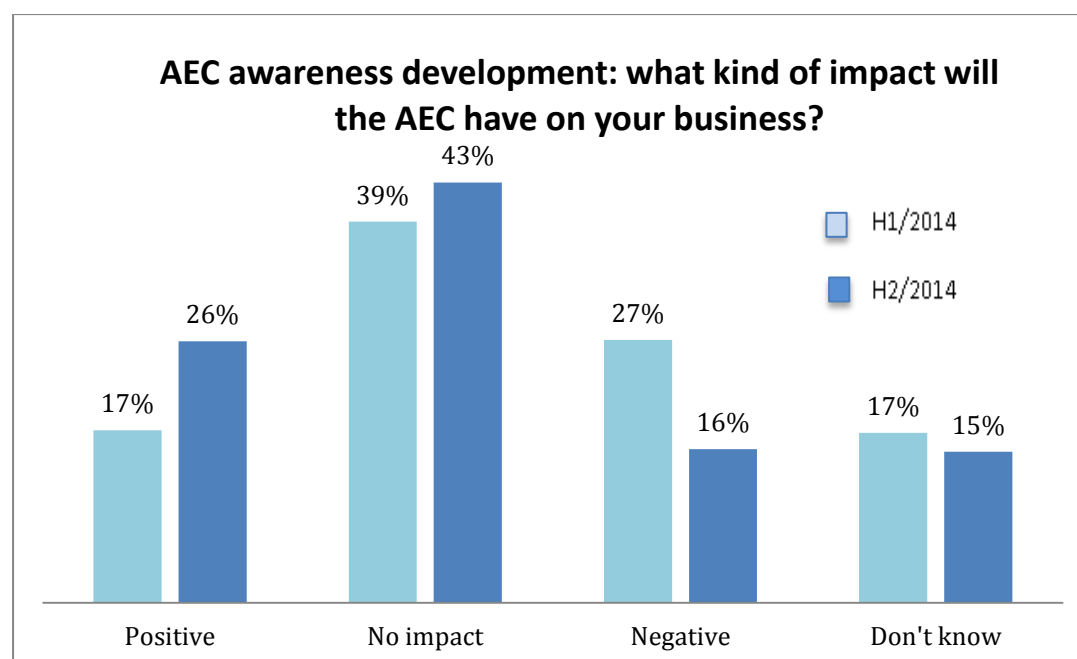


Figure 79: Development of AEC awareness between the first and second half of 2014

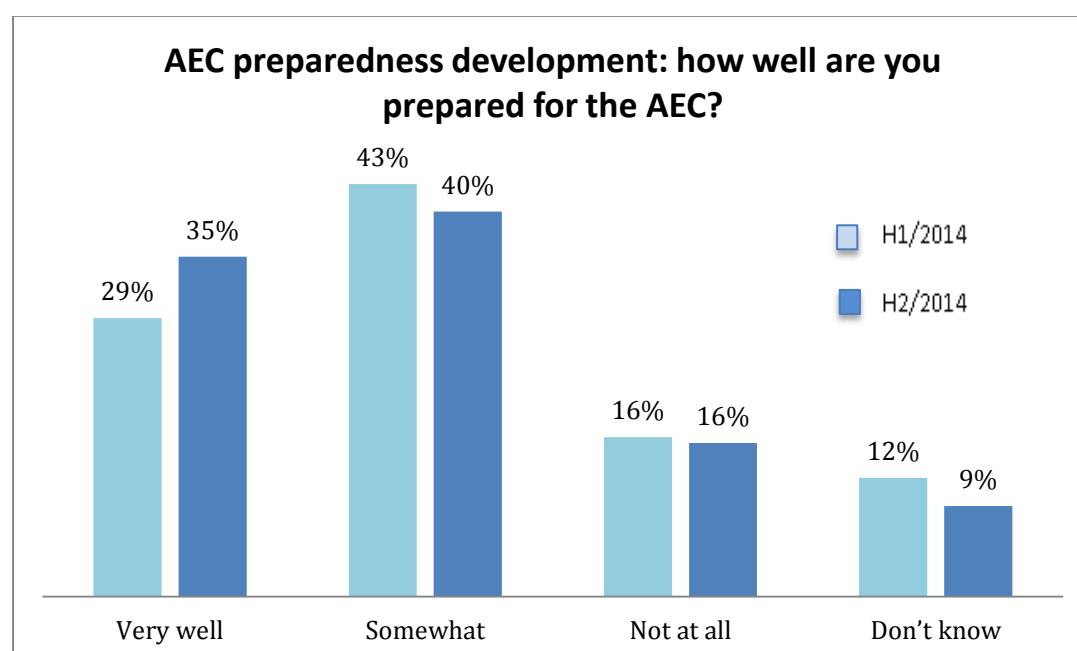


Figure 80: Development of AEC preparedness between the first and second half of 2014

24. Export development

Export development has been positive for the second half of the year when compared with the first half, as illustrated below, with an export development index rising from 12 to 31. Expectations were relatively higher than actual developments, with an average deviation at 11.

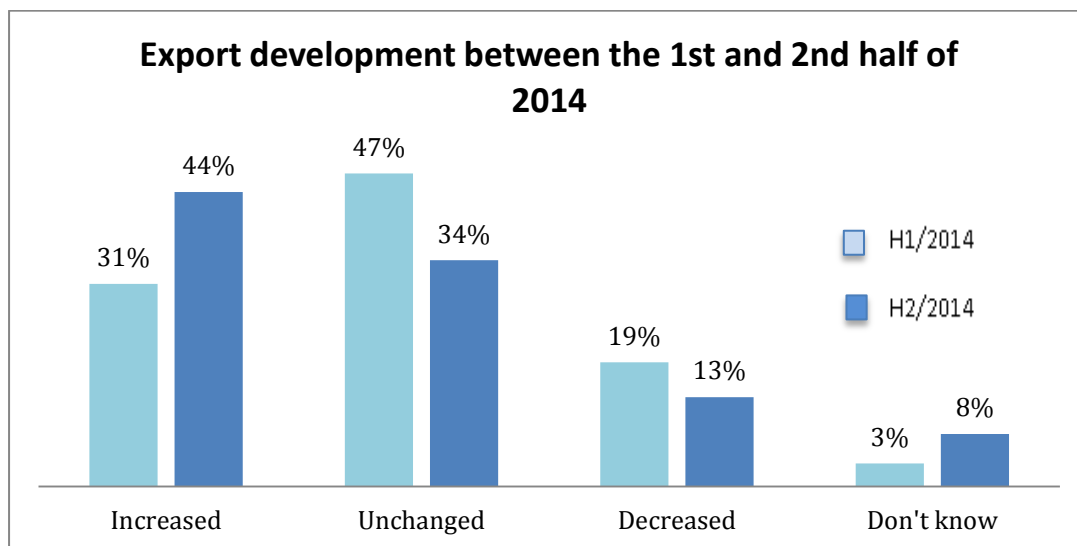


Figure 81: Export development between the first and second half of 2014

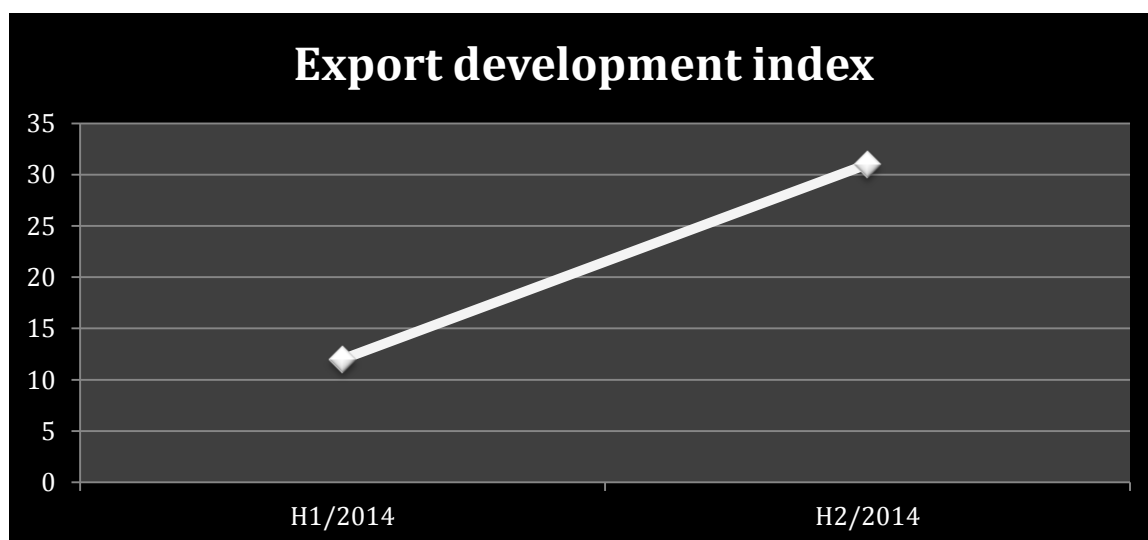


Figure 82: Export development index

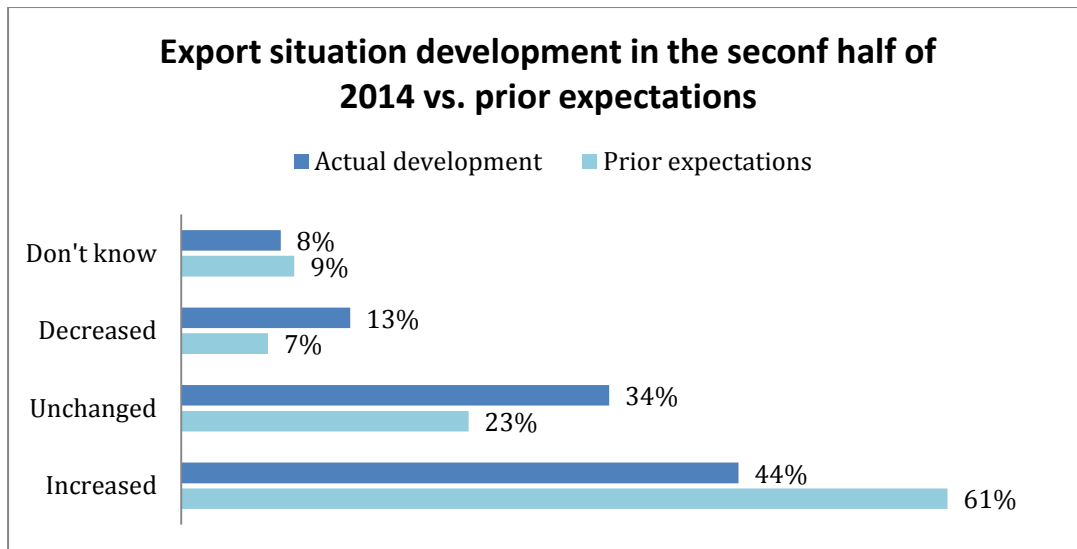


Figure 83: Export situation development in the second half of 2014 vs. prior expectations

Figure 84: Questionnaire

Business Confidence Index Questionnaire

juin-14



Filling in the questionnaire helps us and the government to better assess the economic development in Lao PDR and thus create a better business environment for you.

We assure you that the information you provide will not be used to identify individual companies and will be treated with the strictest confidence.

Company name:
Phone number:

Address:

Province: _____

Industry

Agriculture, forestry, fishing
Mining and quarrying
Manufacturing
Electricity, gas
water supply, sewerage, waste
Construction
Wholesale and retail trade, repair
Transportation, storage
Accommodation and food service

Information and communication
Finance and insurance
Real estate
Professional, scientific, technical
Administrative and support service
Education
Human health, social work
Arts, entertainment, recreation
Other service activities

Current number of employees

1-2	3-19	20-99	100 and over

How is your current business situation?

good	average	bad	don't know

How did your business situation develop over the last six months?

improved	unchanged	deteriorated	don't know

How did your turnover develop in the last 6 months?

increased	unchanged	decreased	don't know

How did your profits develop in the last 6 months?

increased	unchanged	decreased	don't know

How did your financial situation develop in the last 6 months?

improved	unchanged	worsened	don't know

Did you invest in your company in the last six months?

yes	no

How did the number of employees in your company develop in the last six months?

increased	unchanged	decreased

What impact will the AEC (ASEAN Economic Community) have on your business?

positive	no impact	negative	don't know

In case you are an exporter:

How did your exports develop in the last 6 months?

increased	unchanged	decreased	don't know

How many years is your business old?

1-2	3-5	6-10	11 and over

How do you assess the overall economic situation of Lao PDR?

good	average	bad	don't know

How do you expect your business situation to develop in the next six months compared to now?

improve	no change	deteriorate	don't know

How do you expect your turnover will develop in the next six months?

increase	unchanged	worse	don't know

How do you expect your profits will develop over the next six months?

increase	no change	decrease	don't know

How do you expect your financial situation will develop over the next six months?

improve	no change	worsen	don't know

Do you plan to invest in your company in the next six months?

yes	no

How do you expect the number of employees in your company will develop over the next six months?

increase	no change	decrease

How well are you prepared for the AEC?

very well	somewhat	not at all	don't know

How do you expect your exports will develop over the next six months?

increase	no change	decrease	don't know

Thank you for your cooperation!

For further information please contact:

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