



Business Confidence Assessment Lao PDR (Lao and European businesses)

January - June 2016

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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1. Executive summary

With a survey of 412 enterprises (395 Lao and 18 Laos based European businesses) over the period January to June 2016, the present assessment builds on the previous Business Confidence Assessment with the same objectives as before: to provide (i) an insight into the business environment for the first half of the year 2016, (ii) a comparison between Lao and European enterprises, and (iii) developments since the second half of the year 2014 in the business sector, in the form of indices.

The situation of the businesses can be described as stable. In general, Lao businesses experienced an unchanged situation. Overall, the assessment of the situation for both Lao and European companies is getting more congruent compared to earlier surveys:

- For Lao companies, the perception of the **overall economic situation** worsened while at the same time, European companies gained a more optimistic view. This leads to a more consistent picture of the two factions, in which most participating firms assess the overall situation as 'average'.
- Also for the current **own business situation**, the assessment is getting more aligned with a majority reporting an average situation. More than half of all Lao firms were able to improve their situation in the past six months. However, expectations for the future development of their business situation dampened significantly for both groups.
- **Turnover** development during the past six months remains almost unchanged.
- **Profit development:** For Lao companies, the decline in profit development that was observed before came to a halt in the first half of 2016. If the trend can be turned around remains to be seen, but it is a positive sign. The negative trend in development of profits for European companies did not come to a halt entirely.
- The overall **financial situation** did not change significantly during the past six months. Expectations remained steady but indicating an increased uncertainty.
- For both Lao and European businesses the share of those who **invested** in the past six months decreased. For the first time since this survey was made, the share of European companies that invested is lower than for the Lao companies.
- **Employment:** The share of companies hiring further staff decreased significantly
- Expectations towards the impact of the **ASEAN Economic Community (AEC)** dampened, especially for the Lao business community.
- The trend in **development of Exports** of Lao companies remains negative. For the first time in this survey, the number of firms that report decreased exports outweighs those reporting increased exports.

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 and 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 businesspersons 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 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 into the economic developments in the first half of 2014 and expectations from the business sector for the second half of the year. Since then, the survey was repeated another five times in a row. This report contains the results of the fifth Business Confidence Assessment since his revival in 2014.

For the current survey, LNCCI in cooperation with ECCIL invited their members again to take part in the 2016 first half-year Business Confidence Survey.

3. Objectives

The current Business Confidence Assessment aims to provide representative information on the business environment for the first half of 2016 and to compare this information with the previous six months. In particular, the present assessment aims to provide (i) an insight into the business environment for the first half of the year 2016, (ii) a comparison between Lao and European enterprises, as well as (iii) developments since the second half of 2014 in the business sector in the form of indices.

The survey consisted of 20 questions, grouped under 9 topics:

- Economic situation in Lao PDR
- General business situation (size of the company, company existence, business situation)
- Turnover
- Profit
- Financial situation
- Investment
- Employment situation

- AEC awareness
- Export

The present report provides an up-to-date representation of the business sector’s situation for the first half of 2016, by the businesspersons 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.

The report provides a quantitative assessment and is based on perceptions of the members of LNCCI and the Lao based members of ECCIL. 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 2013, which surveyed 124,873 enterprises operated in the country¹. 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 Xekong there is no provincial chamber, the ones in Attapeu, Saravan and Phongsaly are in their infancy and not yet fully operational. However, the number of companies in these regions is very limited (a combined total of 9,515 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 124,873 enterprises.

Representativeness was defined as follows:

Confidence interval (Z):	1.96 (95%),
Variance (p):	0.5
Margin of error (ε):	0.05
Base (N):	124,873

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

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

¹ Report of the Economic Census, 20013. p.5

² ibid.

$$\varepsilon^2$$

$$1+(n_0-1)/N$$

The resulting sample population is 395 Lao enterprises with a confidence level at 95% and a margin of error at 5%. These companies, which have been questioned by LNCCI and the provincial chambers, are referred to as “Lao” companies, notwithstanding whether their actual ownership is 100% Lao, in form of a joint venture or even foreign.

The European business sector was defined as the organized European business sector, i.e. Lao based corporate members of ECCIL, which are 103 enterprises (as of December 2015). Questionnaires were sent out to all of them. Given the low number of responses from the ECCIL Members (18 questionnaires out of 103 members), the study for European firms is rather indicative than representative with a margin of error at 18% and a confidence level at 90%.

This leads to the following statistical framework:

Lao companies

Confidence level:	95%
Margin of error:	5%
Base:	121,691
Resulting sample size:	383 or more (395 surveys were received)

European companies

Confidence level:	90%
Margin of error:	18%
Base:	103
Resulting sample size:	18

All surveyed enterprises have received the same questionnaire. LNCCI was collecting the data in 12 provinces and the capital, altogether a total of 395 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). If for instance 12% of the base population was located in one particular province according to the Census, 12% of the companies to be surveyed (sample population) were taken from this very province.

Being representative for the “Lao” business sector, i.e. the business community as a whole, 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 in regard to particular provinces or industries therefore have a lower confidence level and must be regarded as indicative rather than representative.

No industries with a number of respondents below 10 are considered in the industry perspective analysis. Thus, the 10 leading industries in this Business Confidence survey are the following: wholesale/retail/repair, manufacturing, agriculture/ forestry/fishing, accommodation/food services, other service activities, construction, electricity/gas, finance and insurance, transportation and storage and education.

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 18%. 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 study³, which uses the financial registers as a basis, estimates the trade sector's share at about 44%.

5. The surveyed enterprises

The sample size of this survey is 412 enterprises, 394 Lao firms and 18 European firms. Lao companies were surveyed over 12 provinces⁴ and Vientiane capital, while the surveyed European companies are mainly located in Vientiane capital.

With around 27% of the total surveyed enterprises, Vientiane capital still remains the main hub for all business activities in the country followed by Savannakhet, Vientiane Province, Champasack and Luang Prabang. In terms of industries, around 79% of the Lao surveyed companies are concentrated in six sectors: wholesale, retail trade and repair sector (18%), the manufacturing sector (17%), the accommodation and food service sector (13%), as well as the agriculture, forestry and fishing sector (11%) and the construction sector (10%). The 'other services' sector increases and appears with another 10% among the current leading industries. The level of concentration thus is less than compared to the last survey, in which the same six industries had combined share of 84% of all companies in the survey. The 21 surveyed European companies are spread over all different industry sectors.

For the local companies, the distribution of small, medium, and large companies remains almost unchanged compared to the second half of 2015.

³ GIZ (Ed.) : HRDME Enterprise Survey 2013 for Lao PDR, Vientiane, July 2014, p. 46.

⁴ As for the previous three surveys, the provinces of Attapeu, Phongsaly, Xekong and Salavan are not covered in the survey. However, the necessary panel size is fulfilled to guarantee the representativeness of the data-set.

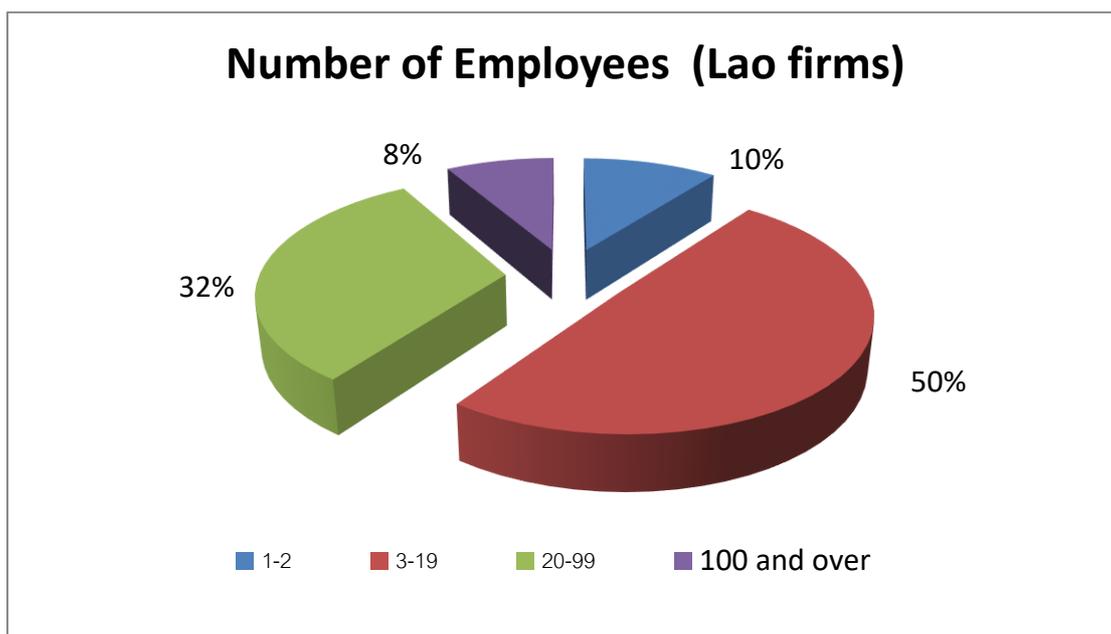


Figure 1: Number of employees (Lao firms)

For the European companies, the share of companies with only one or two employees appeared again with 11%. Also the share of companies with less than 20 employees increased significantly from less than 17% to almost 40% within the past half year. Large companies with more than 100 employees decreased by about 9%, whereas those in the range of 20 to 99 employees decreased by 25%. In total, only 50% of European companies thus employ more than 20 employees, compared to 83% in the previous survey.

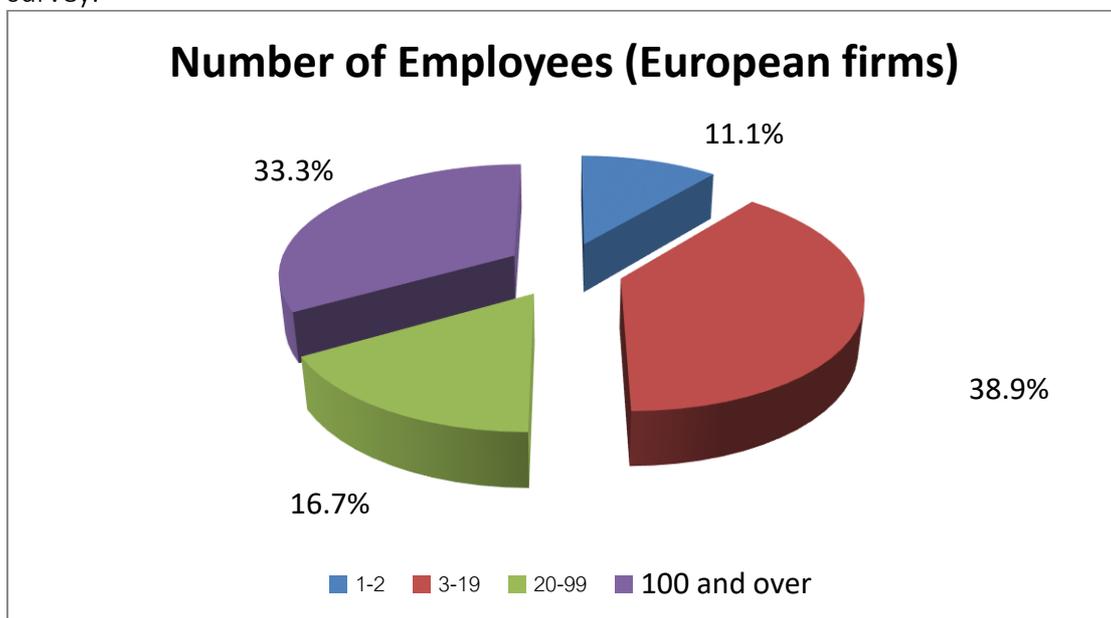


Figure 2: Number of employees (European firms)

The percentage of local firms with six to 10 years of operational experience increased marginally with 37% compared to 35% in the second half year of 2015. The share of

companies that are 11 years and older also increased slightly by two percent to 38%. The trend of companies getting more mature which was described in the previous survey is therefore still ongoing but less obvious. The share of companies which are less than three years active dropped from 7% half a year ago to 3% accordingly, while the share of companies with three to five years of experience remained unchanged at 22%.

The share of European companies older than 5 years decreased at the same time from 75% to 67%, while the share of companies with three to five of experience increased by 11% to now 28%.

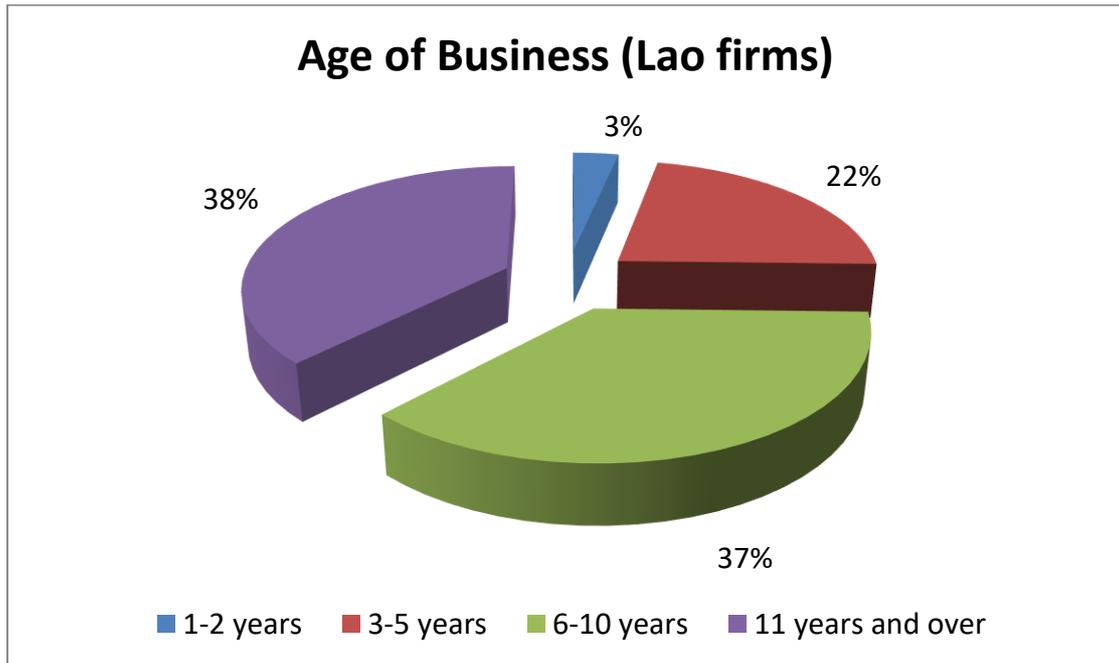


Figure 3: Age of Lao businesses

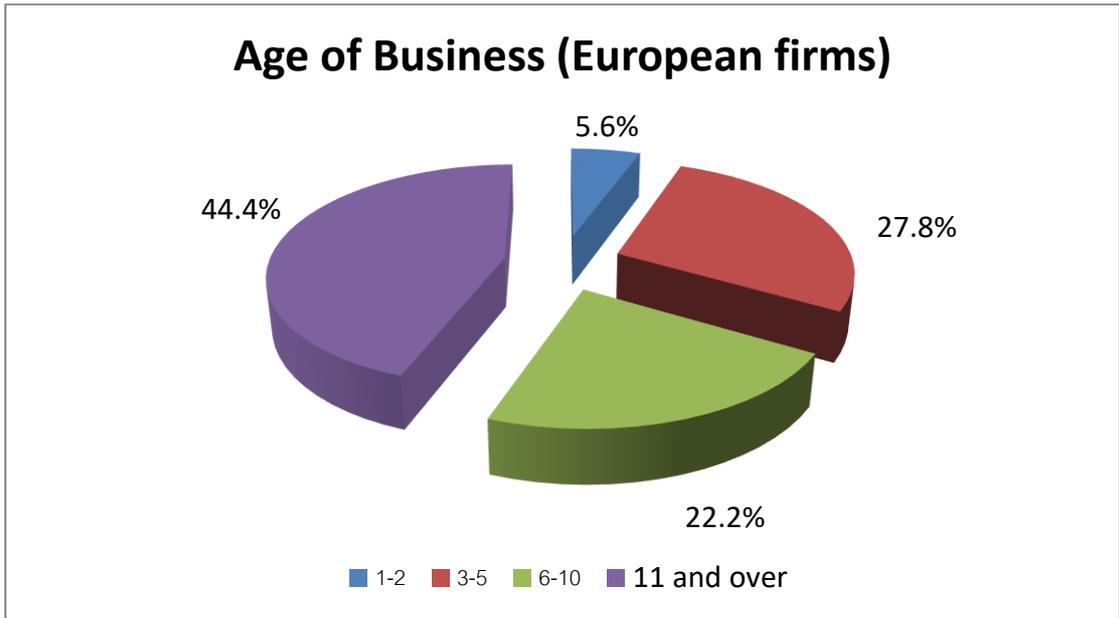


Figure 4: Age of European businesses

Part II: BUSINESS CONFIDENCE 1st half of 2016

6. Overall economic situation

The share of local firms that assessed the economic situation in the Lao PDR as 'good' decreased from 37% to less than 27% compared to the second half year of 2015. Almost 50% consider the situation to be average and about 10% as bad. The share of companies that do not know has more than doubled within the past six months from less than 7% to more than 14%.

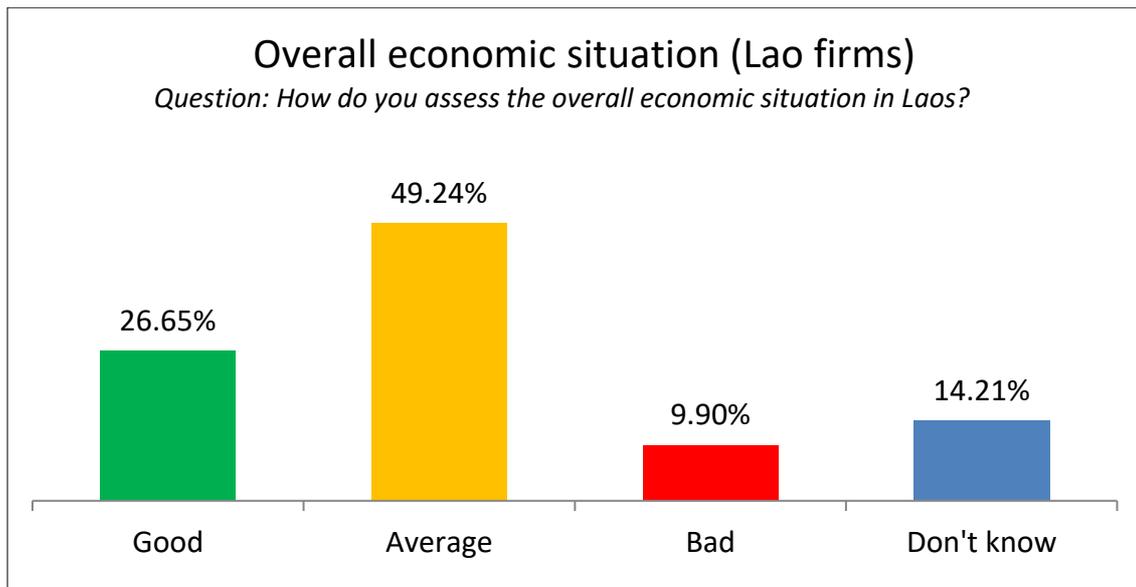


Figure 5: Overall economic situation perception (Lao firms)

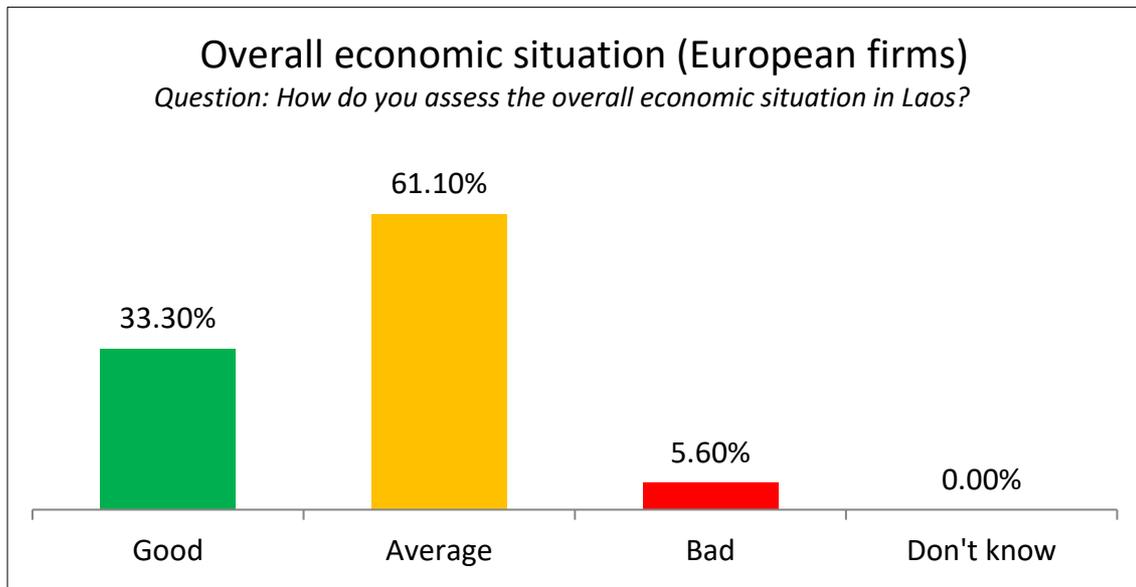


Figure 6: Overall economic situation perception (European firms)

European firms however have gained a more optimistic view on the situation with 33.30% considering it as 'good'. Only 5.60% would call it 'bad' at this point in time. Compared to the previous assessment, the perception of the Lao firms is much more pessimistic, whereas for the European companies the opposite is true.

7. Business situation of the enterprises

The individual perspective for Lao companies is supporting the view on the overall economic situation. Only 27% of the Lao companies assess their own situation as 'good', compared to 35% in the second half of 2015. For the European firms the situation seems to have changed less negative, as the percentage of those who assessed their situation as 'good' declined only to 39% from 42% before. Those which assess their situation as 'average' remained almost unchanged for the European firms and increased significantly for Lao firms to 64% (57% before).

Thus, for both Lao and European the majority of companies' perception of the situation is 'average'. As observed during the last survey already, the perception of Lao and European companies is again getting more unified compared to earlier assessments.

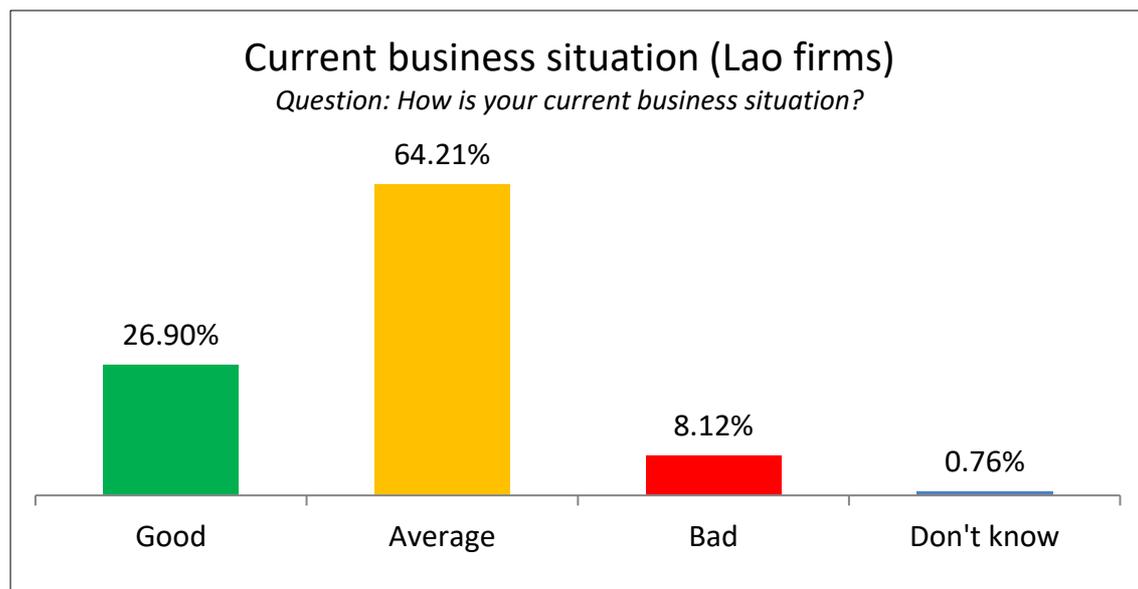


Figure 7: Current business situation (Lao firms)

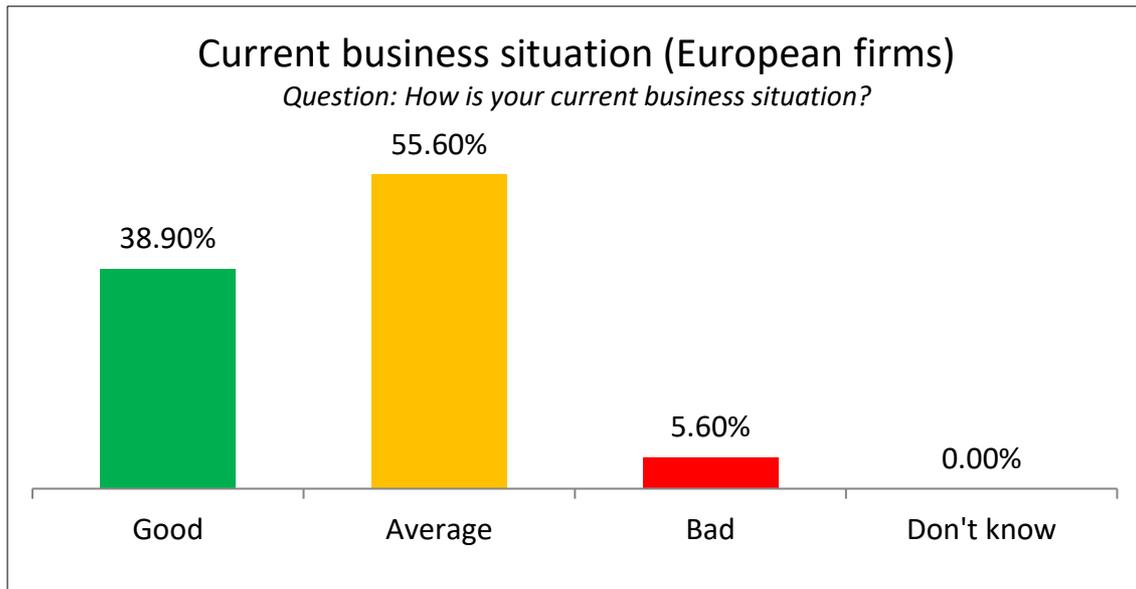


Figure 8: Current business situation (European firms)

A closer look at specific sectors provides a more detailed picture. Electricity and gas as well as finance and insurance, as in the previous two assessments, are still experiencing a business situation that is better than the cross-industry average. Transportation, which was second last in the previous survey with only 20% of the companies answering 'good', now jumped to the third rank with now 31% answering 'good'.

Education, after having dropped to the third last in the last survey already, now marks the end of the list with only 20% assessing the business situation as 'good'.

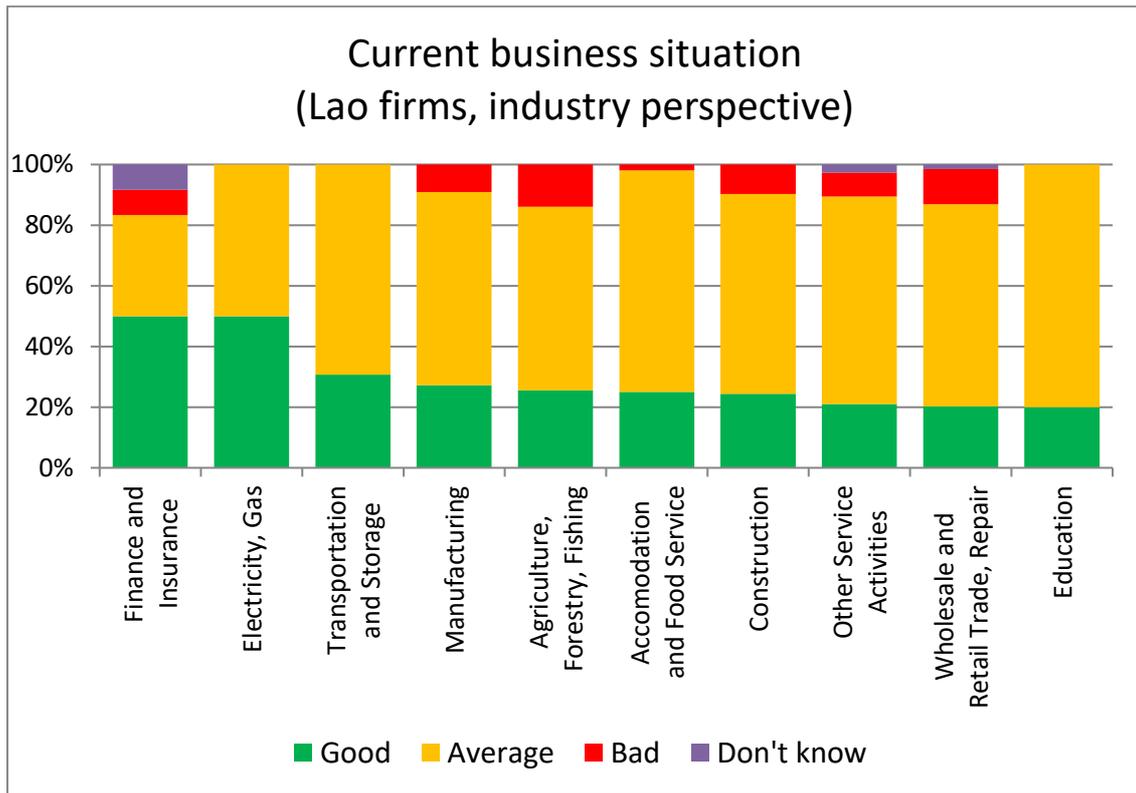


Figure 9: Current business situation (Lao firms, industry perspective)

From a provincial perspective, the highest rate of ‘good’ perceptions again were found in the province of Oudomxay with 53%, but dropped significantly from 60% half a year ago. Khammuan, ranking second in the last survey with almost 60% of companies answering ‘good’ now dropped to fifth rank with only 25% of companies answering ‘good’. Vientiane Capital again moved up from third to second rank, but the share of companies assessing their situation with good dropped from 46% to now 42%. The largest leap on the scale was made by Bokeo, moving from the very end to third rank by improving the share of companies answering with ‘good’ from 13% to now 33%. Also Luang Prabang moved from second last to fourth rank.

At the other end of the scale Bolikhamxay, which had the highest share of companies answering ‘bad’ in the previous survey, now marks the end with only 10% answering ‘good’ and as many answering ‘bad’. The largest loss of companies answering positive was observed in Xayaboury with only 14% of companies answering ‘good’ this time, compared to 37% during the last survey.

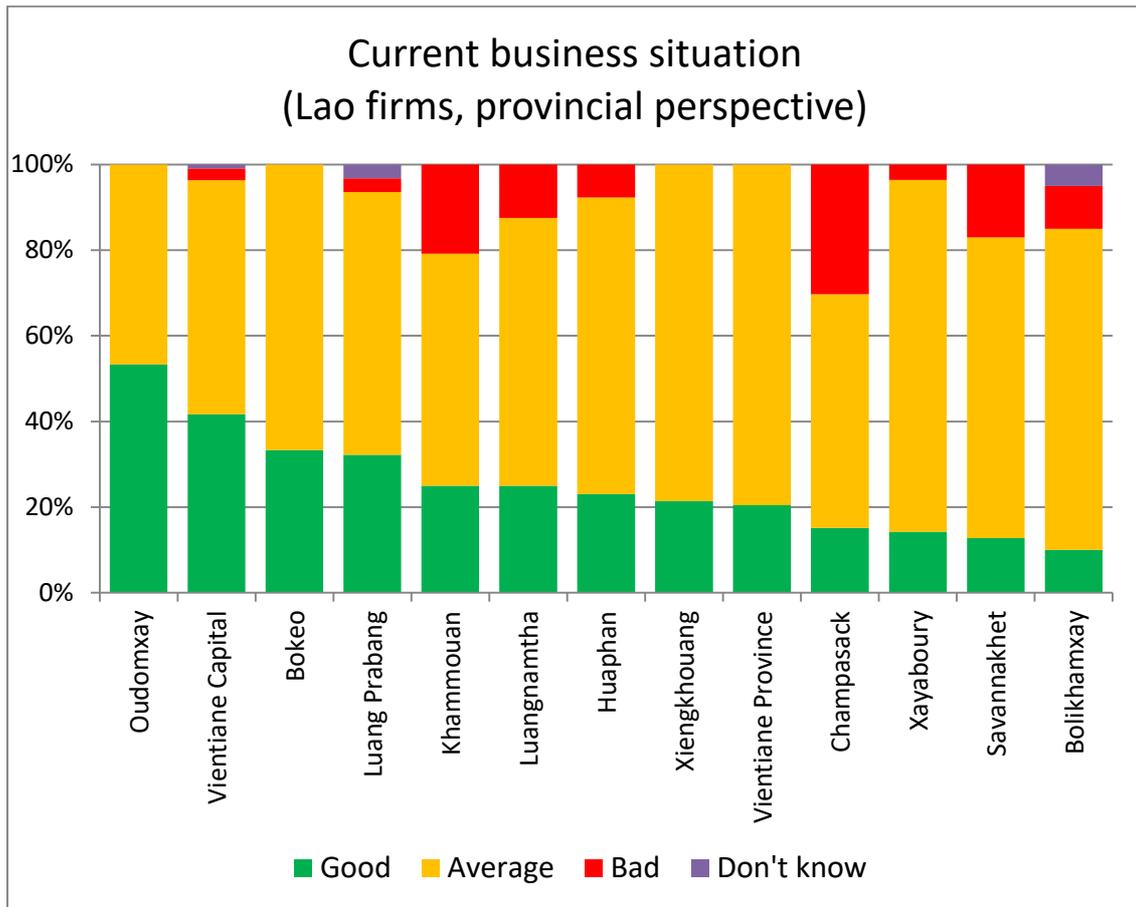


Figure 10: Current business situation (Lao firms, provincial perspective)

Respondents were also asked to state how their business situation developed over the last six months. More than half (52%) of local firms regard their business development to be improved. Only 39% of the European firms think the same, compared to 50% in the previous survey.

While for Lao firms the figures did not change significantly over the last six month, for European companies the trend is still negative. In the first half of 2015, 60% answered their business situation improved in the last six months. This figure decreased by 10% to 50% in the second half of 2015, and now again decreased by more than 10% to 39%. At the same time the share of those who experienced a negative development first increased from 15% to 25% and now turned to 0%. It is worth mentioning at this point again that for the European business community, the sample size does not allow for a statistically significant confidence interval and thus all conclusions have to be taken as indicative.

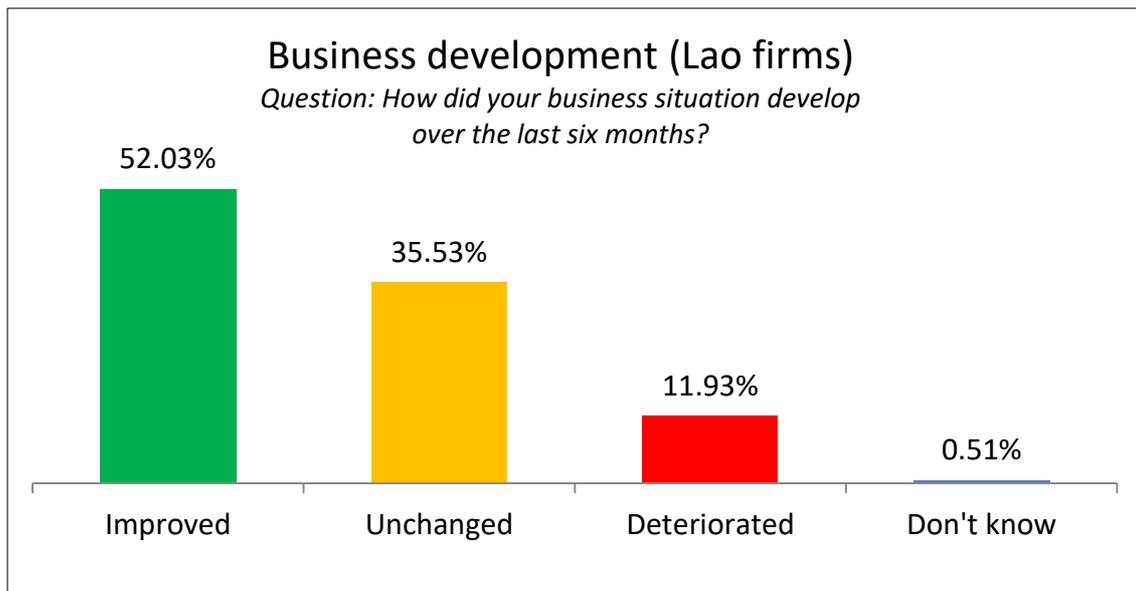


Figure 11: Business development 01-06/2016 (Lao firms)

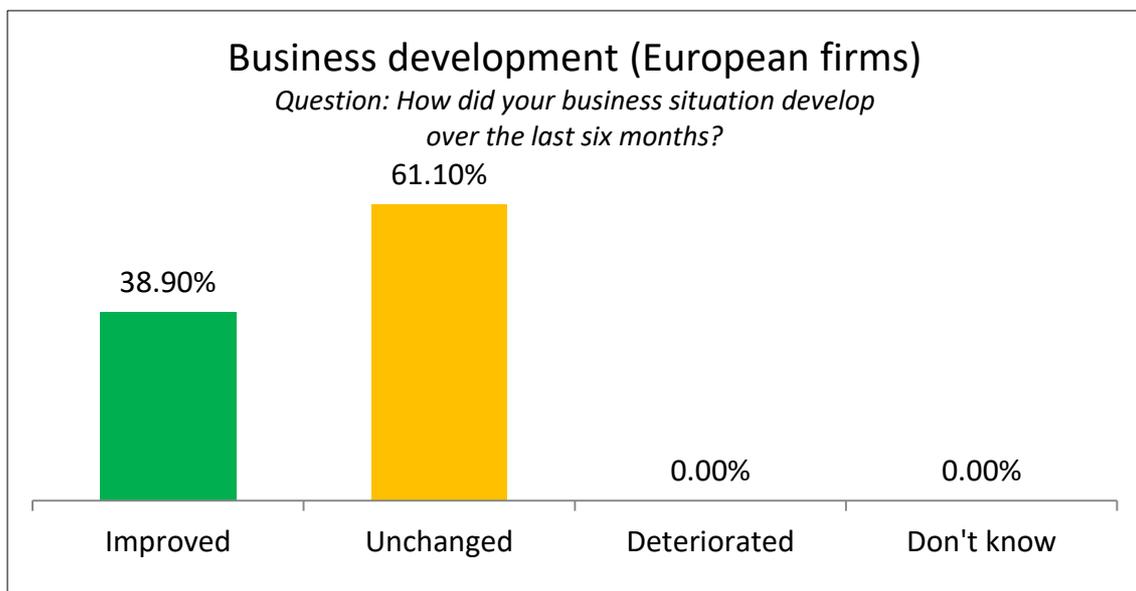


Figure 12: Business development 01-06/2016 (European firms)

Optimism still prevails in the Lao business community when it comes to the prospects for the coming six months. But the outlook is much less positive than it was before. In the Lao business community now 52% expect the situation to improve, compared to 72% half a year ago, which demarks a decline of 20%. Within the European business community, only 39% believe in an improvement of the situation, which marks a drop of 19% compared to the second half of 2015. Compared to one year ago, the prospects declined even more significantly from 66% of the European firms expecting an improvement.

At the same time, the share of companies that expect the situation to deteriorate vanished completely for European companies, which might be due to the small sample size and therefore has to be taken with a pinch of salt. For the Lao companies, this share

almost tripled from a little bit more than 4% in the second half of 2015 to now 12%. The largest increase however can be observed for those companies that do not expect any change.

Overall it seems that both Lao and European firms are getting more cautious when it comes to voicing their expectations compared to earlier surveys.

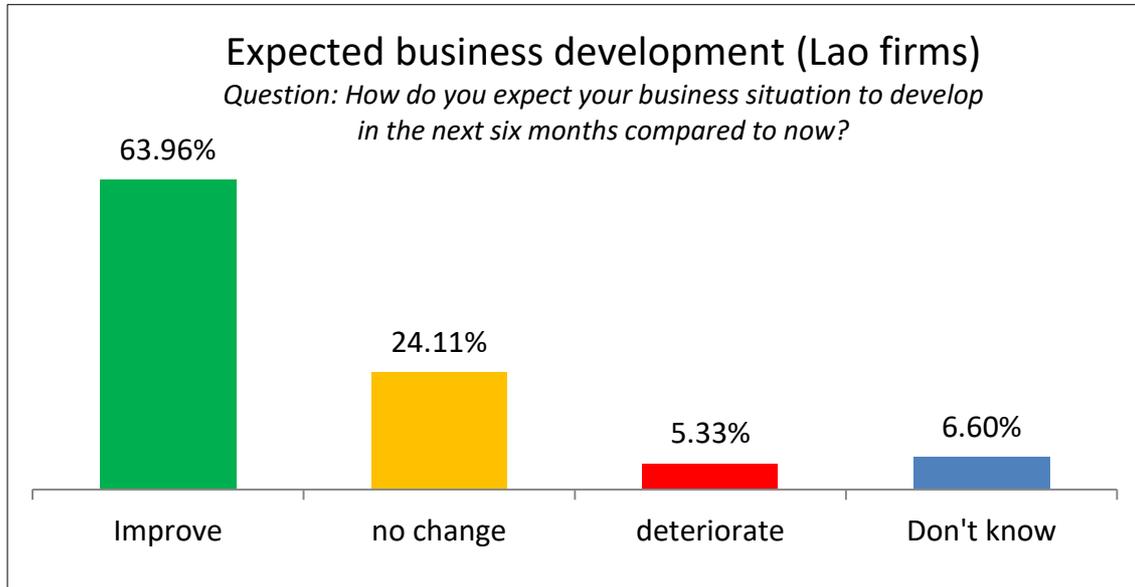


Figure 13: Expected business development 07-12/2016 (Lao firms)

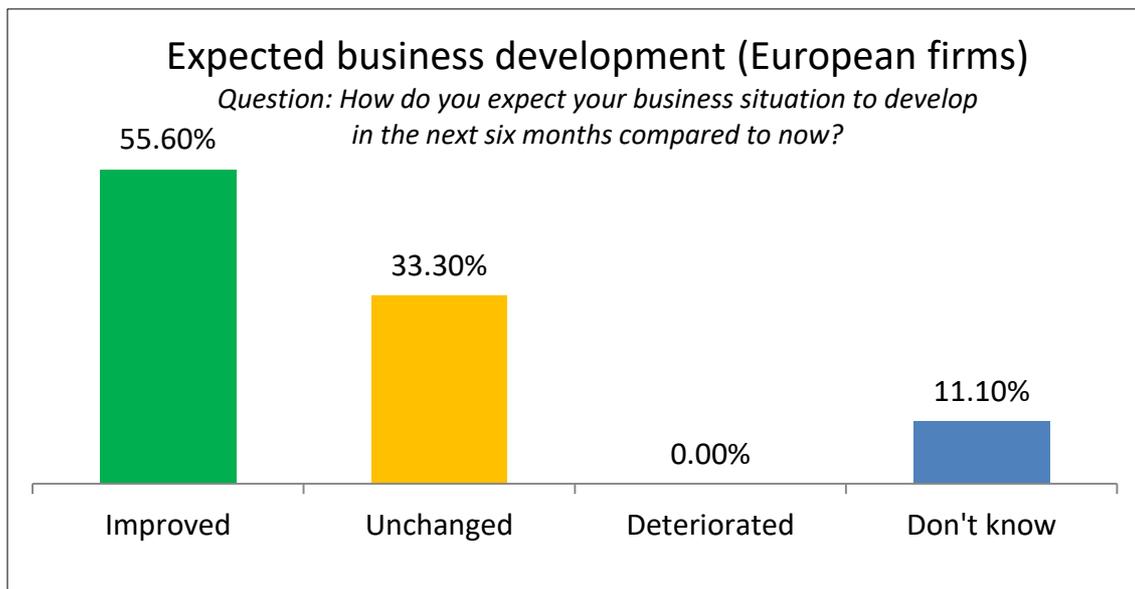


Figure 14: Expected business development 07-12/2016 (European firms)

Looking at the expected business situation in the different provinces in Lao, the picture is more diversified: Oudomxay, which led the ranking in the previous survey, now moved to the second rank. The new leading province in terms of business expectations is Bokeo, which made a remarkable leap from the very end to the top of the list with an un-blurred optimism (100%). Champasack now marks the end of the list with only 25% of firms

expecting an improved situation after having been ranked second-last in the previous survey.

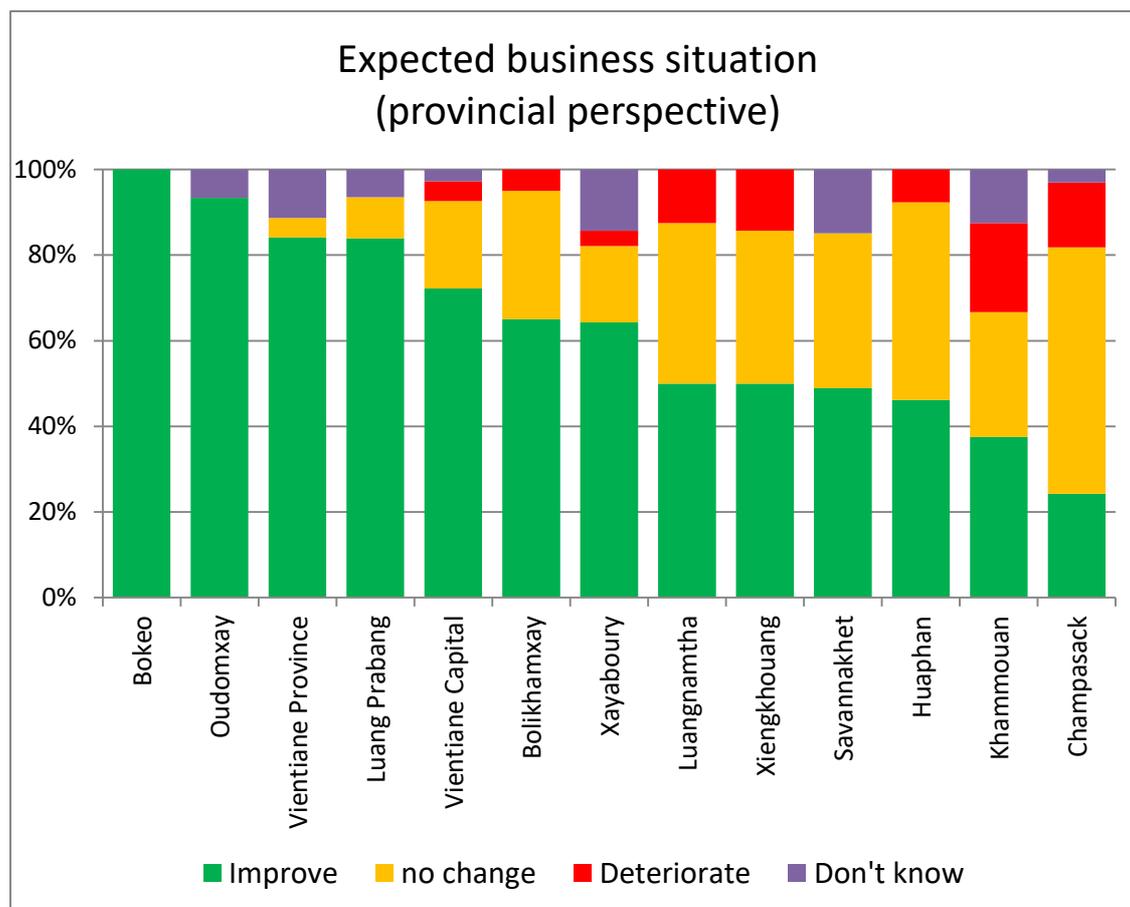


Figure 15: Expected business development 07-12/2016 (provincial perspective)

8. Turnover

The trend for the turnover development for Lao companies remains almost unchanged with little less than 40% experiencing higher turnover and 43% reporting no change. Again, only 17.01% compared to 17.13% in the first half year experience a decreased turnover.

For the European firms, the negative trend that was observed during the last survey did not come to an end entirely. While in the second half of 2015 33% of them experienced decreased turnover rates, this figure came down to 28%. At the same time, however, the share of firms that were able to increase their turnover decreased again to now 28% after 46% half a year ago. The share of companies experiencing unchanged turnover rates more than doubled to 44% from 21% before.

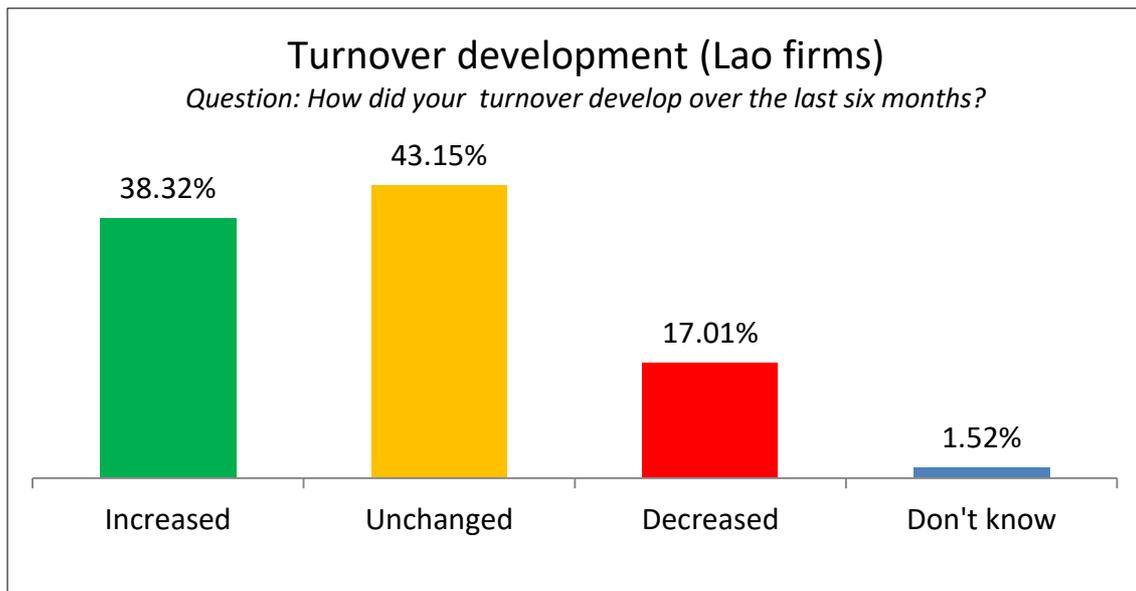


Figure 16: Turnover development 01-06/2016 (Lao firms)

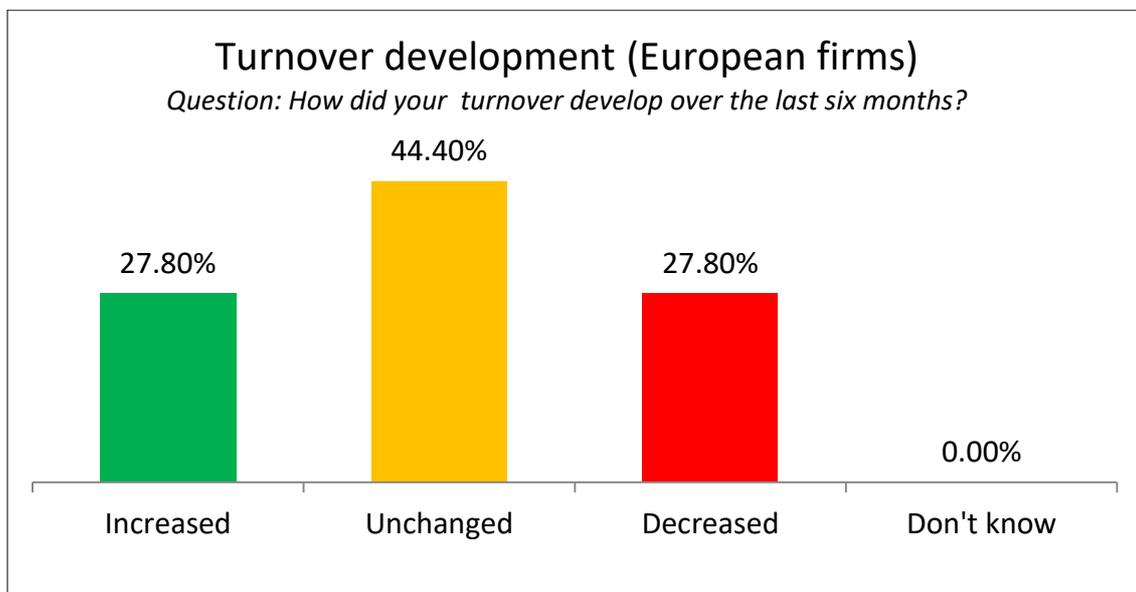


Figure 17: Turnover development 01-06/2016 (European firms)

On the province level, Vientiane Province, previously ranking second, took over the pole position from Oudomxay. Oudomxay already led the survey in terms of highest share of companies with an increased turnover and relatively few companies that reported decreased turnover rates in the two surveys taking place in 2015. Khammuan, which was amongst the top three provinces in terms of turnover development in the past two surveys, now dropped sharply to second-last. At the very end of the list is Huaphan with only 8% of all companies reporting increased turnover.

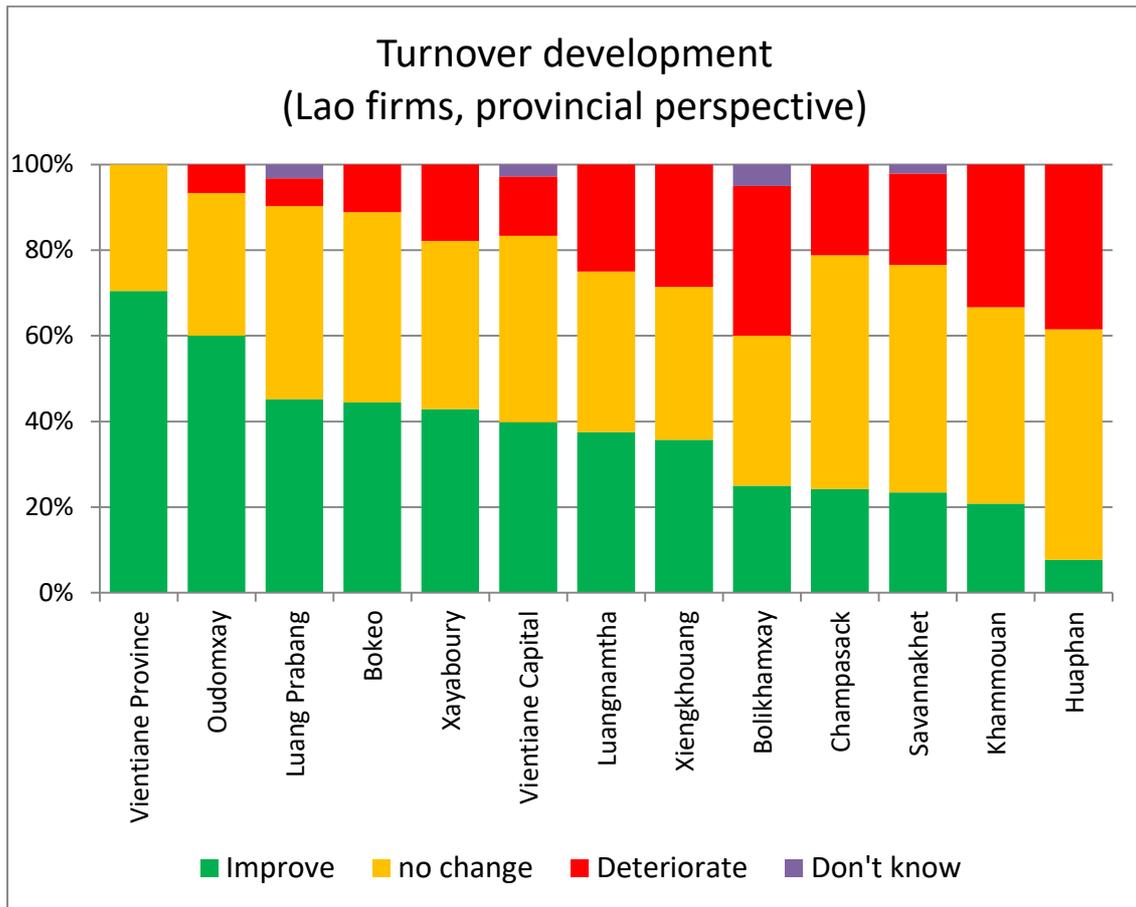


Figure 18: Turnover development 01-06/2016 (Lao firms, provincial perspective)

As in the previous period, electricity and gas followed by finance and insurance are the sectors with the most companies reporting an increased turnover, even though the share of the companies which report increased turnover in the electricity and gas industry fell to 57% from 82% half a year ago. For finance and insurance this figure did not change and is still 50%.

Agriculture, forestry and fishing, which already reported the highest share of companies with an decreased turnover in the second half of 2015, even increased this share to now 33% (before 19%). At the same time the share of companies that were able to increase their turnover fell from 43% to 35% during the same period of time.

Also for companies in the manufacturing sector, business cooled down. During the second half of 2015, still 40% reported increased turnover figures. For the first half of 2016, only 23% were able to increase their turnover, while another 24% reported decreased figures.

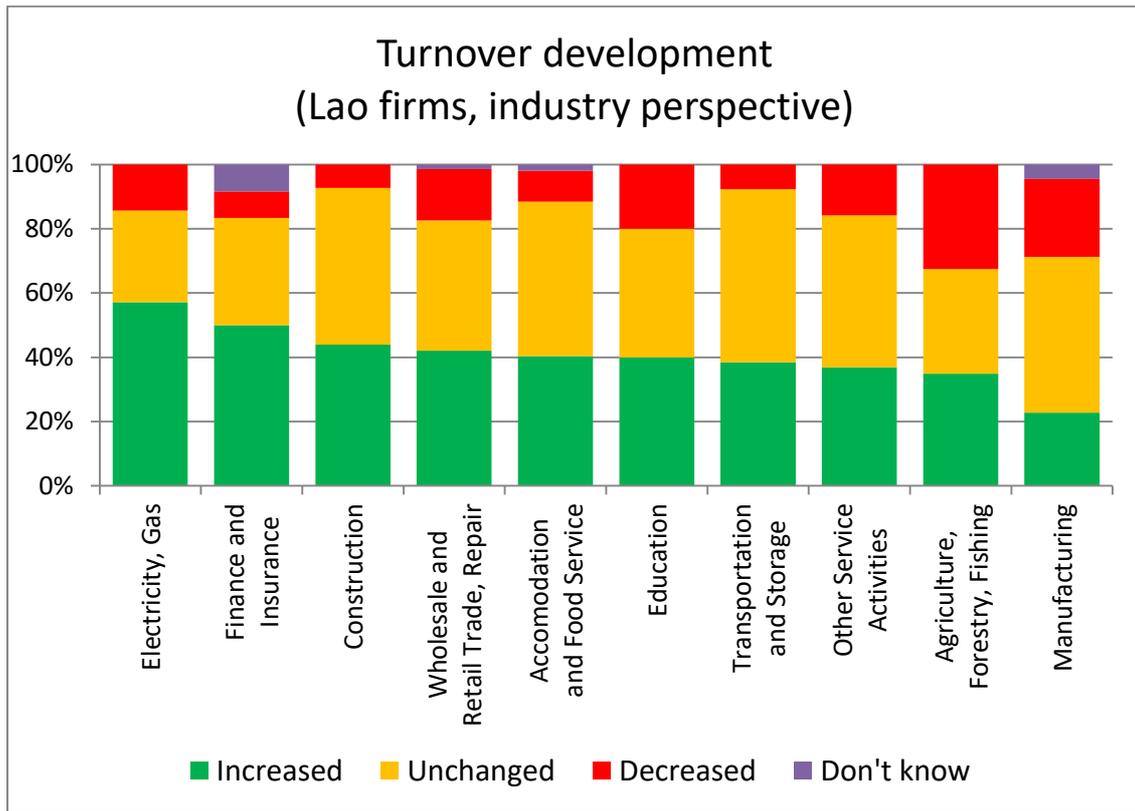


Figure 19: Turnover development 01-06/2016 (local firms, industry perception)

Although during the past three surveys the turnover increased for less than 40% of the Lao firms, the expectations for turnover development in future remains very optimistic. 57% expect their turnover to increase in the coming six months. This is only slightly less than what was expected half a year ago (64%).

About one quarter of the respondents expect their turnover to be unchanged in the next six months, and about 7% is expecting the situation to worsen.

This indicates a general confidence of Lao companies that did not change much compared to the two surveys in 2015.

The expectations of European firms were lower in the past. In the second half of 2015, only 45.80% envisaged increased turnover, and 37.50% believed they would be unchanged. The new expectations are higher than that with now 56% of European companies expecting increased turnover in the second half of 2016. Only 33% expect no change, and none fear decreased turnover rates.

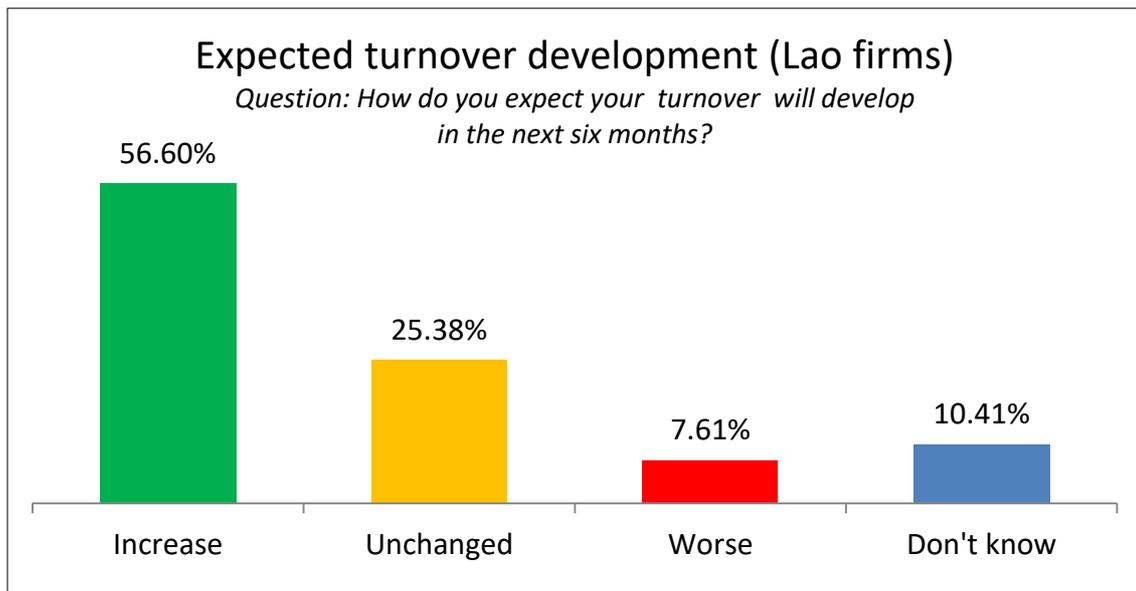


Figure 20: Expected turnover development 07-12/2016 (Lao firms)



Figure 21: Expected turnover development 07-12/2016 (European firms)

Consequently to the high share of companies in the agriculture, forestry and fishing sector that experienced decreased turnover during the past six months, expectations for the next six months are rather low in this sector. The same is valid for companies in the manufacturing sector. Also in the electricity and gas sector, which experienced the sharpest drop in companies that reported increased turnover, this trend is expected to continue, making it the industry with the second-lowest expectations in terms of increased turnover. The education sector, which marked the end in the previous survey when it came to expectations towards turnover, still features the highest share of companies expecting decreased turnover rates in the coming six months.

The prospects of increased turnover are by far highest amongst companies in the finance and insurance industry, building on the stable growth rates in turnover that have been reported during the past surveys.

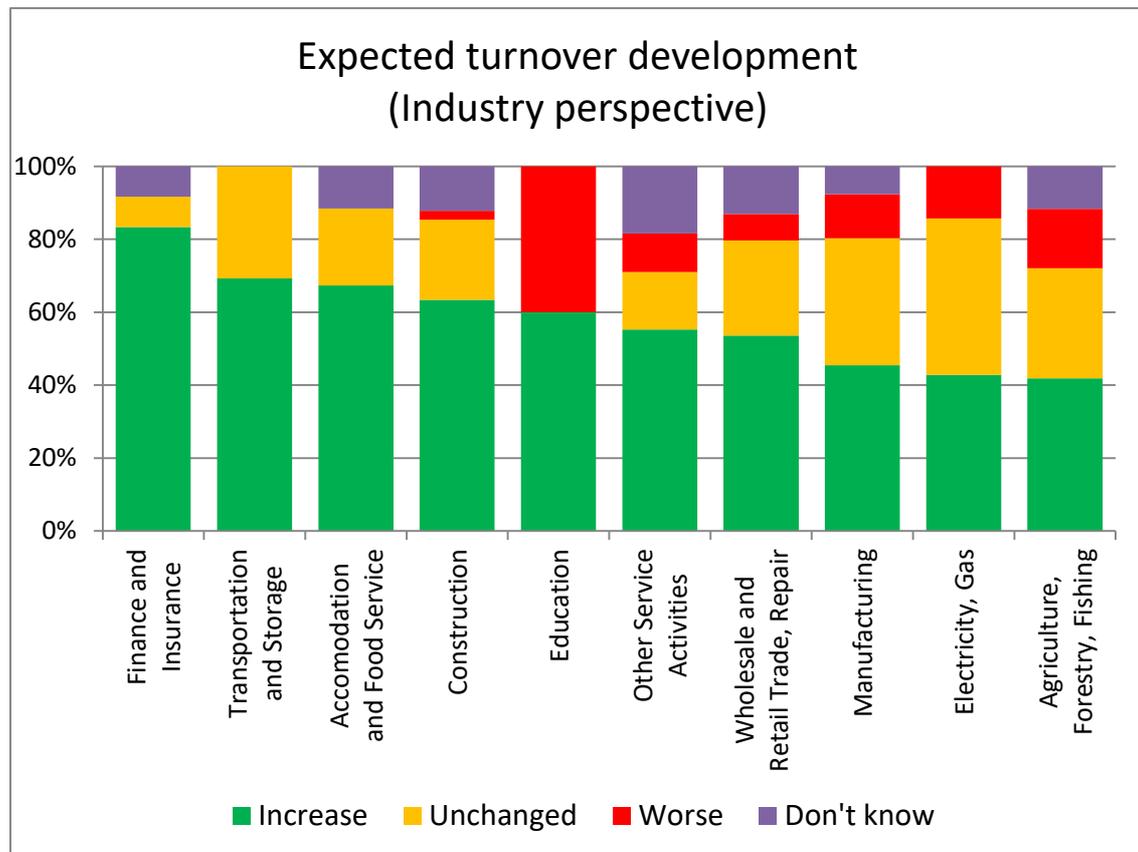


Figure 22: Expected turnover development 07-12/2016 (industry perspective)

9. Profit

For Lao firms, company profit growth remained almost unchanged in the survey period 01-06/2016. 35,53% noted an increase in their profit compared to 34,51% in the prior period.

For the surveyed European companies profits did not develop in the same direction. After only 33% reporting increased profit development in the survey before, in the first half of 2016 only 22% remained on this development path. Looking back at the first half of 2015, the share of companies that reported increased profits almost halved within one year from then 43%. Those reporting unchanged profits increased from 25% to 29%, which leads to a decreased percentage of firms with decreased profits of 27%, compared to 38% half a year ago.

Overall the negative trend in the development of profits for European companies did not come to a halt, but the development stabilized. The difference between Lao and European companies in profit development that could be observed during earlier surveys is getting less significant.

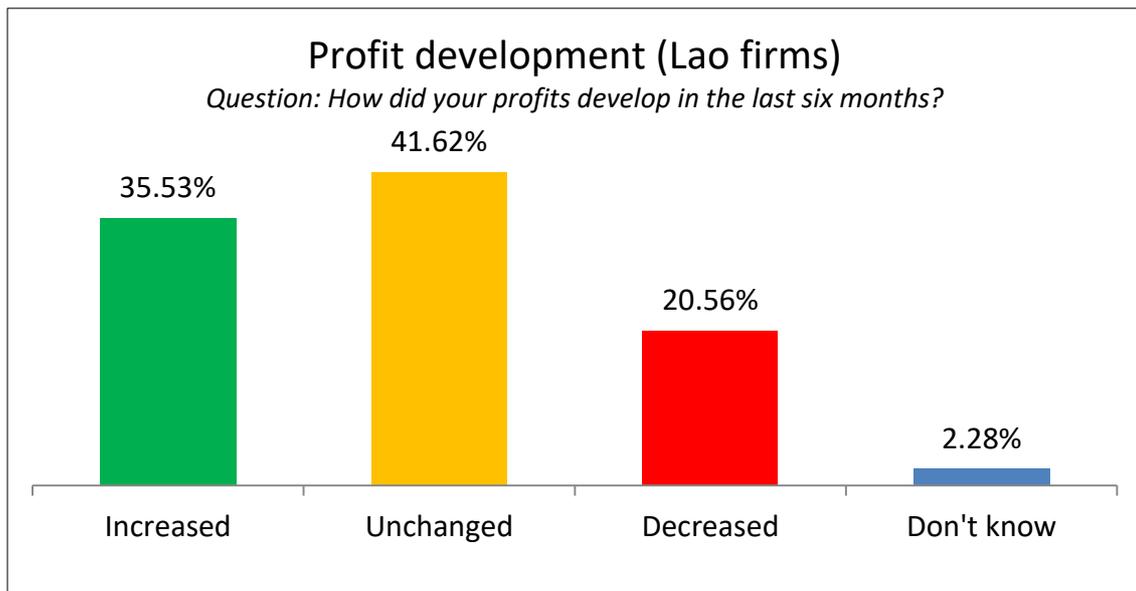


Figure 23: Profit development 01-06/2016 (local firms)

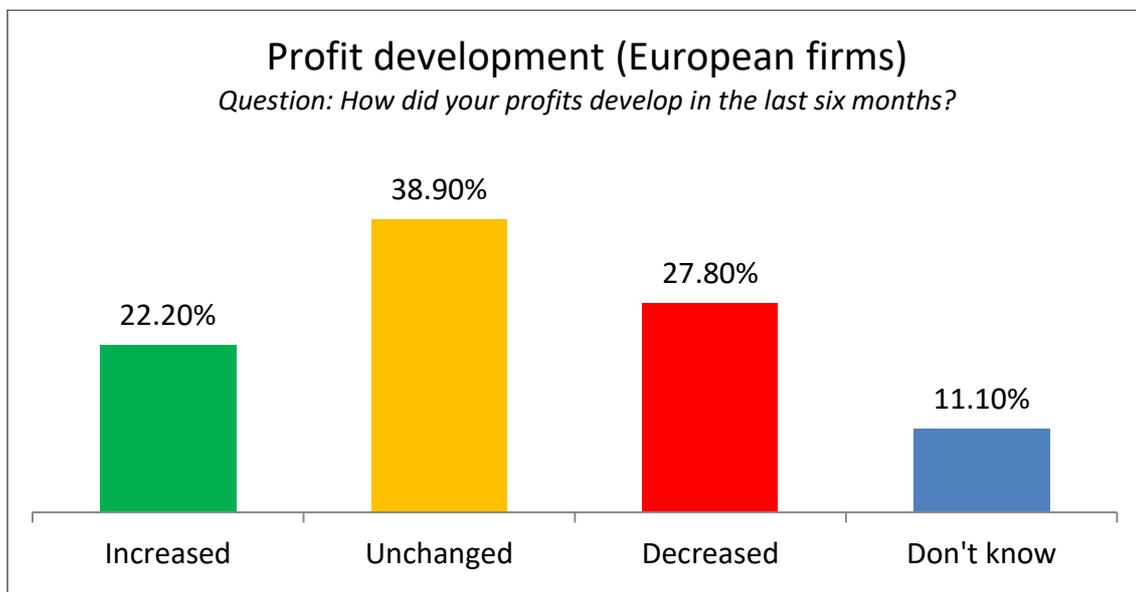


Figure 24: Profit development 01-06/2016 (European firms)

As for the turnover development, despite a sharp decline in companies which report increased profit rates (57% compared to 82% in H2/2015), the electricity and gas industry remains at the top of the list. As a result, the differences in terms of profit increase between the industries are less significant than during the previous survey. While in the electricity and gas industry the share of companies which increased their profits is highest with 57%, in the manufacturing sector only 23% were reporting increased profits. The difference of 34% is only half as high as it was in the prior survey with 61%. Manufacturing together with Agriculture, forestry and fishing are marking the end of the list, as they do for the turnover development. Also in parallel to the turnover development, the education sector is reporting the highest share of companies which had to face decreasing profits during the past six months.

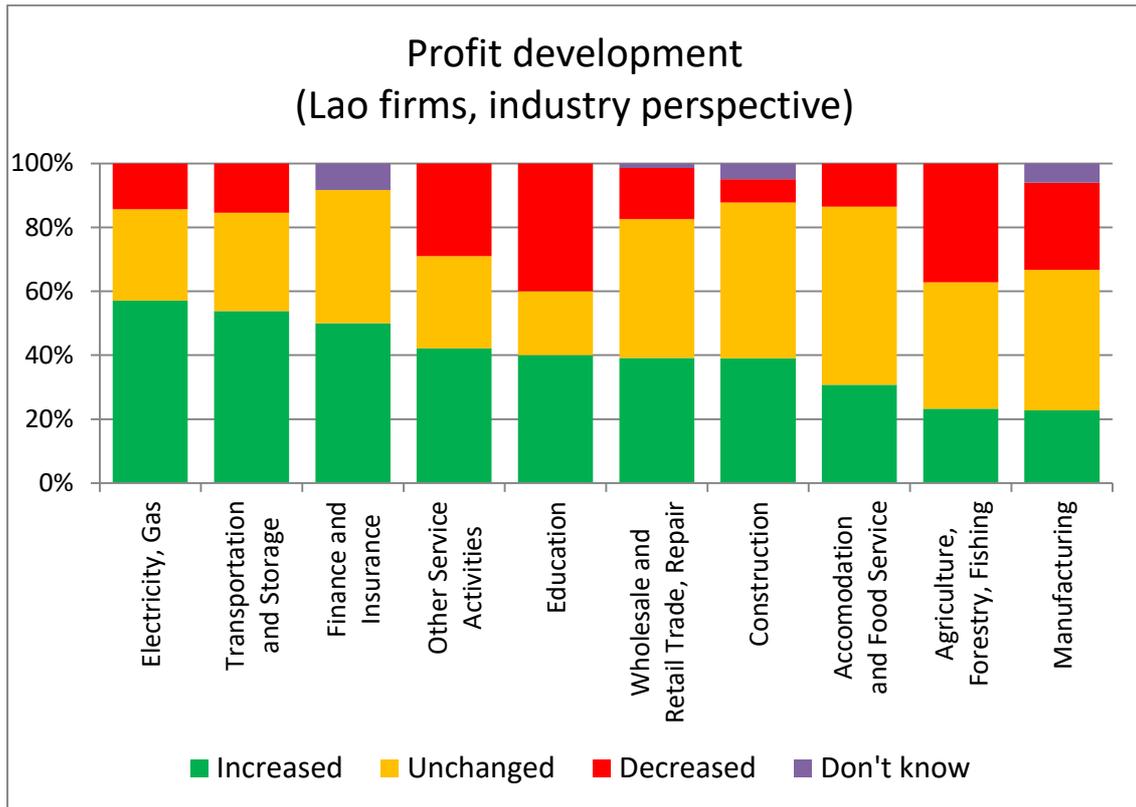


Figure 25: Profit development 01-06/2016 (local firms, industry perspective)

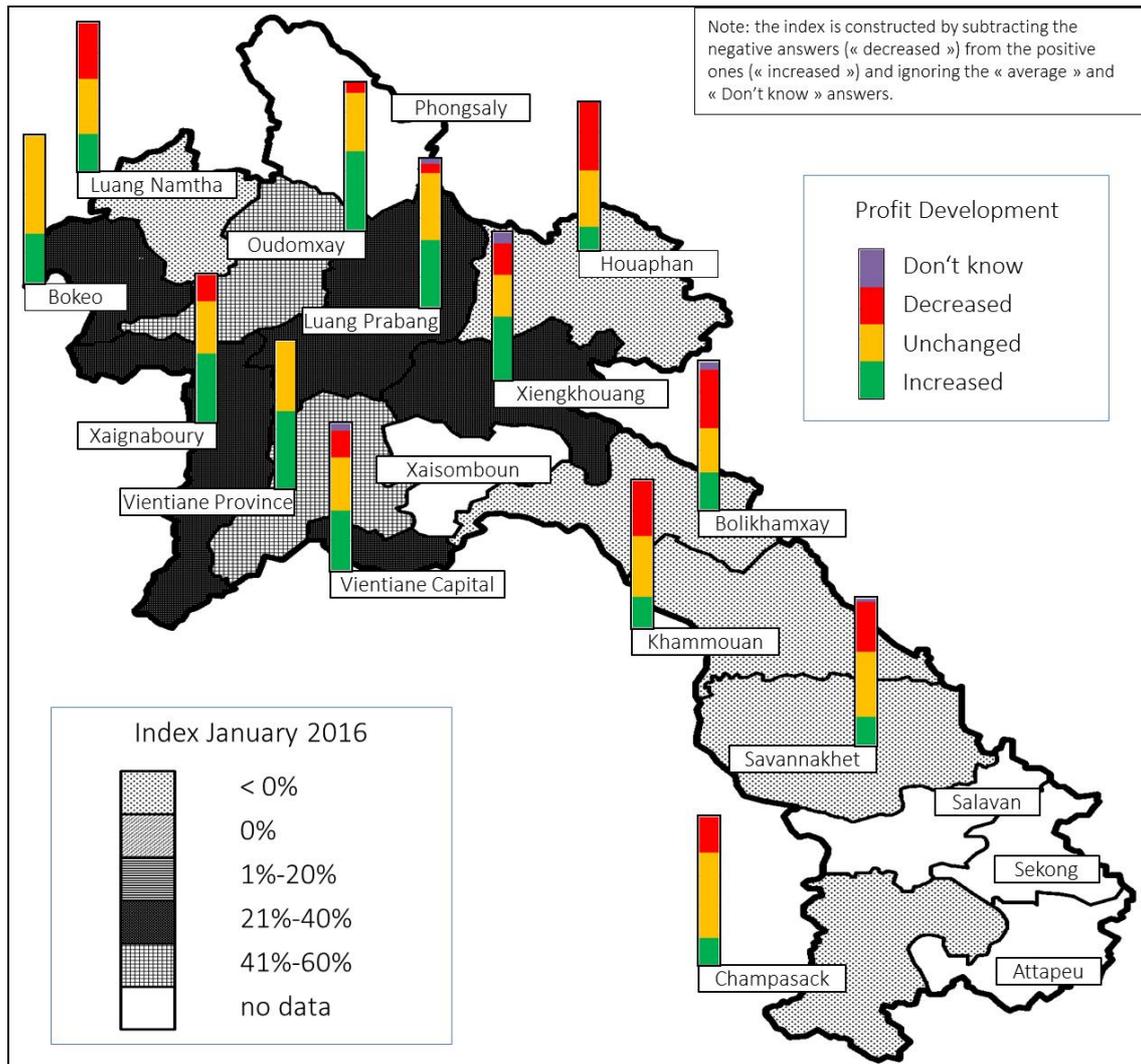


Figure 26: Profit development 01-06/2016 (Lao firms, provincial perspective)

The future perception of profit growth over the second half of 2016 is still very positive. For Lao firms, the expectations did not change much. 55% expect their profits to increase, compared to 58% six months earlier. Also for the other three categories, the change is only marginal.

For European firms the expectations rose again from 29% half a year ago to now 44% prospecting increased profits. At the same time, only 11% fear decreasing profits compared to 25% before. The high shares of companies which do not know what to expect (12% Lao and 17% European) are indicating an increased uncertainty within the business sector in terms of the conditions they will face in future.

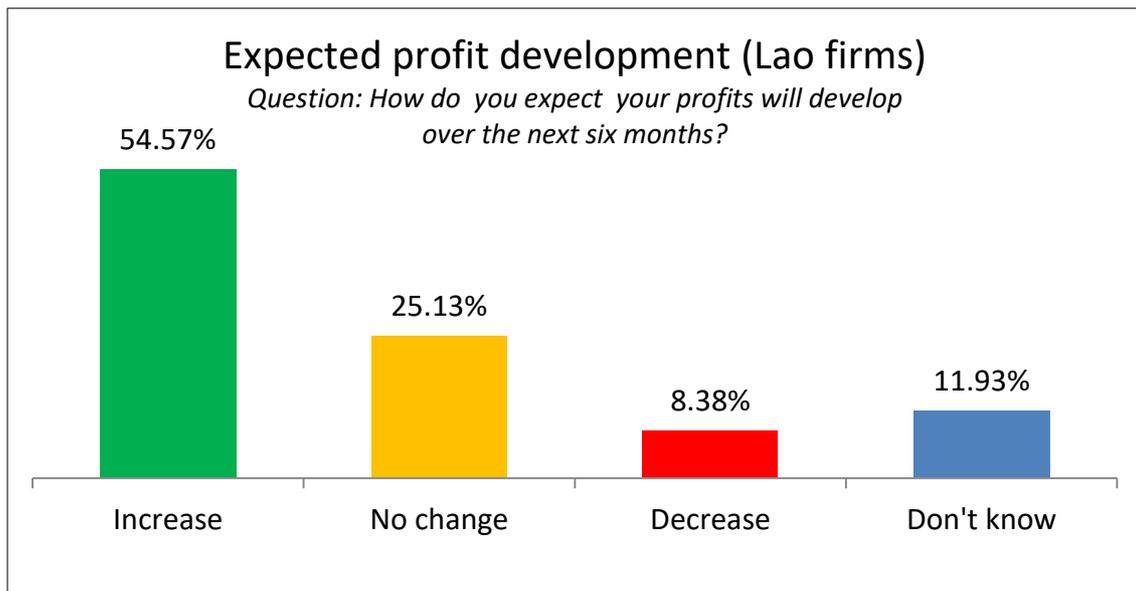


Figure 27: Expected profit development 07-12/2016 (Lao firms)

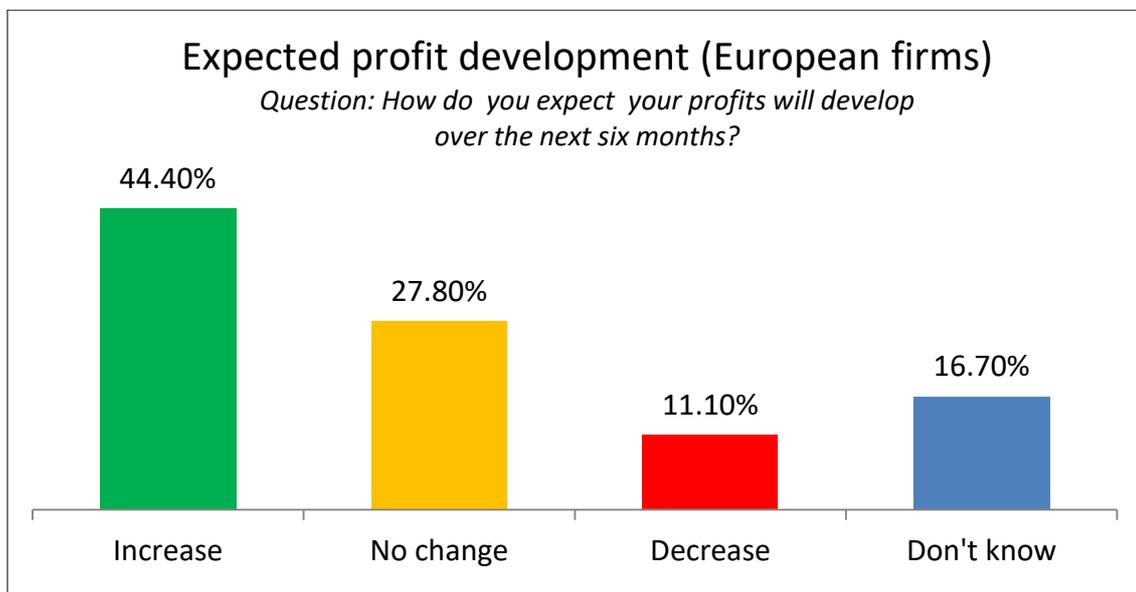


Figure 28: Expected profit development 07-12/2016 (European firms)

As in the previous two surveys, the finance and insurance sector remains the one with the highest prospects of profitability compared to other industries. The prospects in the transportation and storage sector have increased sharply. After having had the lowest expectations six months ago with only 37% in this industry expecting higher profits in the next half year and 16% decreasing profits, now 69% are expecting higher profits. Again, agriculture, forestry and fishing together with manufacturing have the lowest expectations with less than half of the companies in this sector expecting increased profits for the second half of 2016.

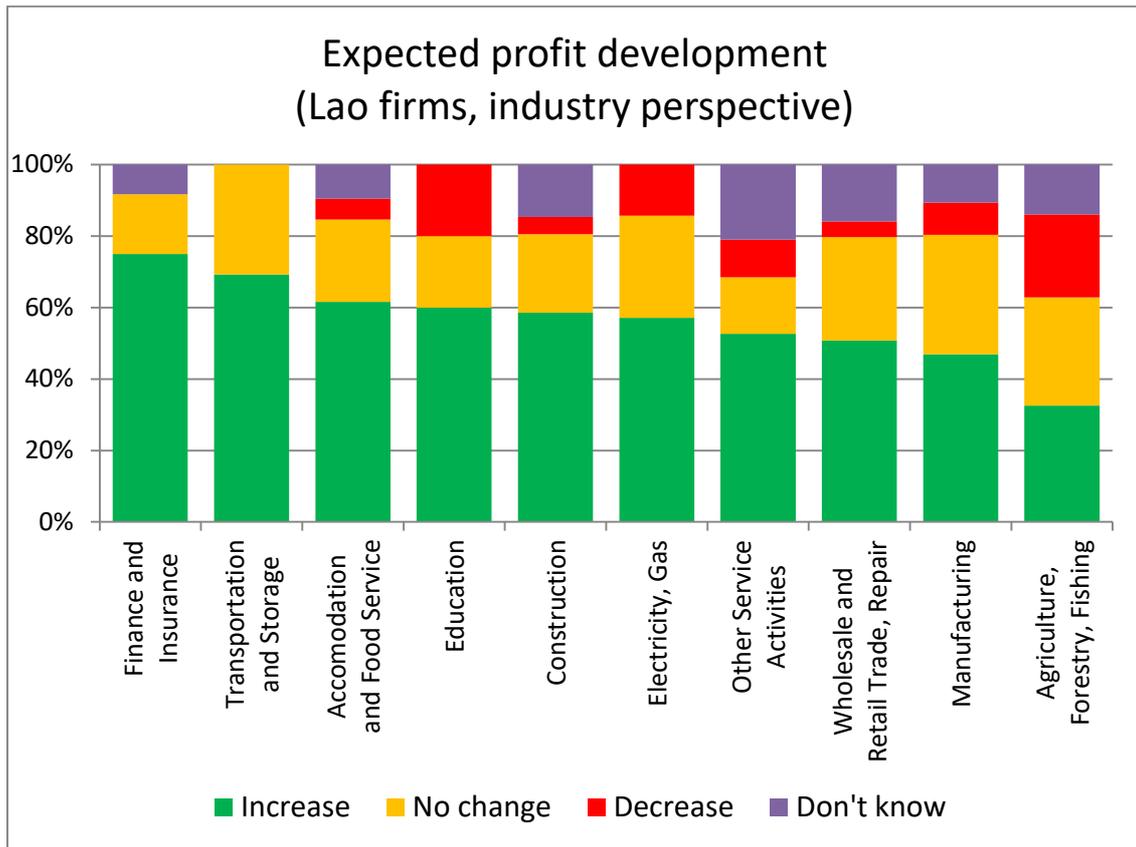


Figure 29: Expected profit development 07-12/2016 (industry perspective)

From the province perspective, the expectations reflect the profit development that is also depicted in figure 26 (Profit development index). Bokeo, Oudomxay, Luang Prabang and Vientiane Capital, all experiencing relatively robust profit development, can be found at the top of the list. Luangnamtha, Champasack, Huaphan and Khammouane, all provinces which at the moment report a higher share of companies experiencing decreasing profits compared to the share of companies with increasing profits, can be found at the bottom of the list.

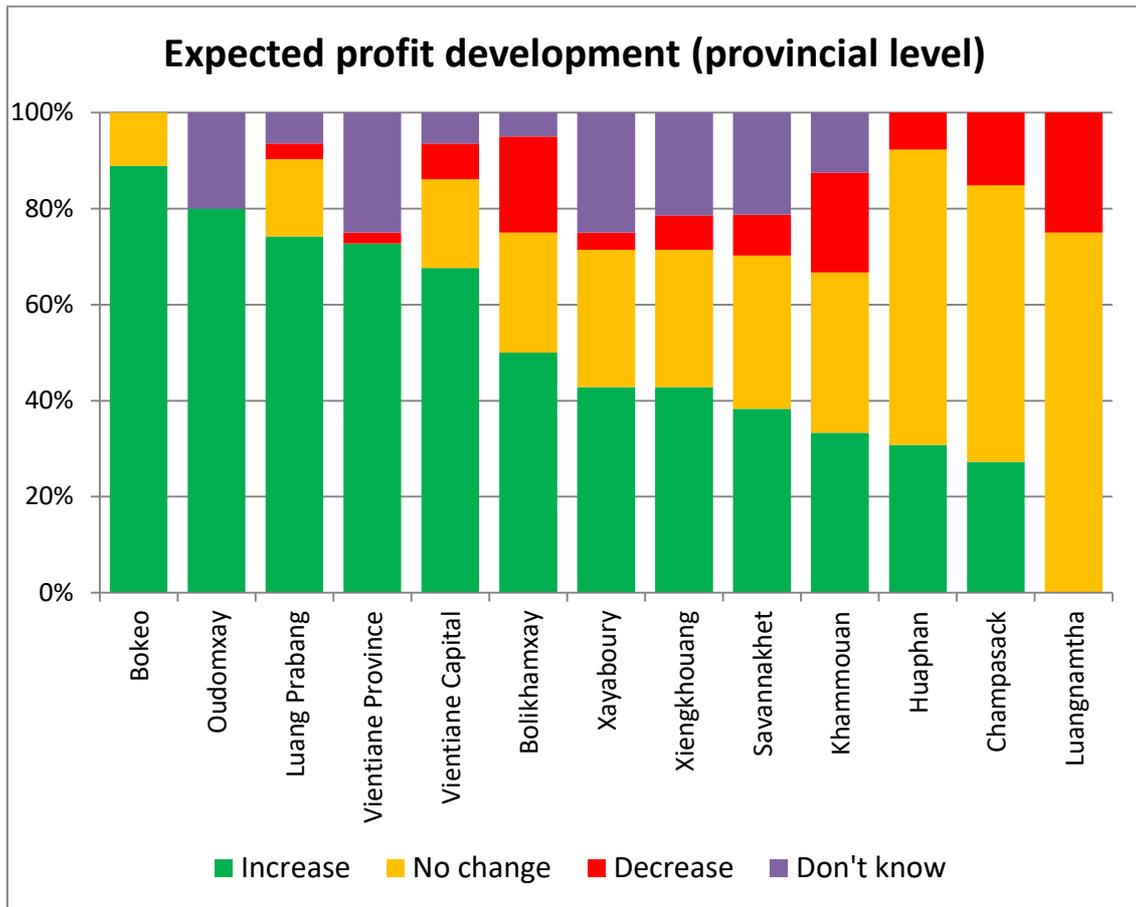


Figure 30: Expected profit development 01-06/2016 (provincial perspective)

10. Financial situation

The financial situation of Lao companies did not change significantly during the past six months. While in the previous survey 41.56% of the first reported an improved financial situation, this figure reduced by about 4% to 37.37%. At the same time the share of the surveyed companies that reported an unchanged financial situation increased by 4% from 40.55% to 44.42%.

For the European firms on the other hand, the percentage of companies whose financial situation improved fell sharply from 37.50% to 22.20%. Also the share of those companies whose financial situation deteriorated fell during the past six months from 20.80% to 11.10%, leaving the majority of more than 60% of the European companies reporting no changes.

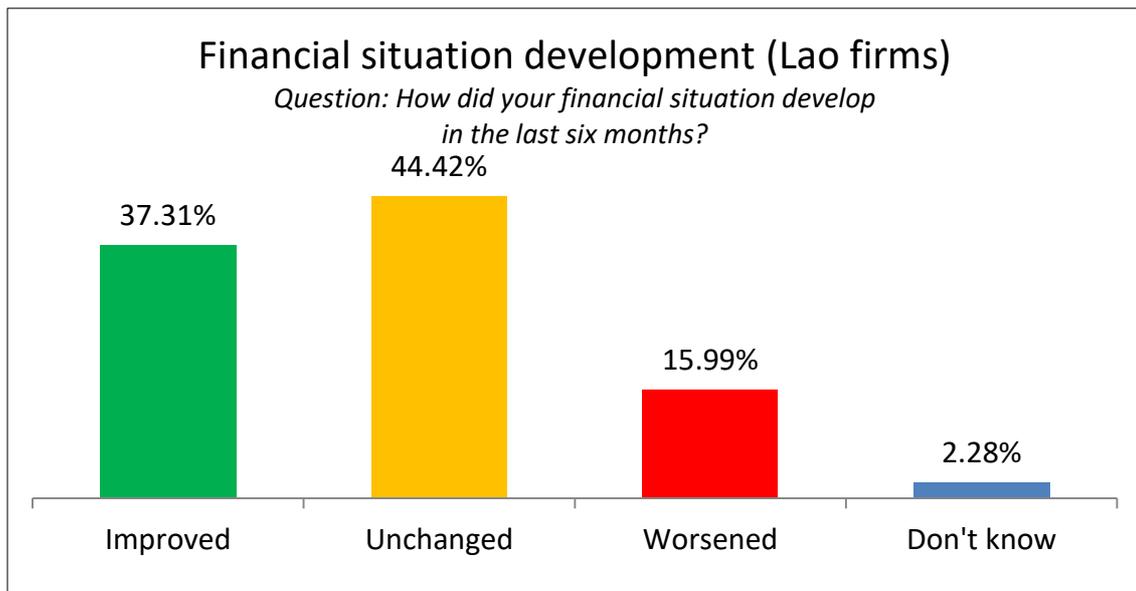


Figure 31: Financial situation development 01-07/2016 (Lao firms)

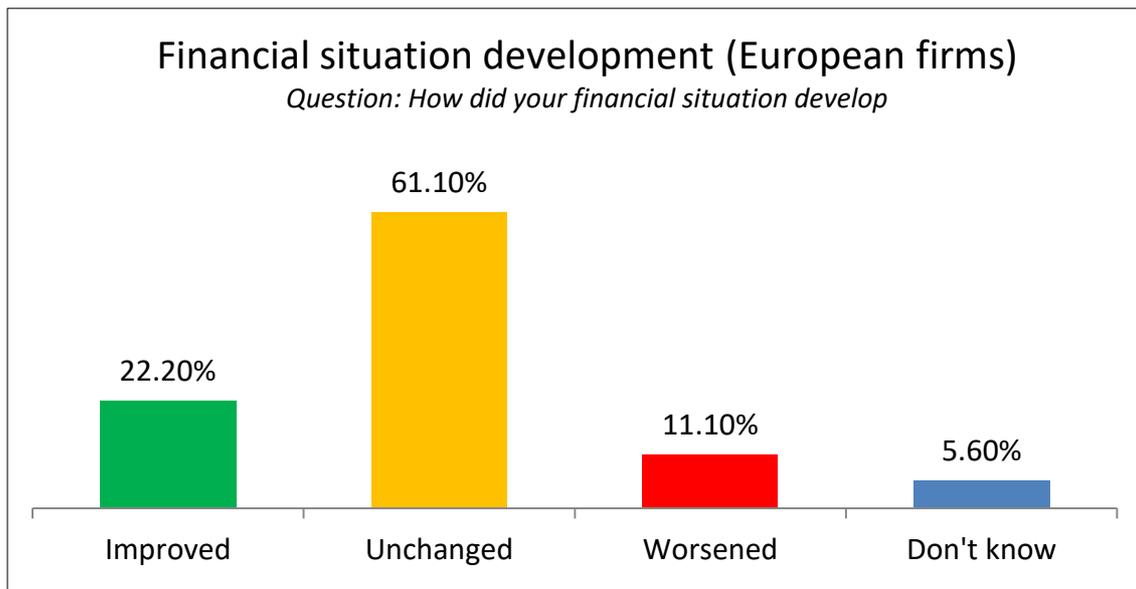


Figure 32: Financial situation development 01-07/2016 (European firms)

For Lao companies, the share of firms expecting an improved situation decreased slightly from 64% to 59%. At the same time the share expecting no change increased slightly by 1% to now 23%, and the share of firms that do not know increased to 10% in total. Almost 8% are expecting the situation to worsen, compared to 6% in the previous survey.

For European companies, the share of those expecting an improved situation increased by one third from 33% to 44%. It thus almost recovered from the sharp drop between the first and the second half of 2015 when. At the same time the share of those firms which do not expect changes remained at the same level (44% compared to 46% before). The European business sector thus seems to have gained more confidence in future development again.

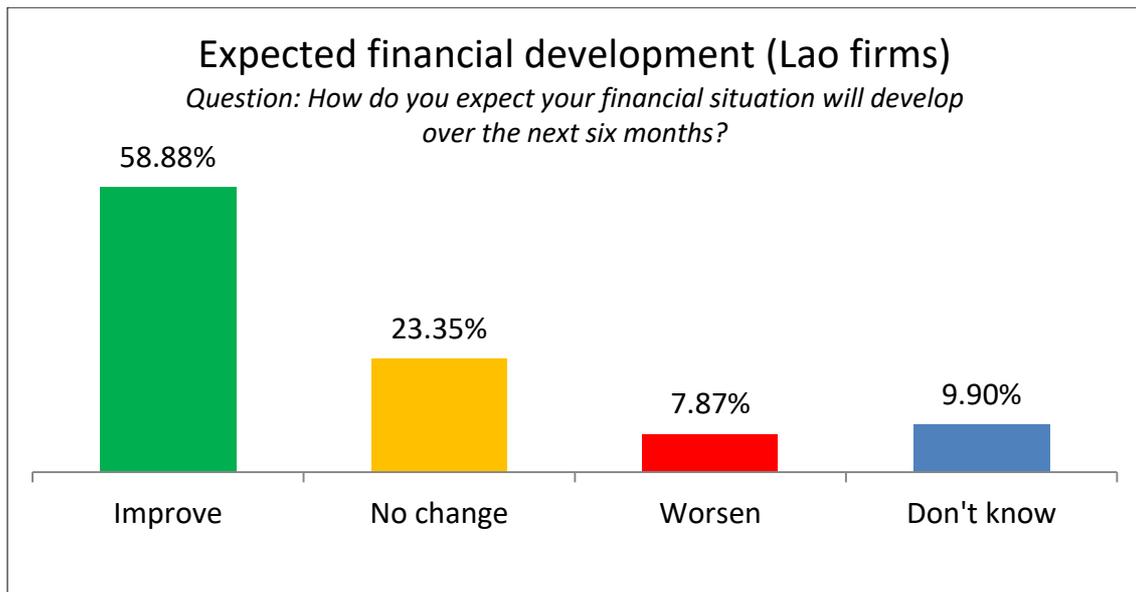


Figure 33: Expected financial development 01-06/2016 (Lao firms)

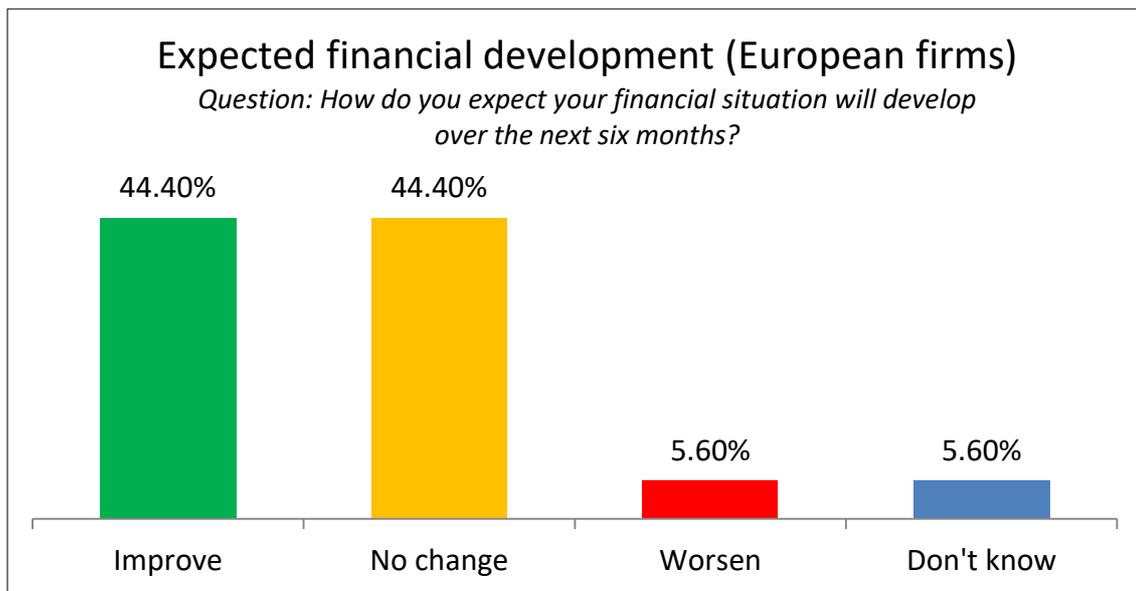


Figure 34: Expected financial development 01-06/2016 (European firms)

11. Investment

About 67% of Lao firms invested in the past six month. This marks a decrease of 3% compared to the second half of 2015 but is in line with the average of share of investing companies as observed since the first half of 2014 (68% in H1/2014, 65% in H2/2014 and 64% in H1/2015, 70% in H2/2015).

For the European businesses, the share of companies that invested dropped sharply to now 61% after 75% half a year ago. For the first time since this survey was made in the

first half of 2014, the share of European companies that invested is lower than for the Lao companies.

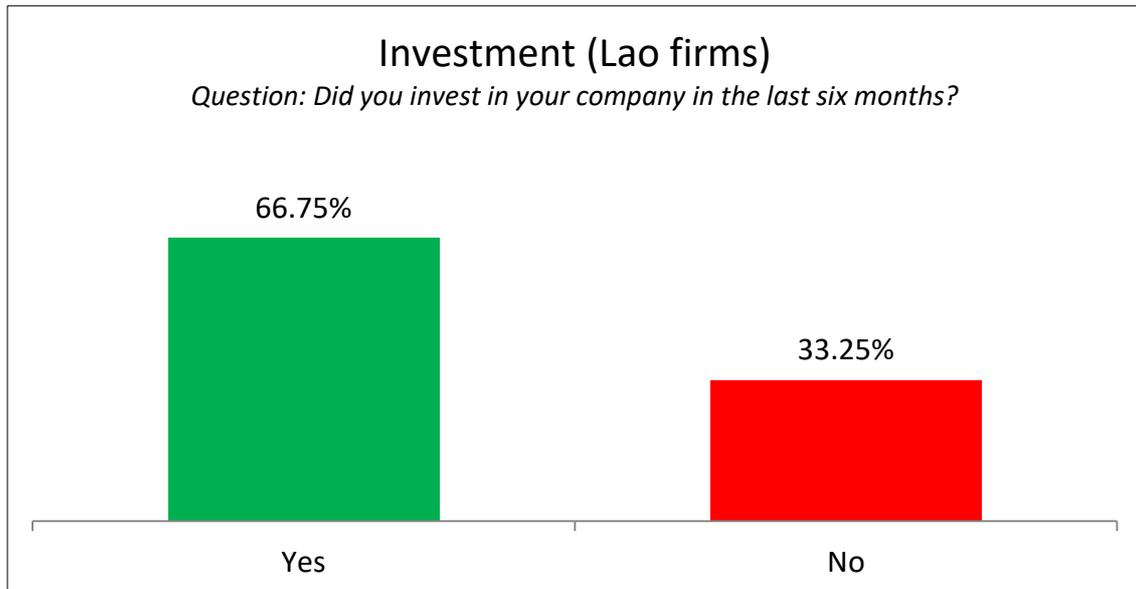


Figure 35: Investment 01-06/2016 (Lao firms)

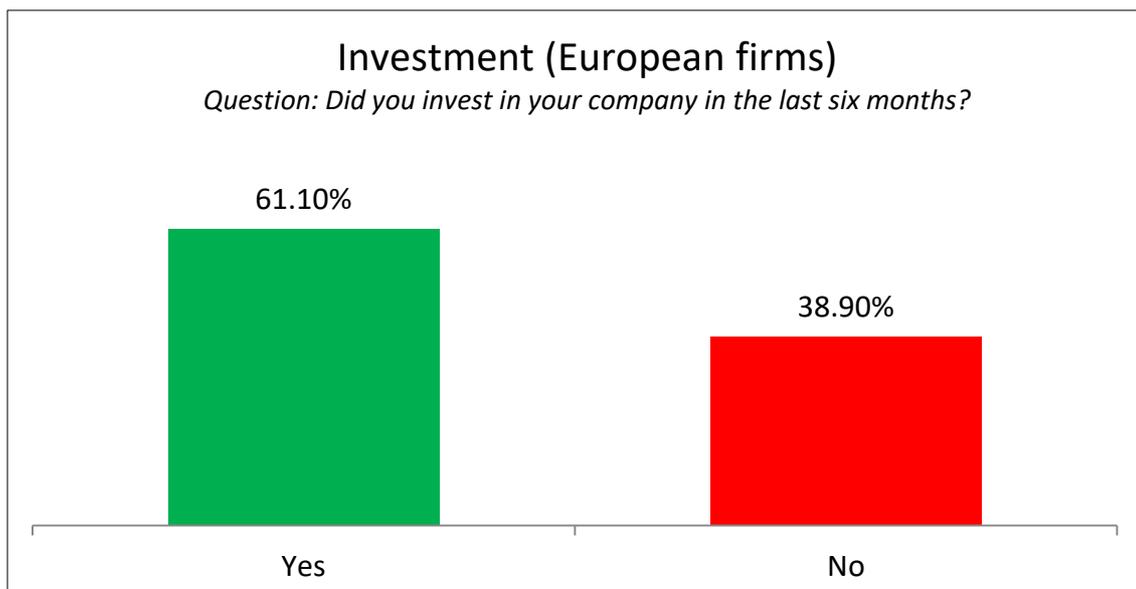


Figure 36: Investment 01-06/2016 (European firms)

As in the previous survey, Luangnamtha ranked first with 100% of the firms investing in their business during the past half-year. Vientiane Province fell to second rank with 95% after 100% in the previous survey.

Huaphan, which was on fourth place in the second half of 2015 with 85% now fell to the end of the table with only 23% of companies having invested in the period of the current survey.

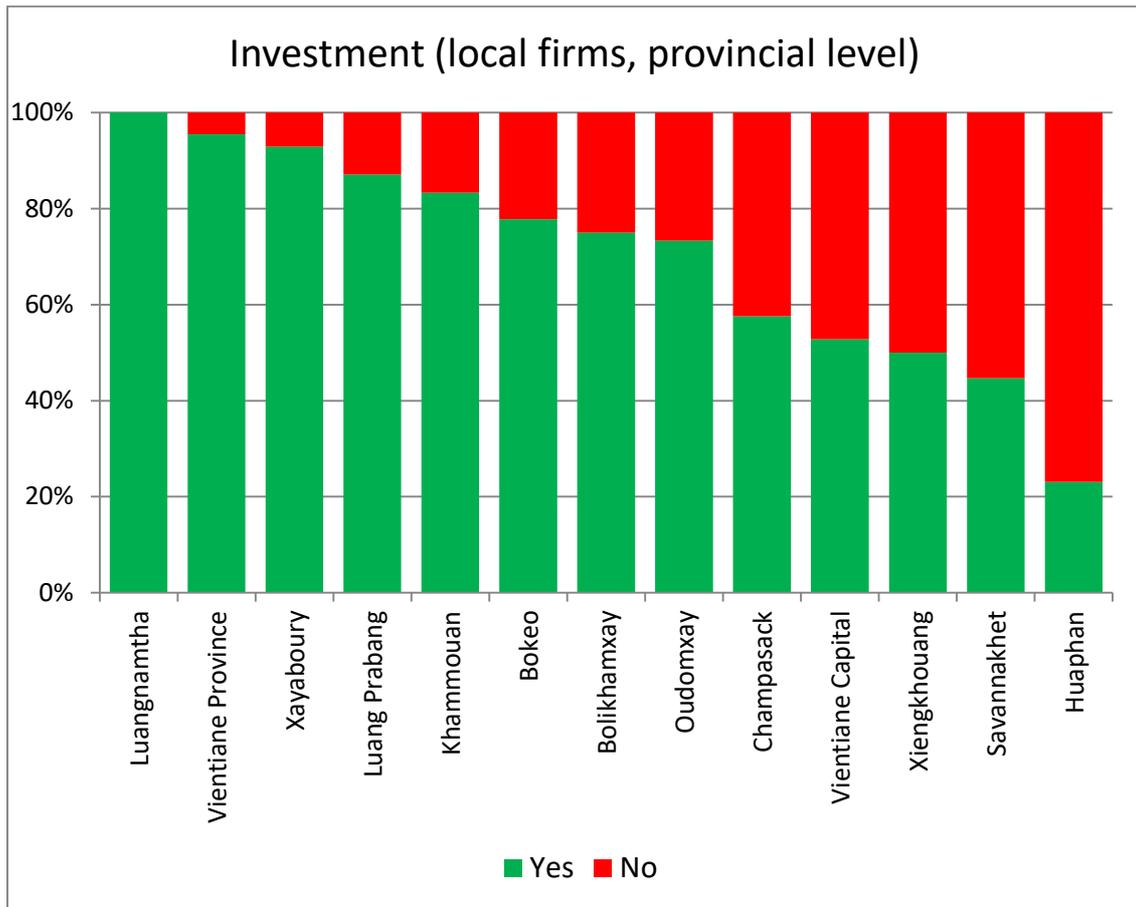


Figure 37: Investment 01-06/2016 (local firms,, provincial perspective)

Regarding the plans for investment, the perspective of local firms has not changed and remains very positive. About 75% of the businesses want to make investments in the near future, compared to 76% half a year ago. While in the second half of 2015 almost 67% of the European businesses planned to invest, now only 61% plan to do so.

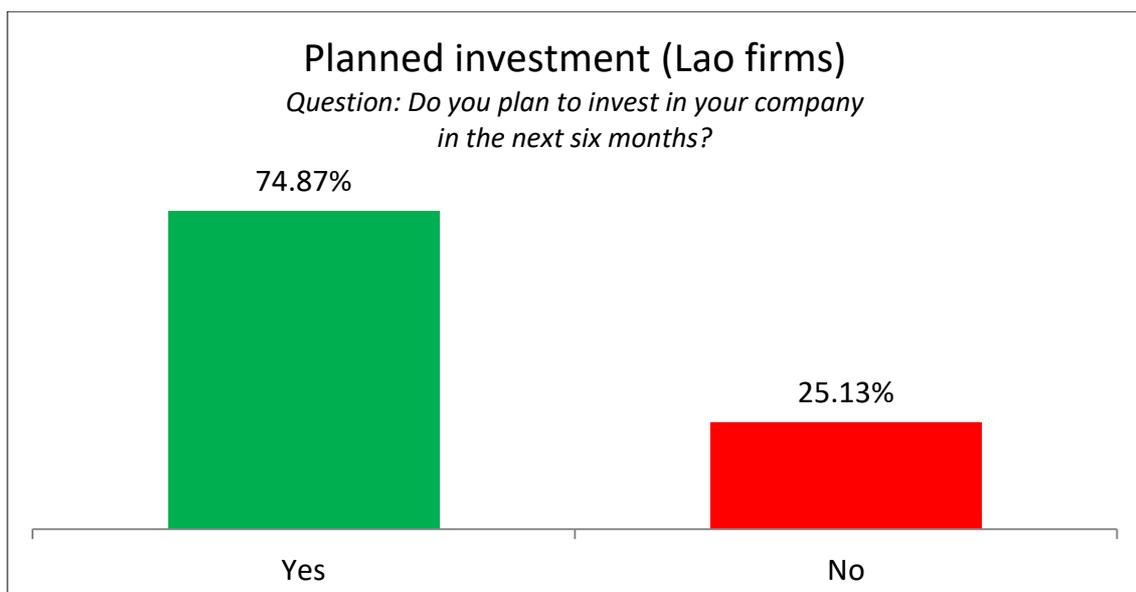


Figure 38: Planned investment 07-12/2016 (Lao firms)

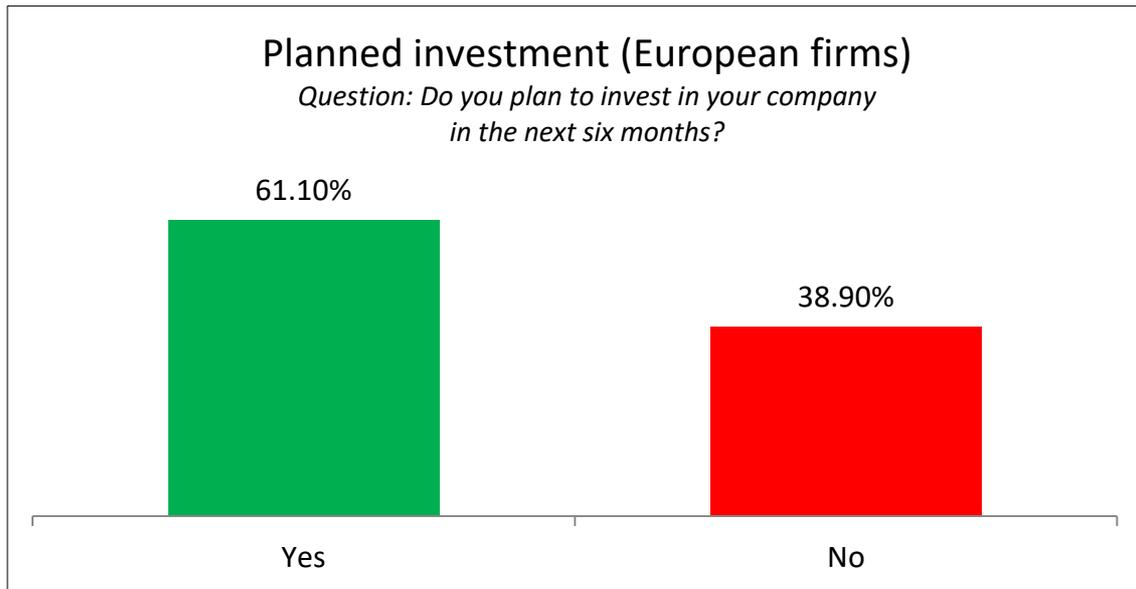


Figure 39: Planned investment 07-12/2016 (European firms)

12. Employment

In the first half of 2016, only 22% of the Lao companies increased the number of their staff (29% did so in the previous period); at the same time, 69% of the businesses kept the number of employees at the same level. As for European companies, just 33% increased the number of staff. This is still a higher percentage compared to the Lao companies, but marks a substantial decrease in comparison with the first six months of 2015, during which 40% of European firms had hired additional staff.

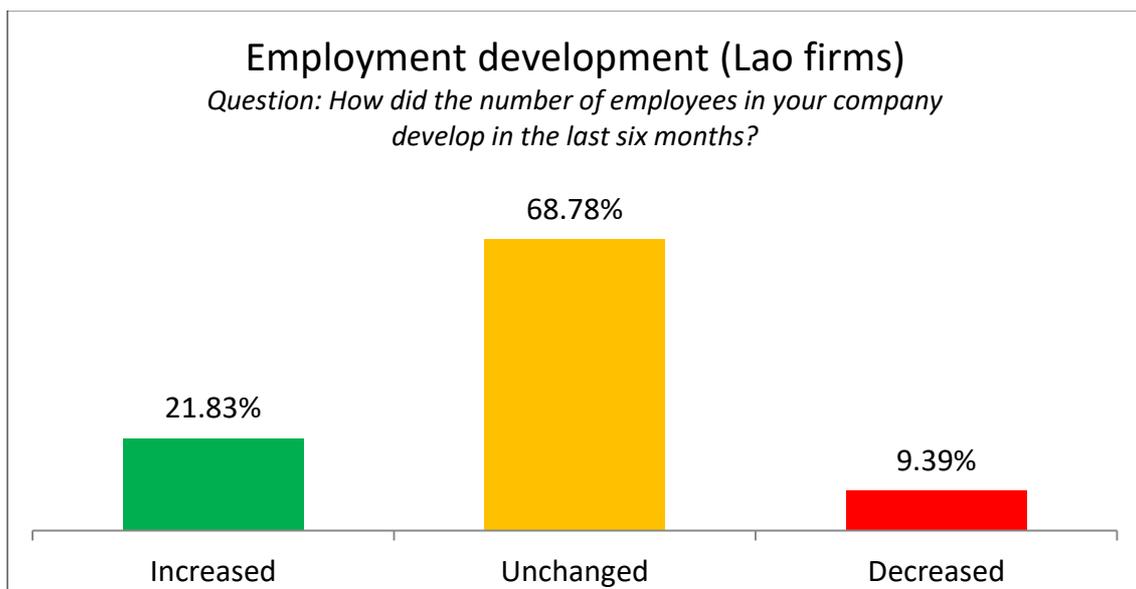


Figure 40: Employment development 01-06/2016 (Lao firms)

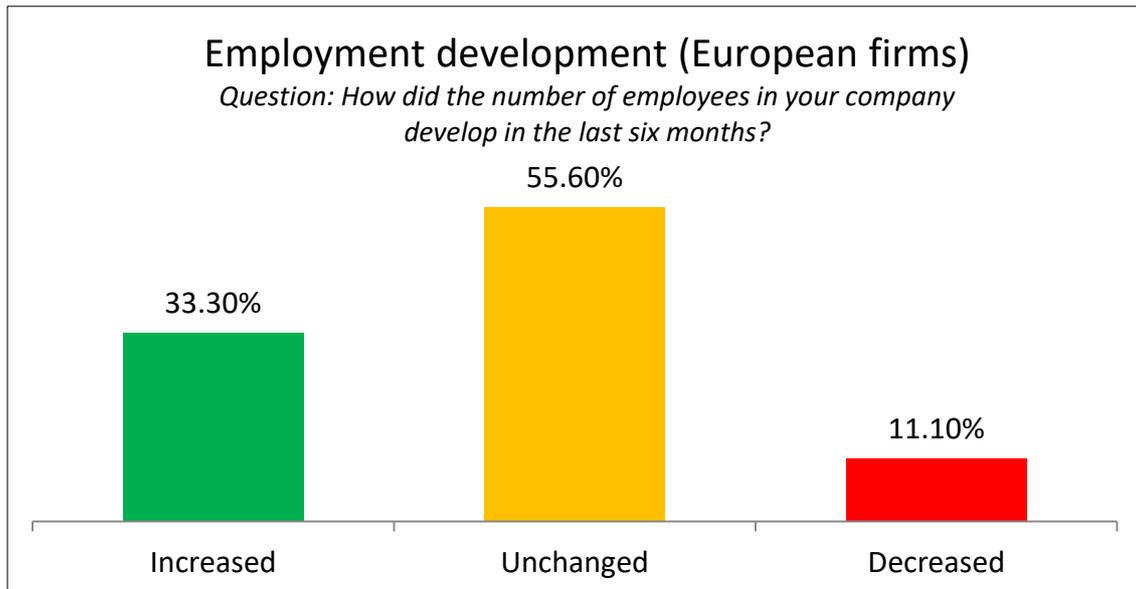


Figure 41: Employment development 01-06/2016 (European firms)

Regarding the provincial perspective, Luangnamtha shows yet a remarkable change, as it was the province featuring the lowest percentage of companies which increased their personnel in the first half of 2015, then jumped to the first rank with 56% of firms increasing their staff level in the second half of 2015, and now went back to the second-last rank with 100% of companies not having changed the number of staff they employed. Oudomxay, which ranked second in the previous survey now took over the pole position, while Khammuane, which ranked third before in terms of percentage of companies that increased their personnel feel back and now features the highest share of companies that decreased their staff level (33%).

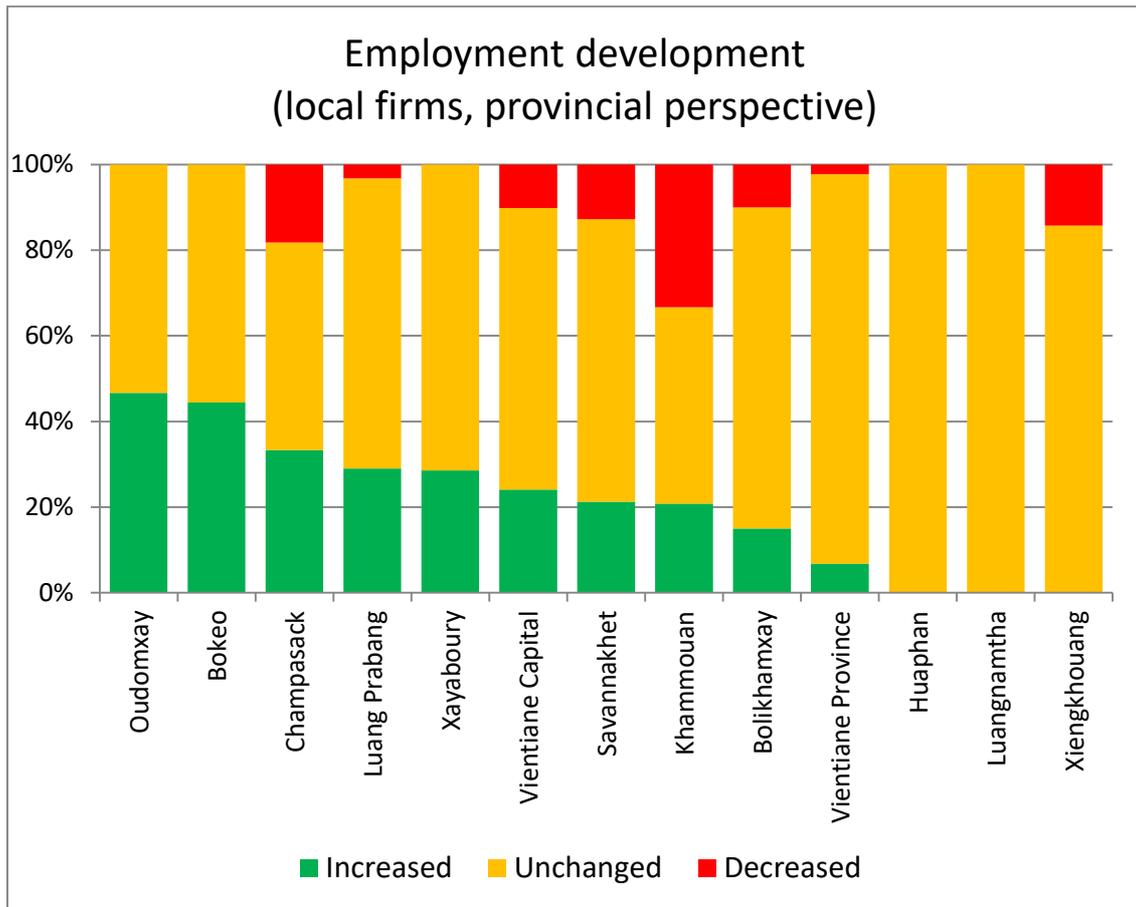


Figure 42: Employment development 01-06/2016 (local firms, provincial perspective)

The outlook for employment development for Lao companies is less positive than it was before, with 37% expecting to increase the number of employees in the second half of 2015 compared to 44% which had planned to increase the number half a year ago. 56% do not plan to implement any change compare to 51% before and almost 7% have plans to reduce their personnel compared to 4% before.

For European firms, only 39% are expecting to increase the number of staff after 50% in the previous survey.

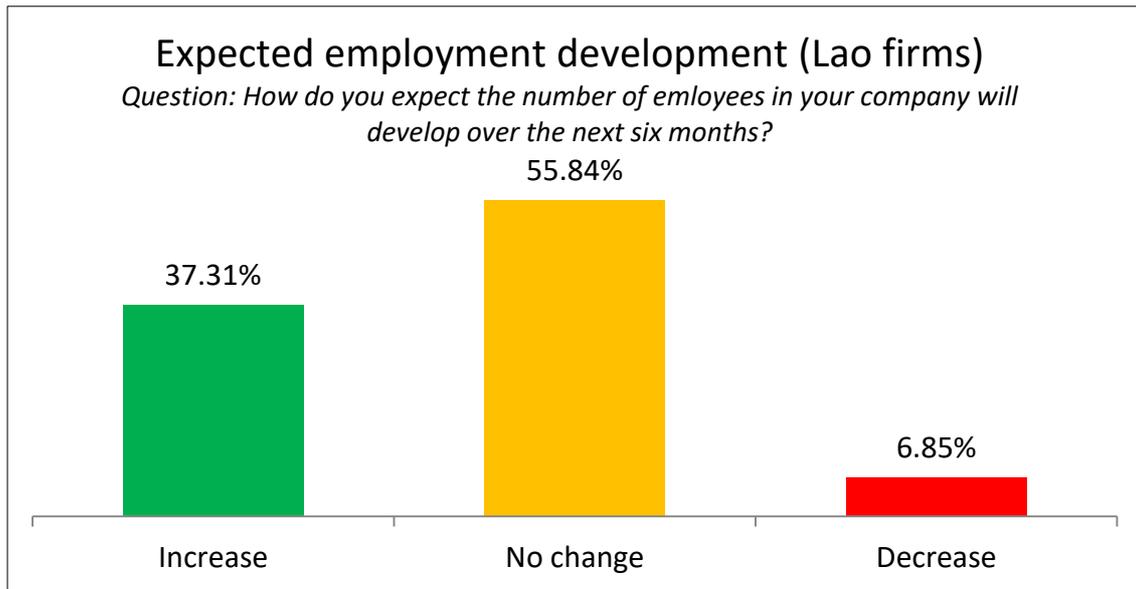


Figure 43: Expected employment development 07-12/2016 (Lao firms)

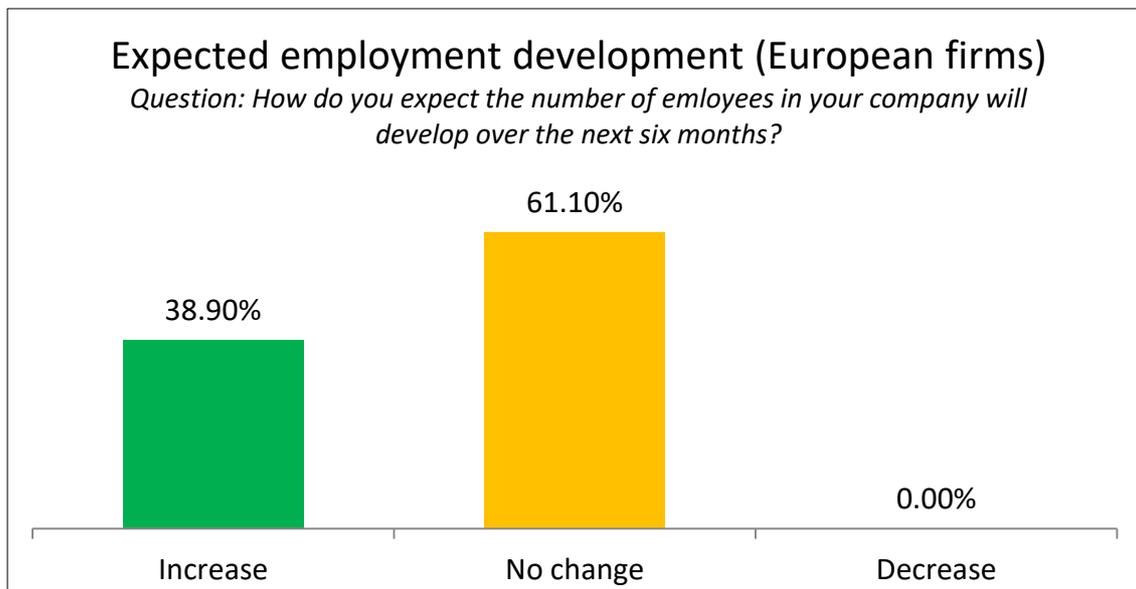


Figure 44: Expected employment development 07-12/2016 (European firms)

13.ASEAN Economic Community (AEC)

While in the last survey the opinions about the impact of AEC among Lao and European companies were almost the same, now the European business community again has a more positive view on the matter compared to the Lao companies. 44% of the European firms expect AEC to have a positive impact compared to 28% of the Lao companies. About 19% of Lao companies even expect negative impacts for their business compared to 16% half a year ago.

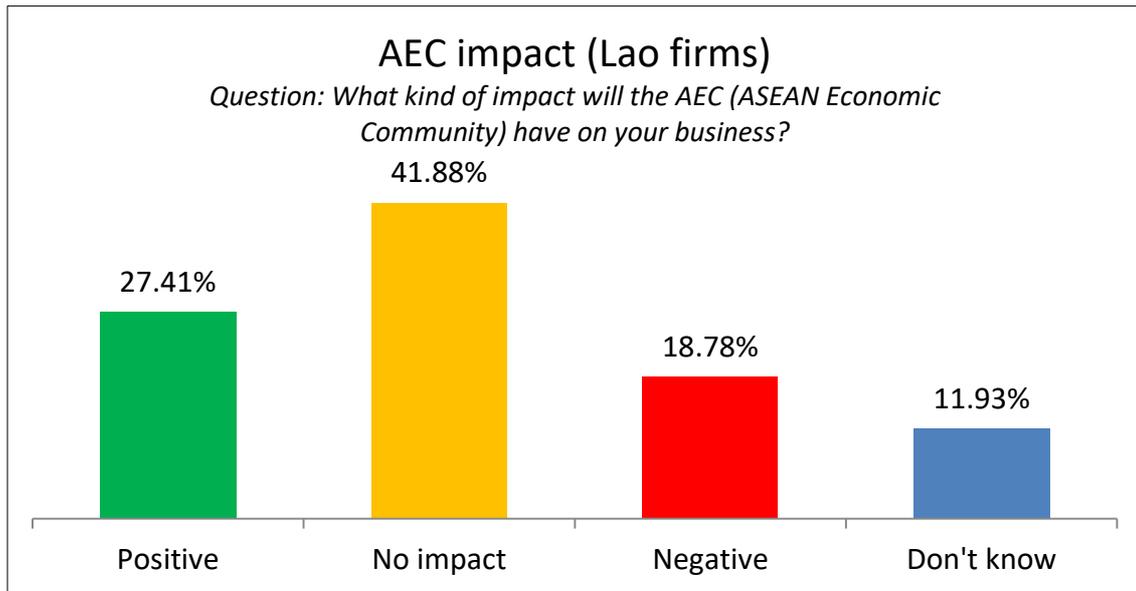


Figure 45: Impact of the AEC on the business (Lao firms)

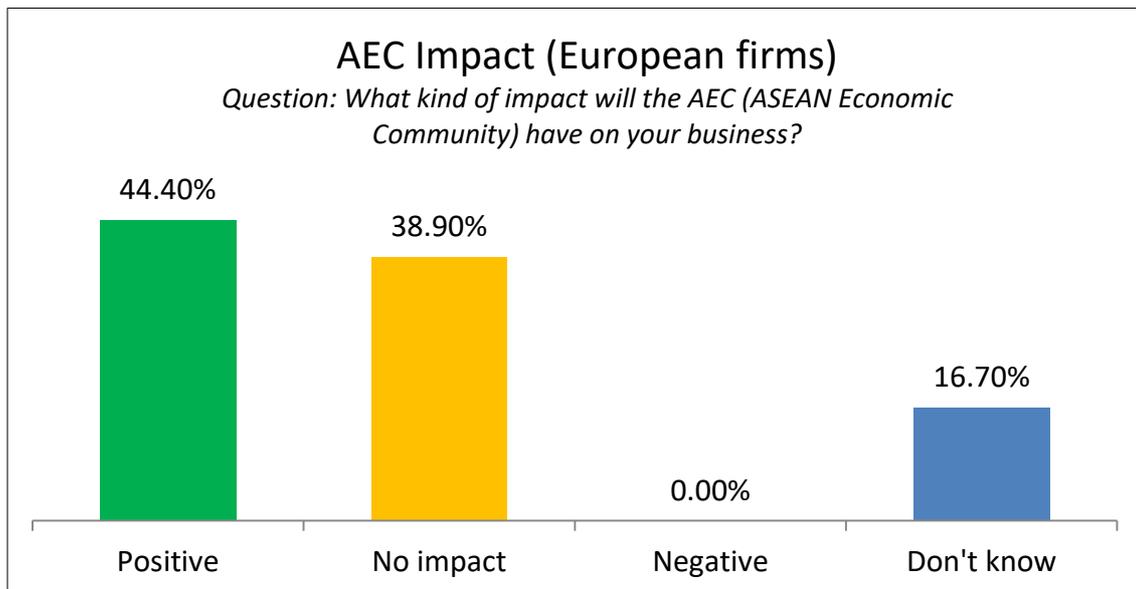


Figure 46: Impact of the AEC on the business (European firms)

As in the past two surveys, Oudomxay again has the highest share of companies that are optimistic about the AEC. Luangnamtha half a year ago already featured the most pessimistic companies, with 78% having had a negative view on AEC. This share now fell to 37.50%, but it is still the highest amongst all provinces.

In Vientiane Province, none of the companies that took part in the survey expect any positive impact from the AEC.

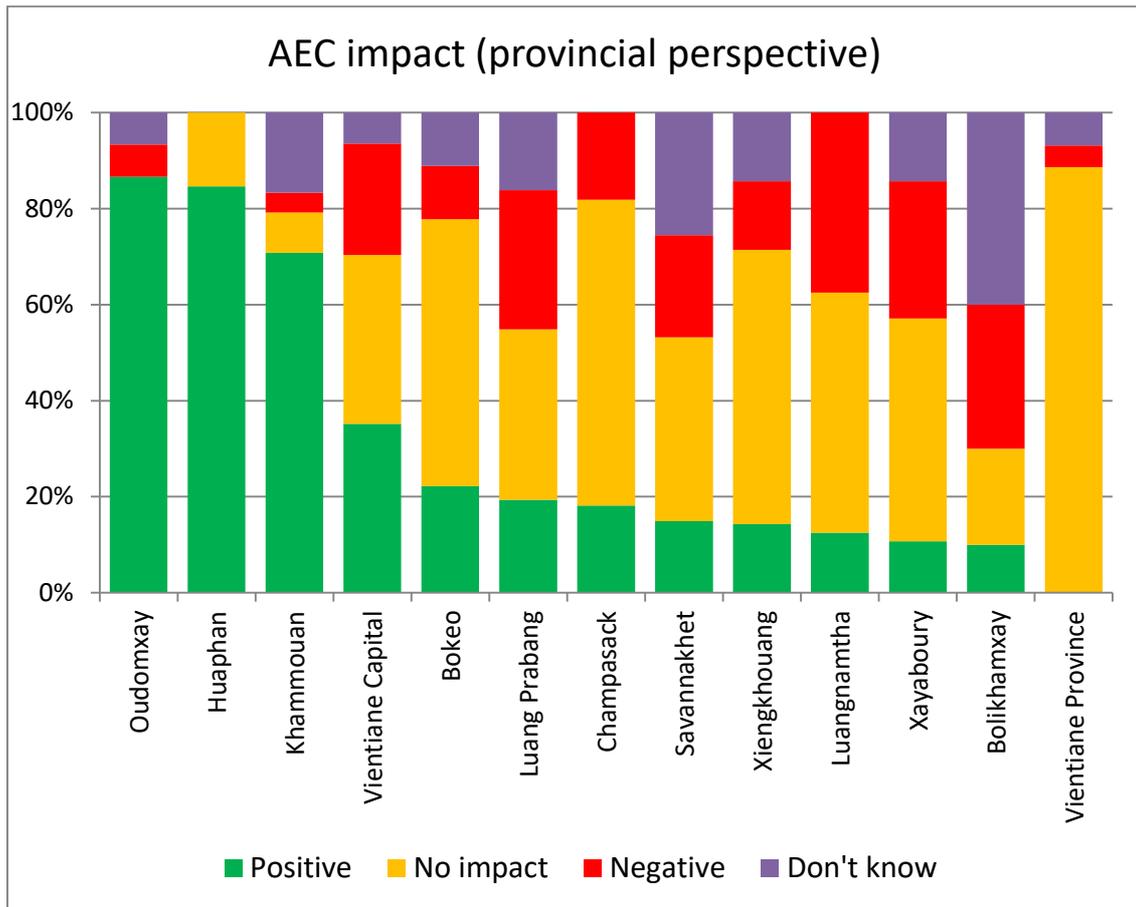


Figure 47: Impact of the AEC on the business (local firms, provincial perception)

From the industry perspective, the wholesale and retail trade has the least positive expectations for their business and at the same time, together with the hospitality sector, the highest share of companies that do not expect any change for them at all. Agriculture, forestry and fishery companies are expecting to gain most from AEC. The highest share of firms expecting a negative impact can be observed in the education sector, followed by the finance and insurance industry.

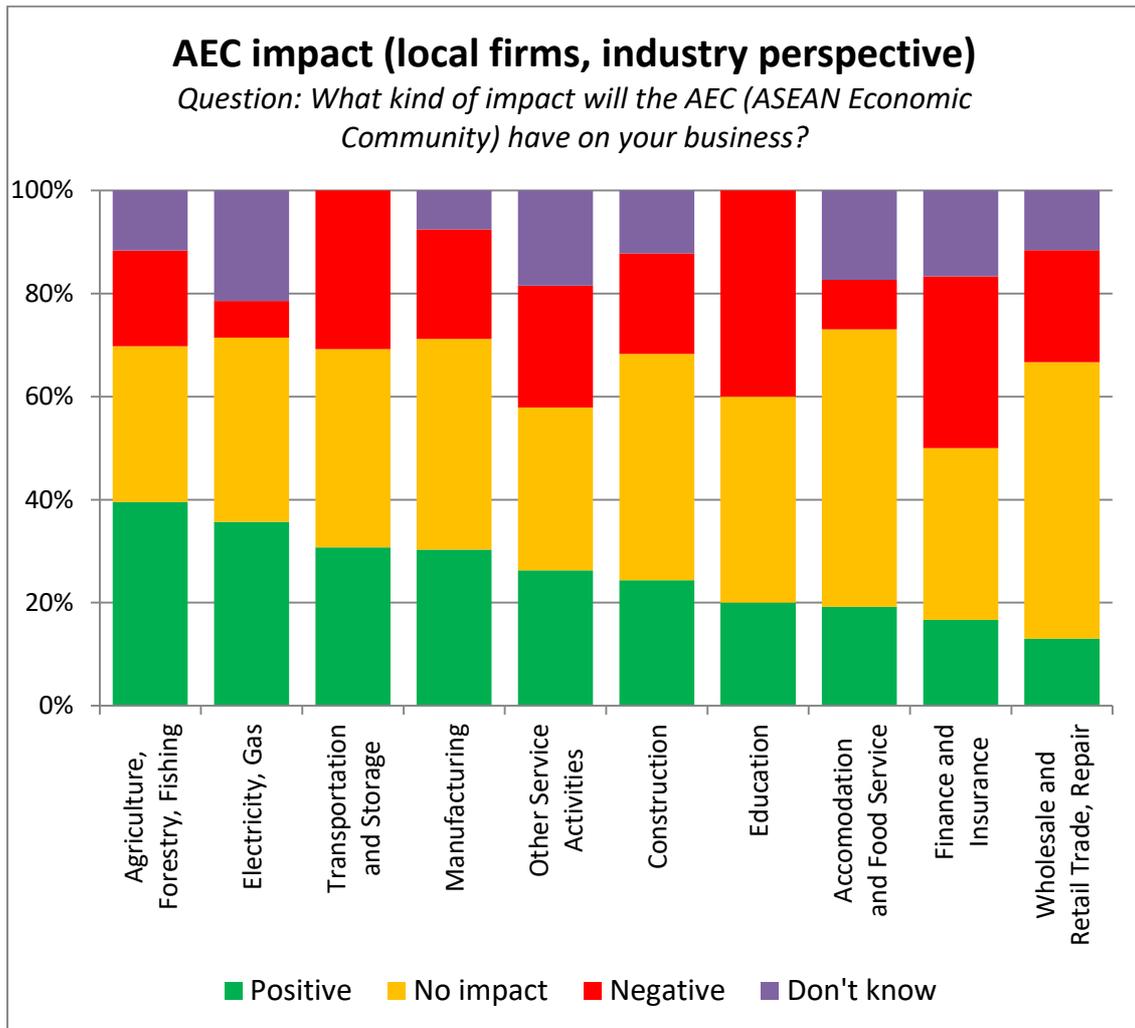


Figure 48: Impact of the AEC on the business (local firms, industry perspective)

In the first half of 2015 it was observed already that less companies than before felt ‘very well’ prepared for the AEC. For Lao companies, this share increased marginally in the second half of 2015 (28% compared to 27% before), but fell sharply in the first half of 2016 to now 21% only. At the same time those companies that report not to be prepared at all increased by 9% to 21%.

For the European companies the share of those companies that feel they are very well prepared increased in the past six month from 17% to 22%, while the share of those which report they are not prepared at all dropped from 33% to 11%, leaving the majority of firms that are ‘somewhat’ prepared (44%).

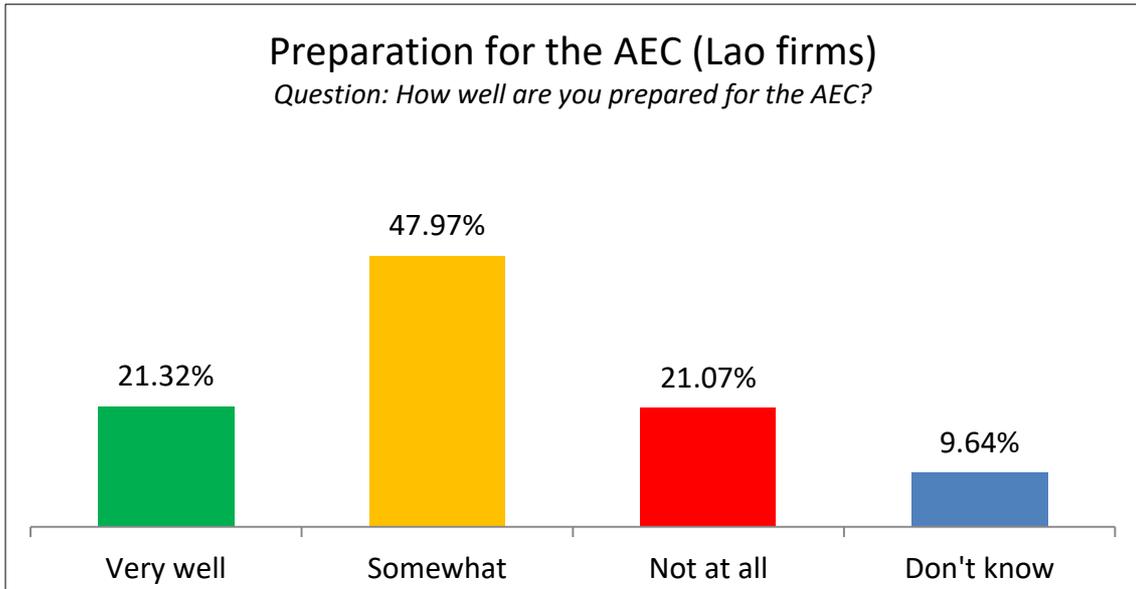


Figure 49: Preparation for the AEC (Lao firms)

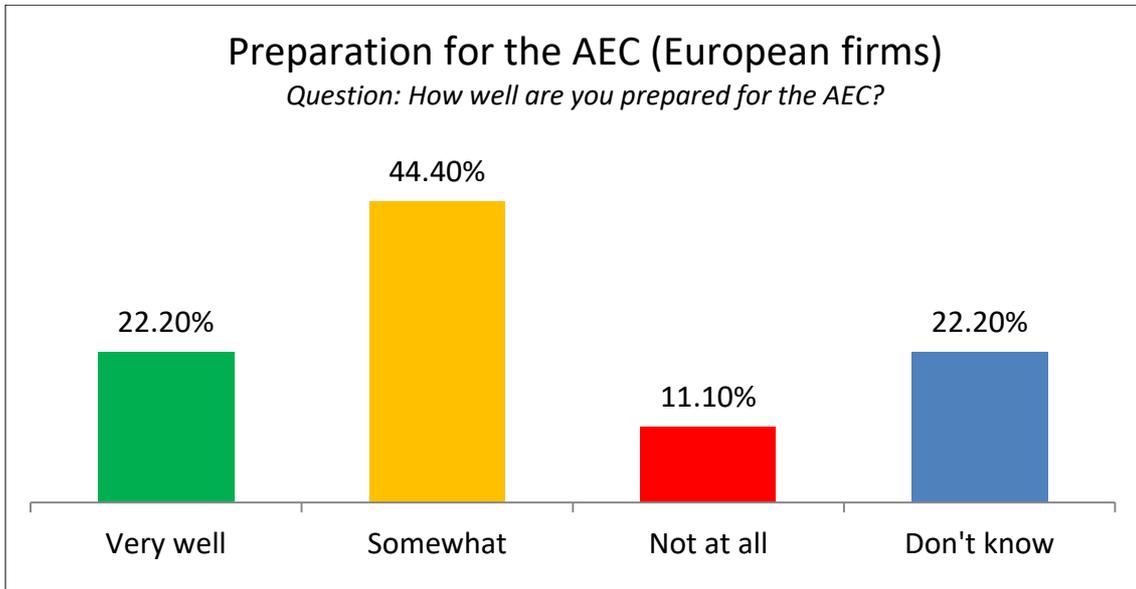


Figure 50: Preparation for the AEC (European firms)

As in the previous two survey, most of the very well prepared local firms were found in Oudomxay (87%) and Khammuan (50%). While Vientiane Province in the second half of 2015 featured 47% of companies that felt well prepared, it fell in this survey to the second-last position with only 2.27% of companies feeling they are well prepared and 57% of them reporting to not being prepared at all.

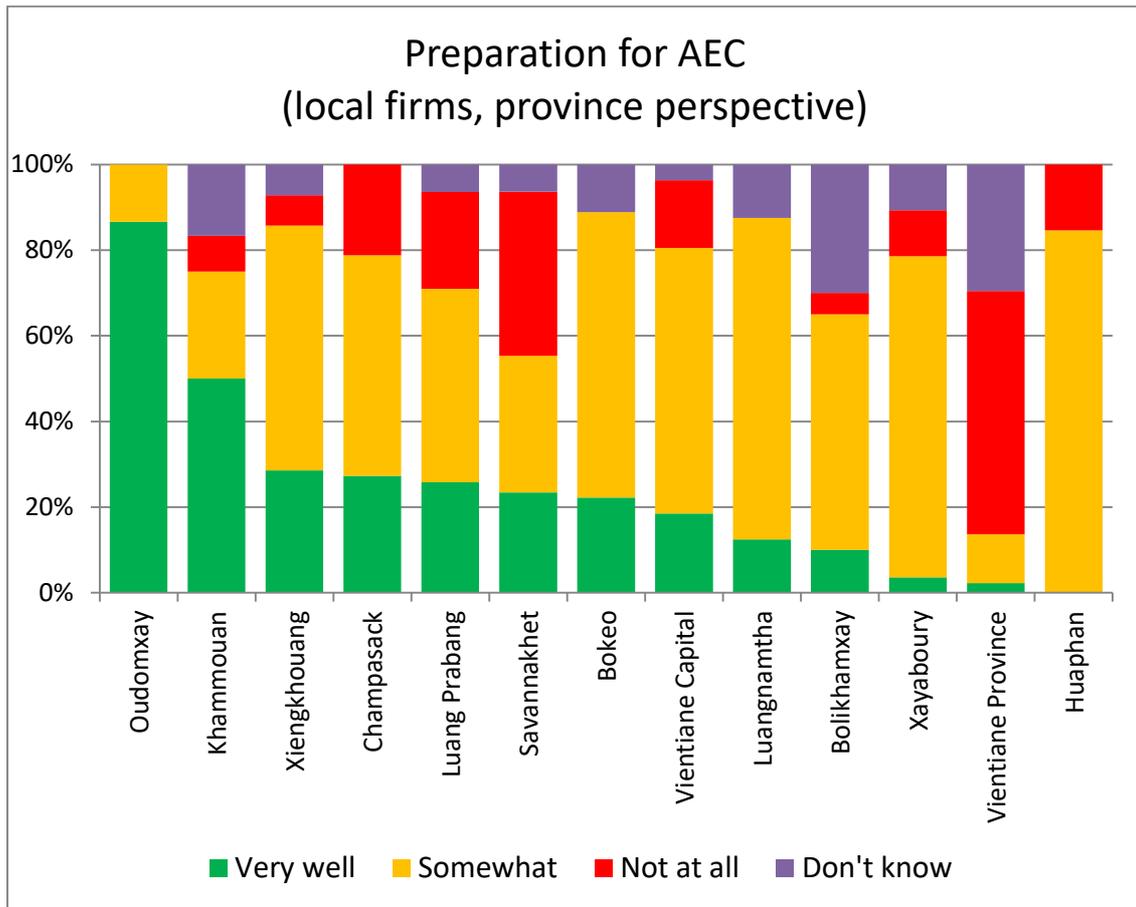


Figure 51: Preparation for the AEC (local firms, provincial perspective)

The transportation and storage industry seems to be most confident when it comes to the preparedness for the AEC with 31% of firms reporting to be very well prepared. Particularly those companies engaged in construction do fear more competition with the AEC coming to life with only 12% reporting very well prepared and 37% reporting to be not prepared at all. The companies in the accommodation and food industry seem to be prepared least with not even 50% being either very well or at least somewhat prepared.

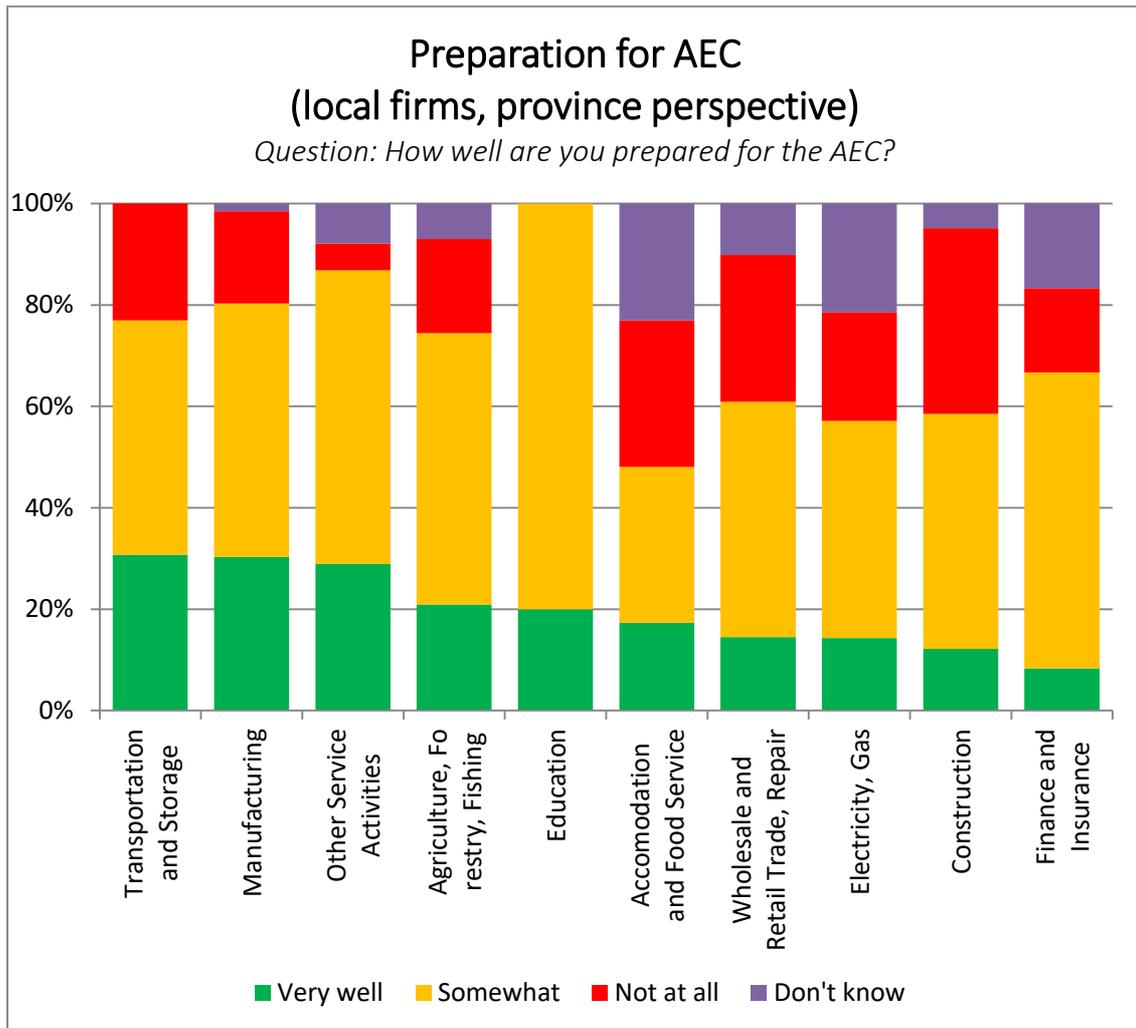


Figure 52: Preparation for the AEC (local firms, industry perspective)

14. Exports

Out of the 394 surveyed Lao companies, 141 were engaged in exports; among the surveyed European companies, only 8 out of 18 stated to be exporters.

About 26% of the Lao companies but only 12.50% of the European companies could increase their exports, and more than 26% of Lao and 38% of European companies saw shrinking exports.

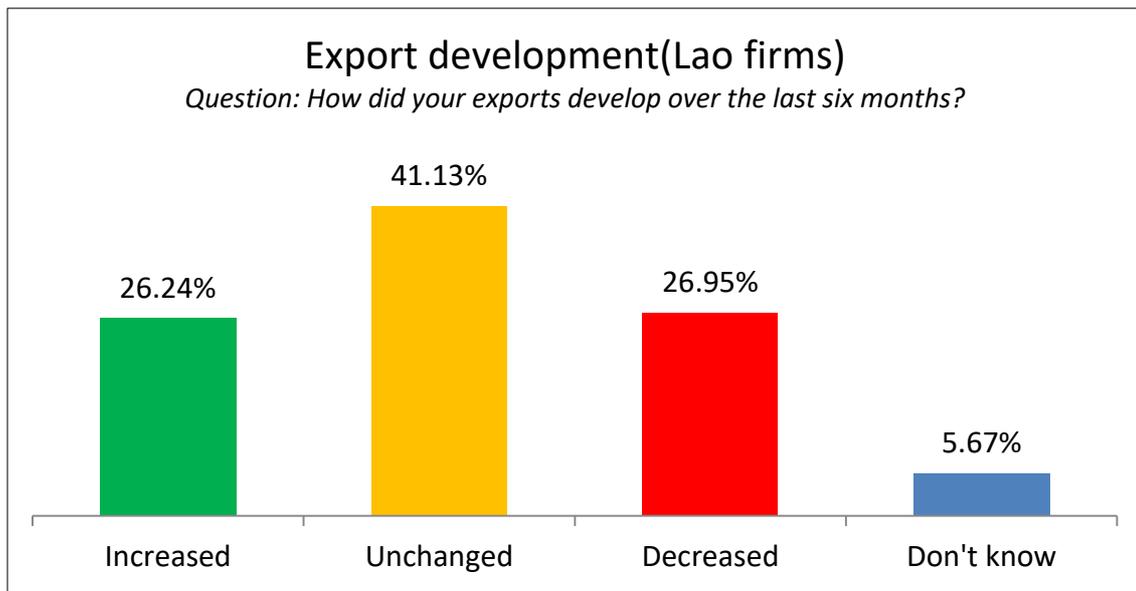


Figure 53: Export development 01-06/2016 (Lao firms)

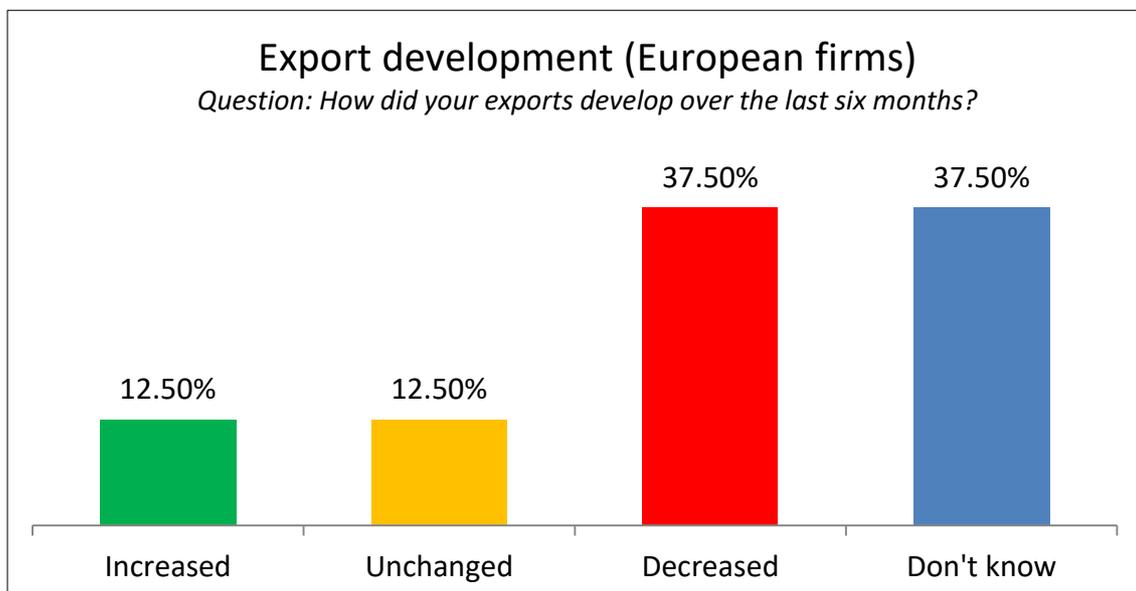


Figure 54: Export development 01-06/2016 (European firms)

Nevertheless, the expectation of Lao companies towards future exports is positive. About 44% expect to increase their exports, which is a sharp decline compared to 63% in the second half of 2015.

For European companies, the share of companies that does not know forms the majority with 50% (or 4 out of 8, as the sample size for exporting companies is even smaller).

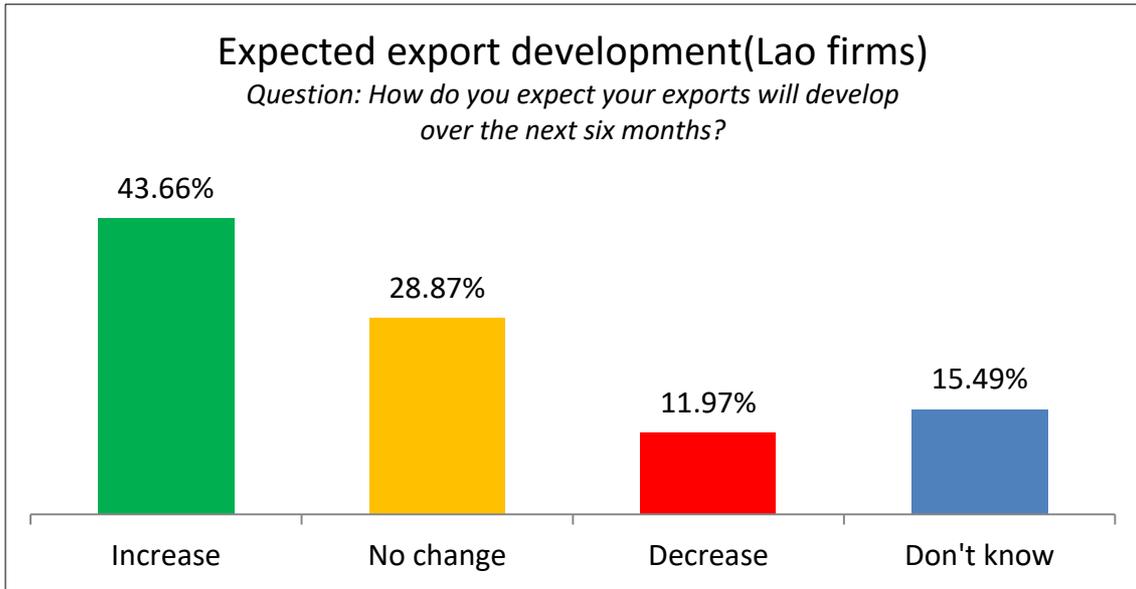


Figure 55: Expected export development 07-12/2016 (Lao firms)

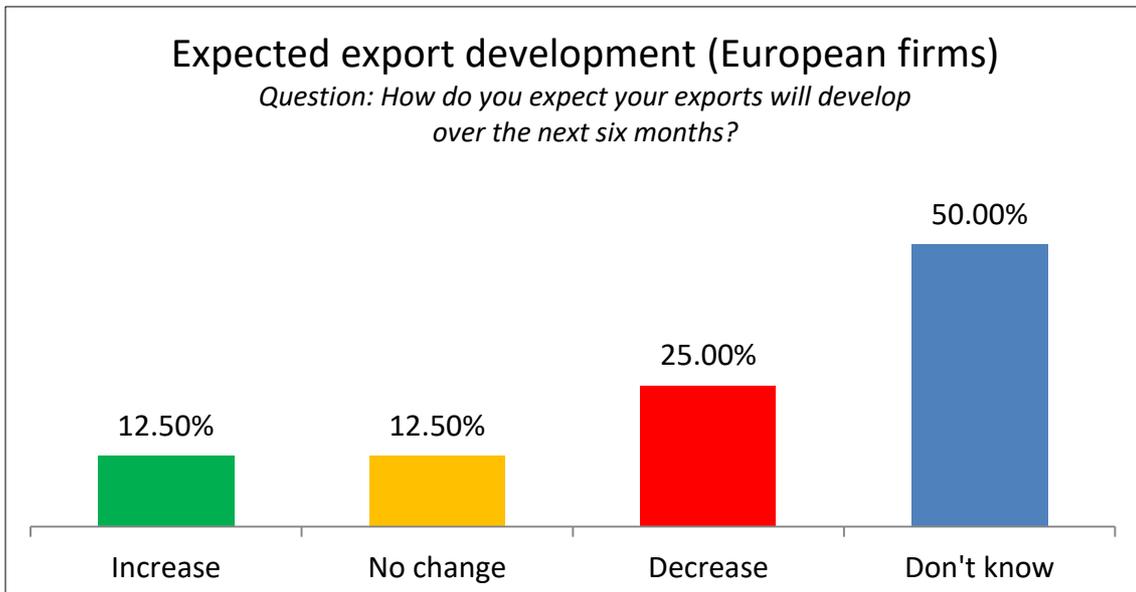


Figure 56: Expected export development 07-12/2016 (European firms)

Part III: BUSINESS CONFIDENCE DEVELOPMENT AND BUSINESS CONFIDENCE INDICES

15. Methodology

The main purpose of this part of the study is to compare the present results with those given in the previous Business Confidence Assessments. Based on these results, indices were calculated in order to evaluate the 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 second half of 2014 until the first half of 2016 are used as the basis for comparison. The data from Lao companies were used to provide an overall representation of the business sector in Lao PDR.

16. Development of the overall economic situation

The assessment of the overall economic situation in the Lao PDR shows no clear trend. But the decrease in companies answering with ‘good’ and the increase in companies answering ‘bad’ and ‘don’t know’ in the first half of 2016 indicates an increased uncertainty compared to the answers in the second half of 2015.

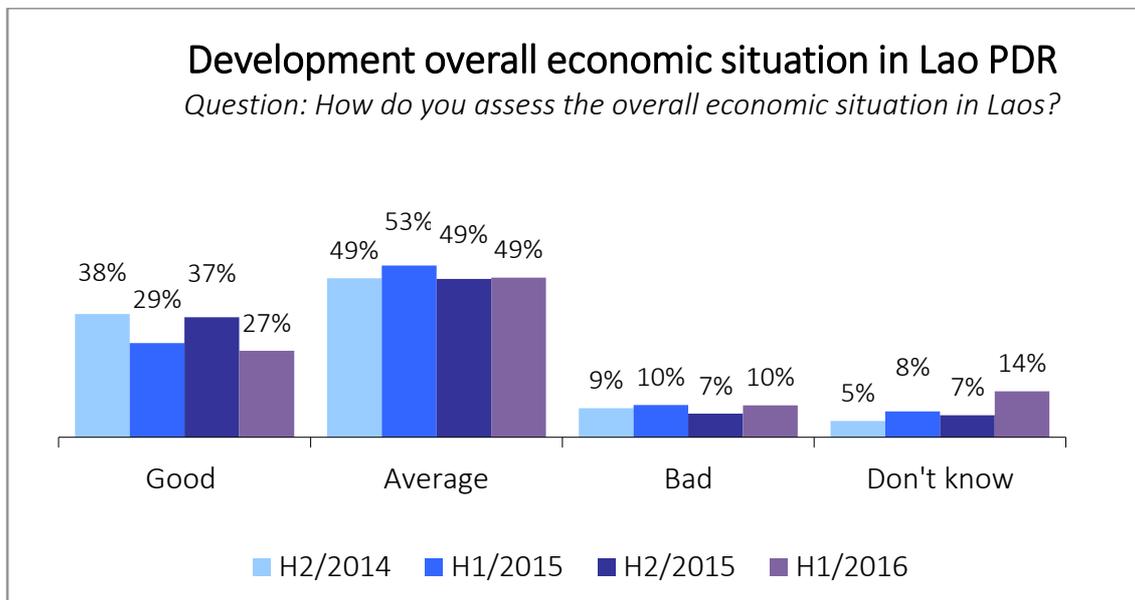


Figure 57: Development of the overall economic situation in Lao PDR

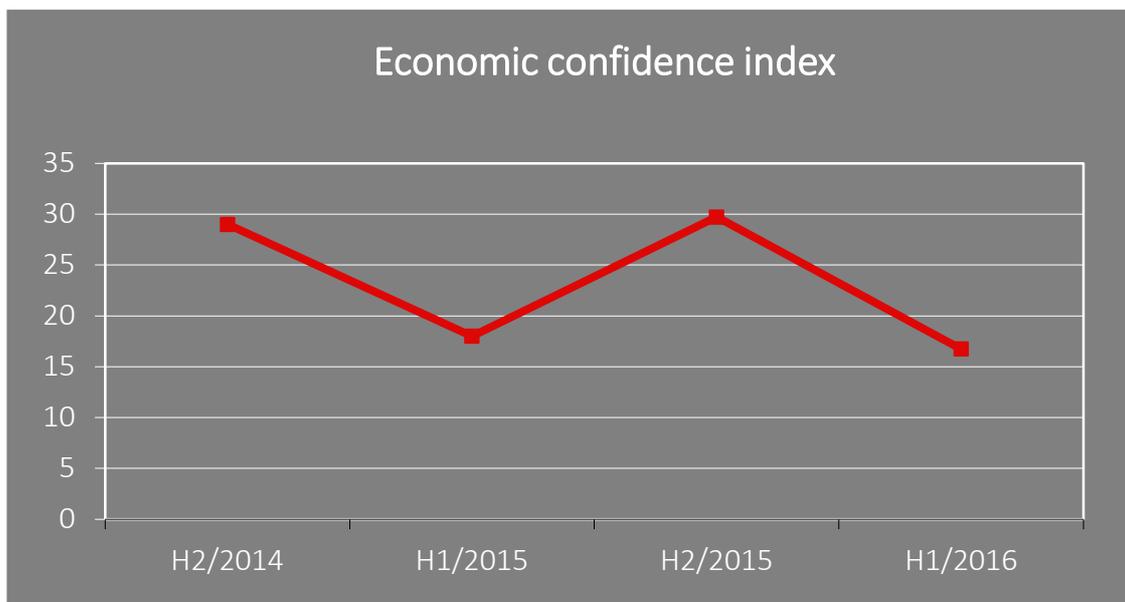


Figure 58: Economic confidence index for Lao PDR

17. Development of the current business situation

Similar to the perception of the general economic situation in Lao PDR, the figures for the individual business situation are below the figures of the previous survey. The business situation index decreased to 19, which is well below the prior period index (26). When it comes to the comparison of the actual development of the business situation in the first half of 2016 with the prior expectations indicated in the previous survey, we observe that respondents are – as usual – too optimistic in their forecasting. The high expectations of 72% concerning a positive business development were not met, instead only 52% of the businesses showed an increased performance.

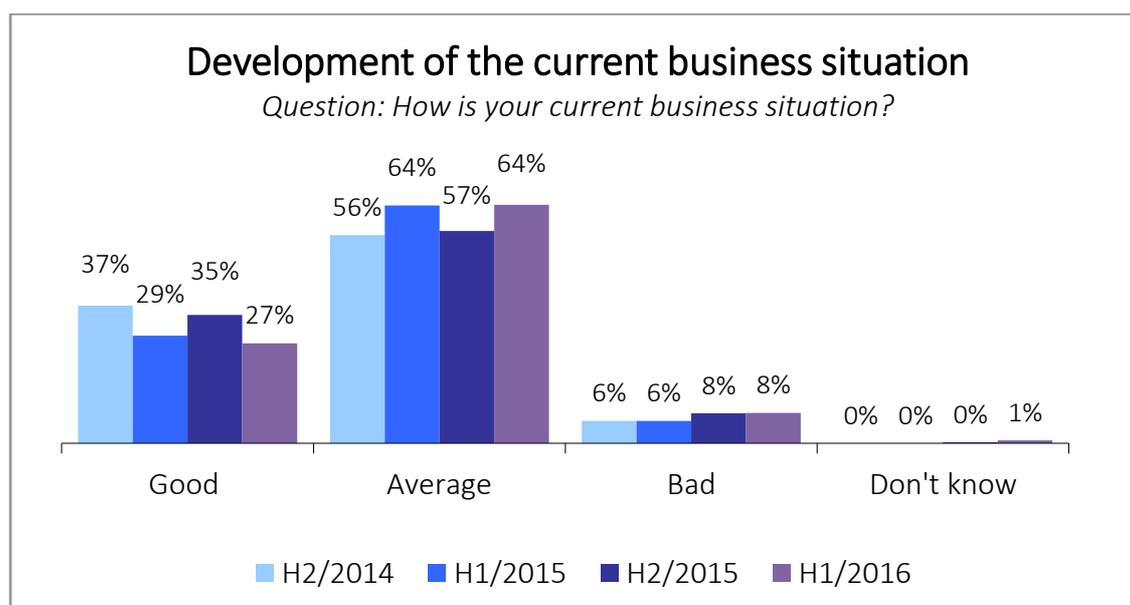


Figure 59: Development of the current business situation

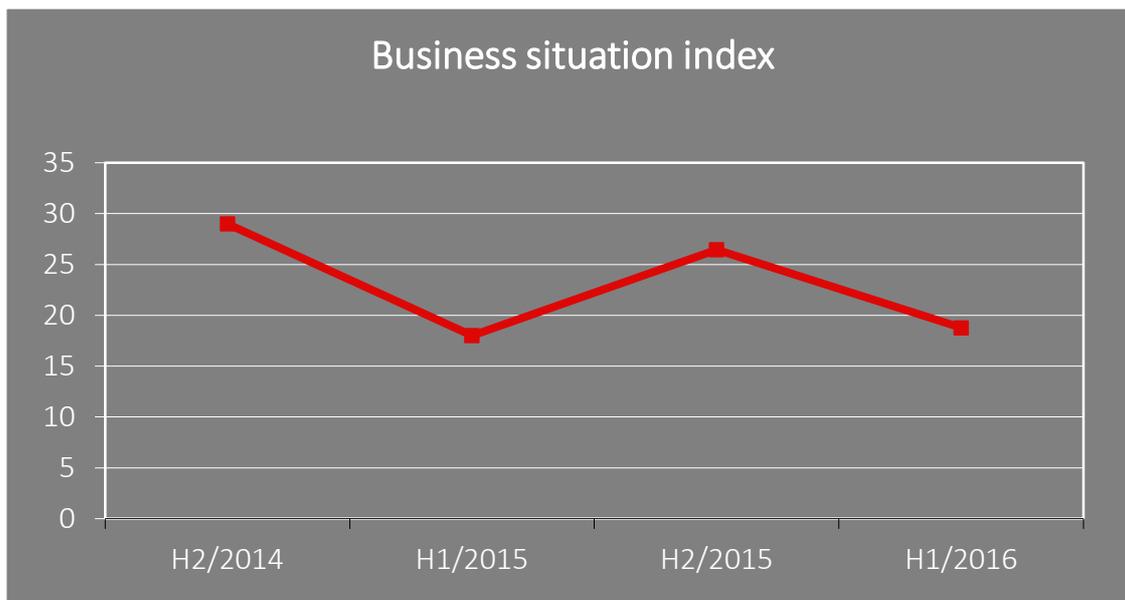


Figure 60: Business situation index

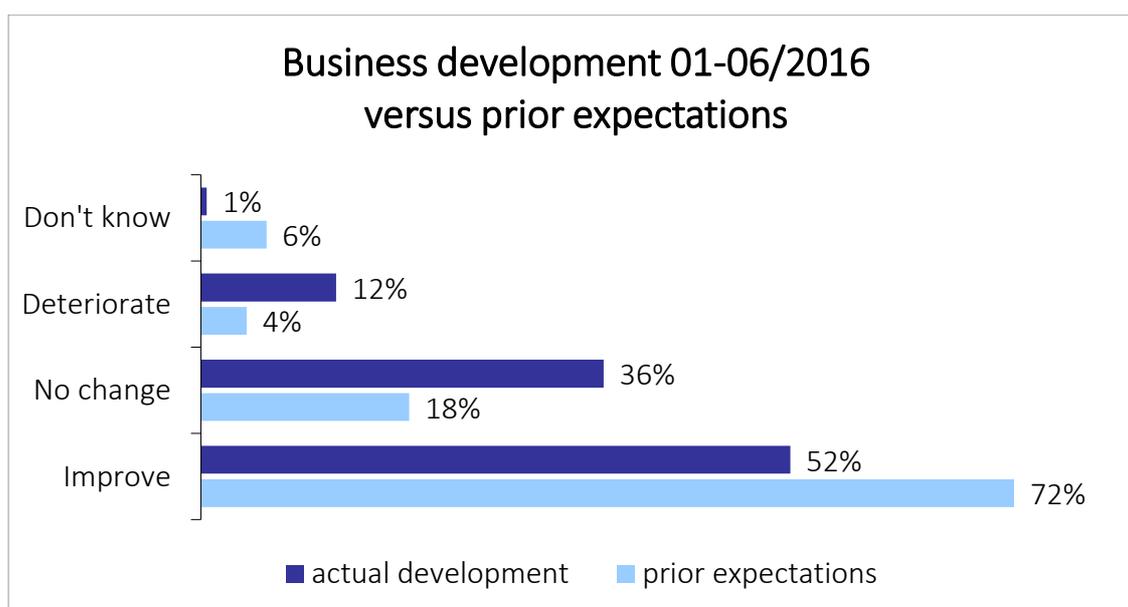


Figure 61: Business development 01-06/2016 versus prior expectations

18. Turnover development

Turnover development in the first half of 2016 is almost unchanged compared to the previous six months period. The comparison of the actual turnover development with the prior expectations shows a similar pattern like the one for the general business situation: significant over-optimism.

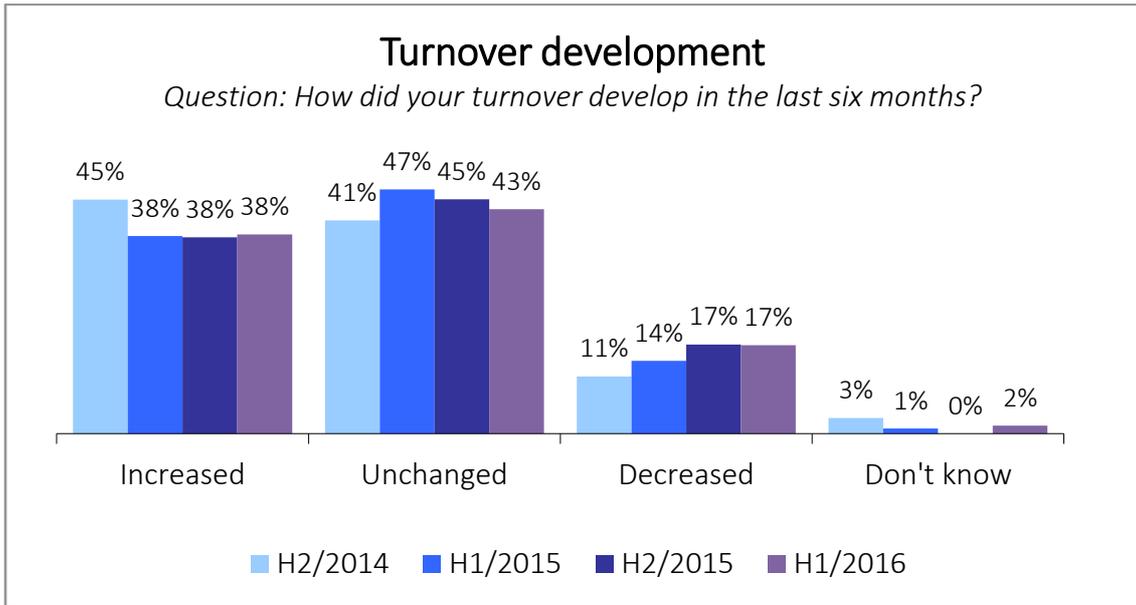


Figure 62: Turnover development

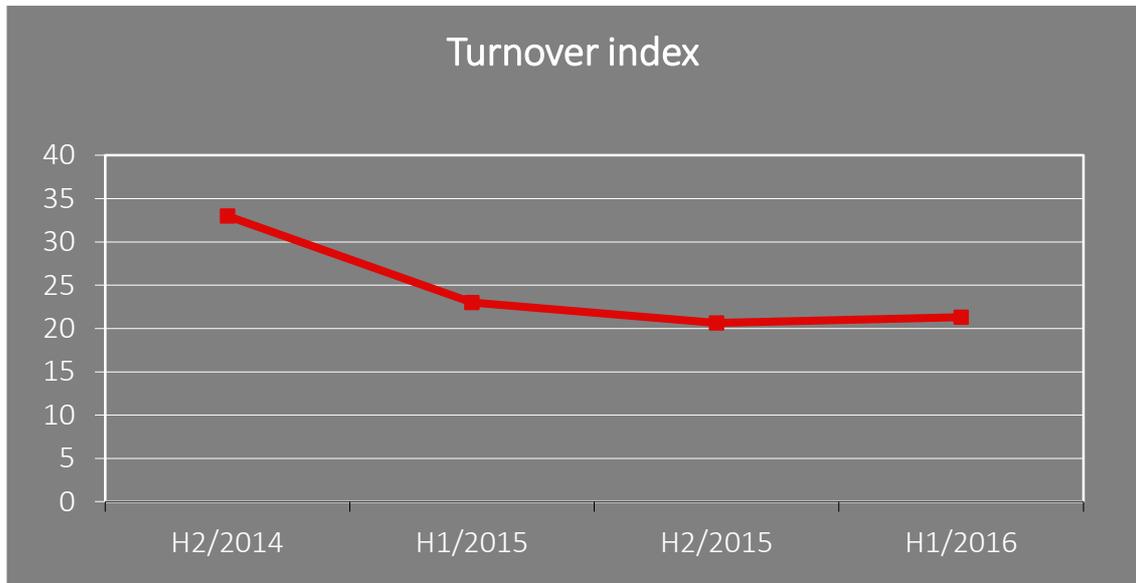


Figure 63: Turnover index

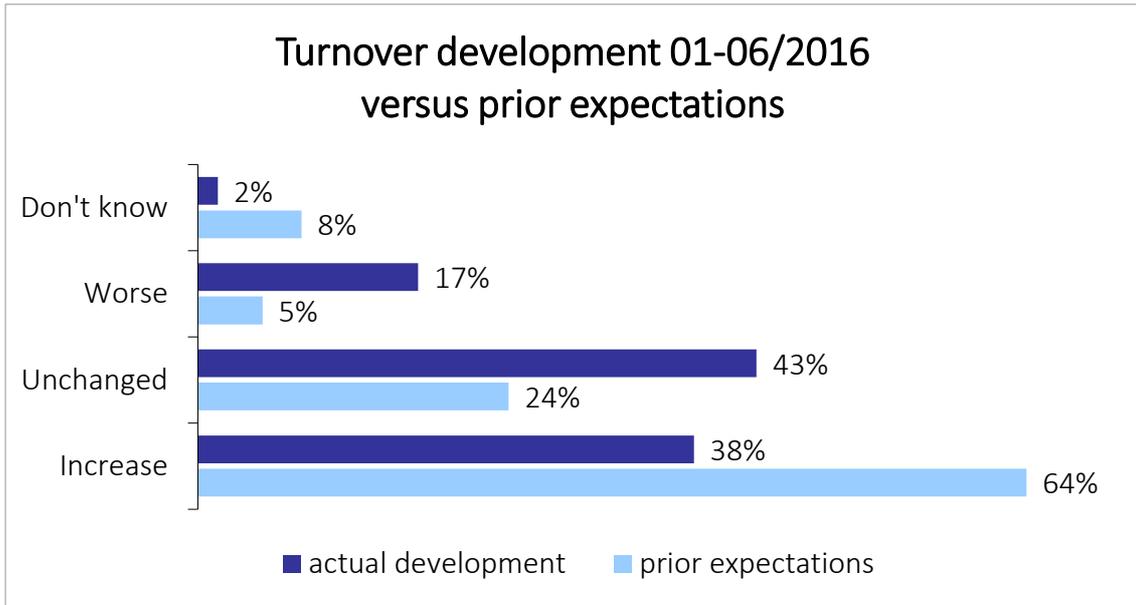


Figure 64: Turnover development 01-06/2016 versus prior expectations

19. Profit development

The decline in profit development that was observed from H2/2014 until H2/2015 came to a halt in the first half of 2016. If the trend can be turned around remains to be seen in the surveys to come, but it is a positive sign.

Again, the expectations for profit development were not realistic, even though it was again less optimistic than in the survey before.

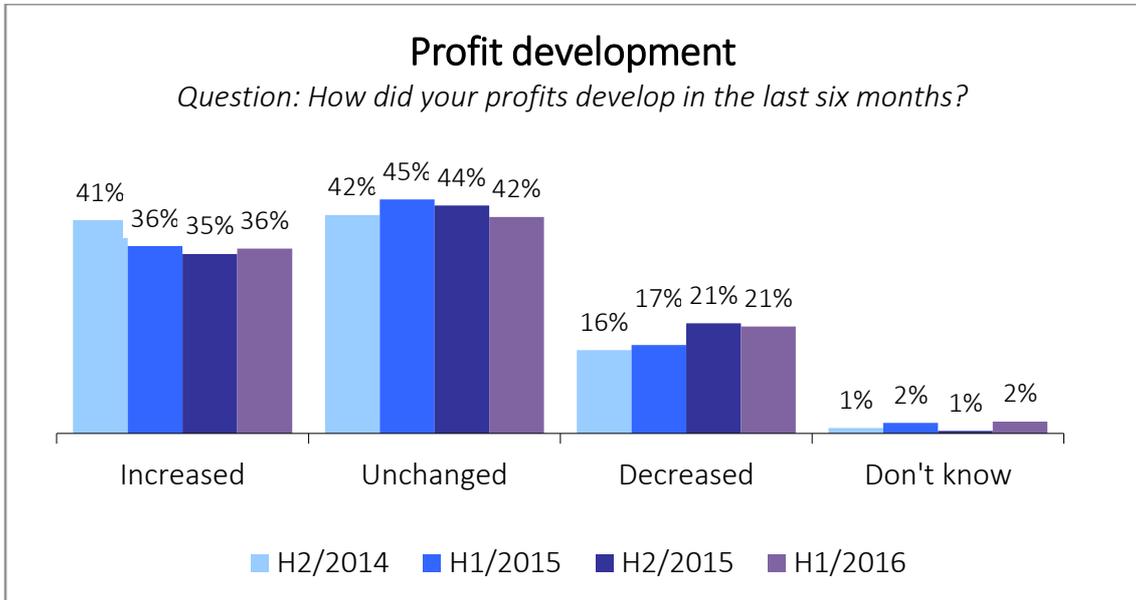


Figure 65: Profit development

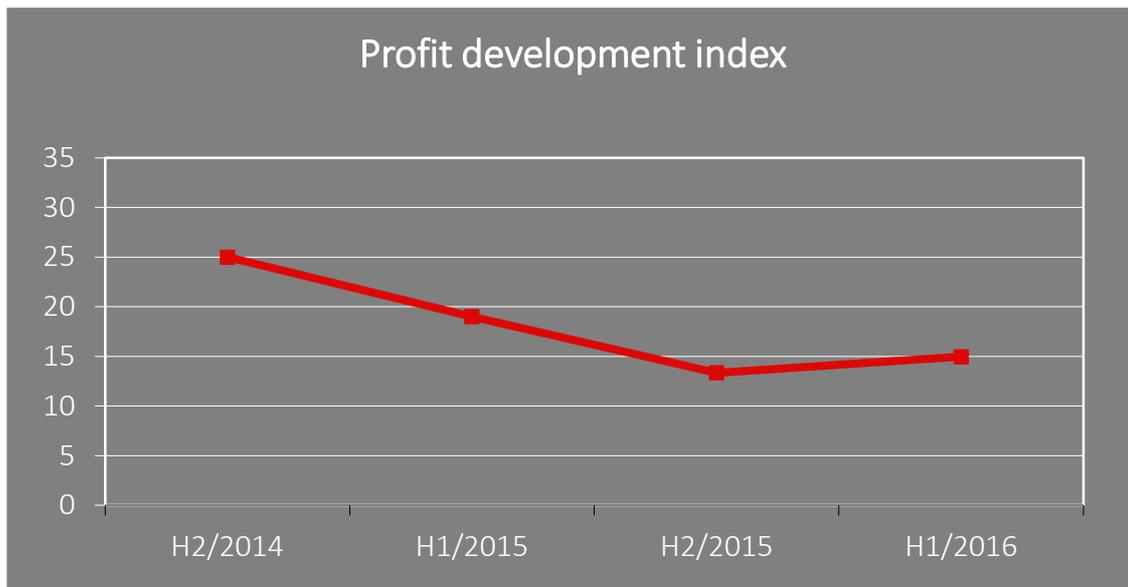


Figure 66: Profit development index

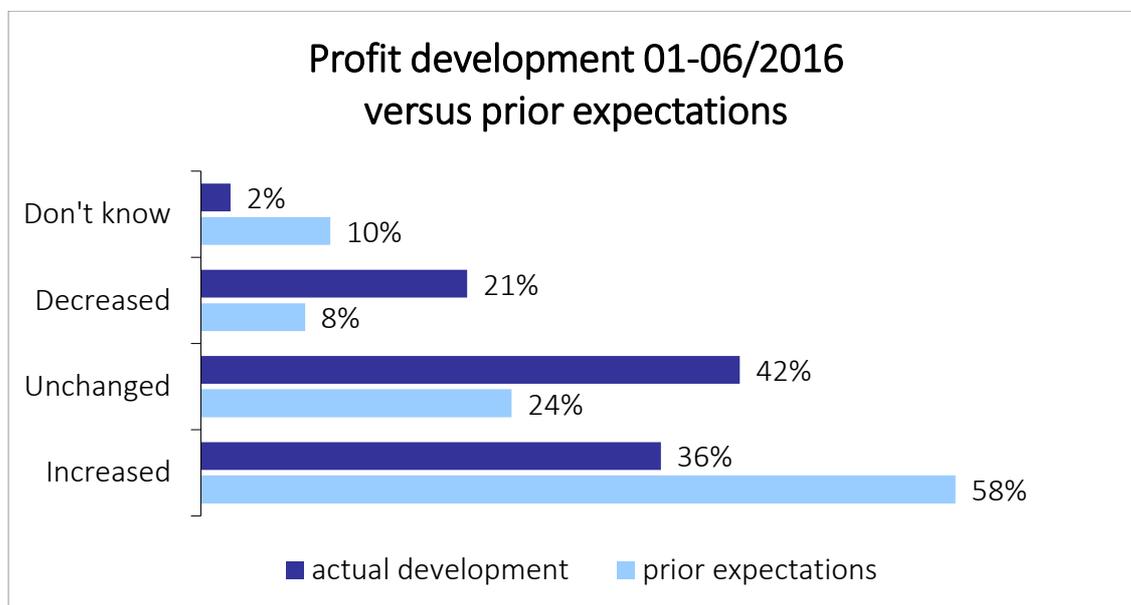


Figure 67: Profit development 01-06/2016 versus prior expectations

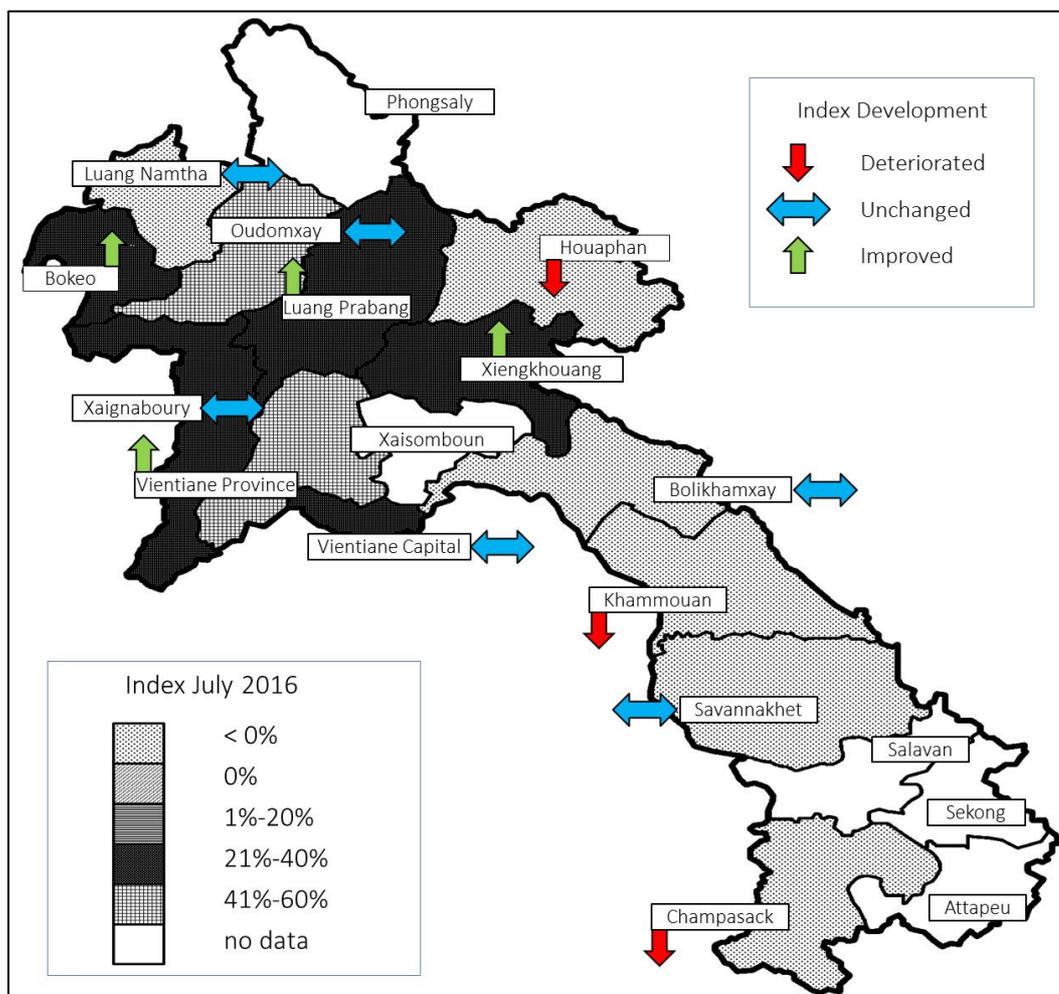


Figure 68: Profit development index evolution H1/2016 vs H2/2015 (per province)

20. Development of the financial situation

The index of the financial situation falls in the third consecutive survey.

Prior expectations about the actual financial situation in the first half of 2016 were again too high.

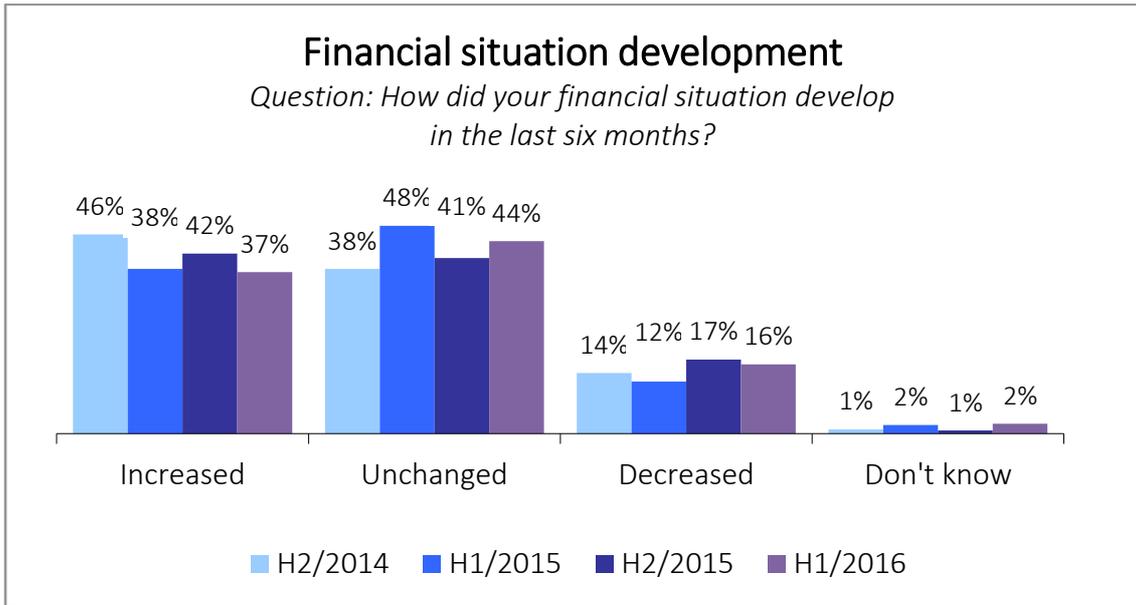


Figure 69: Financial situation development

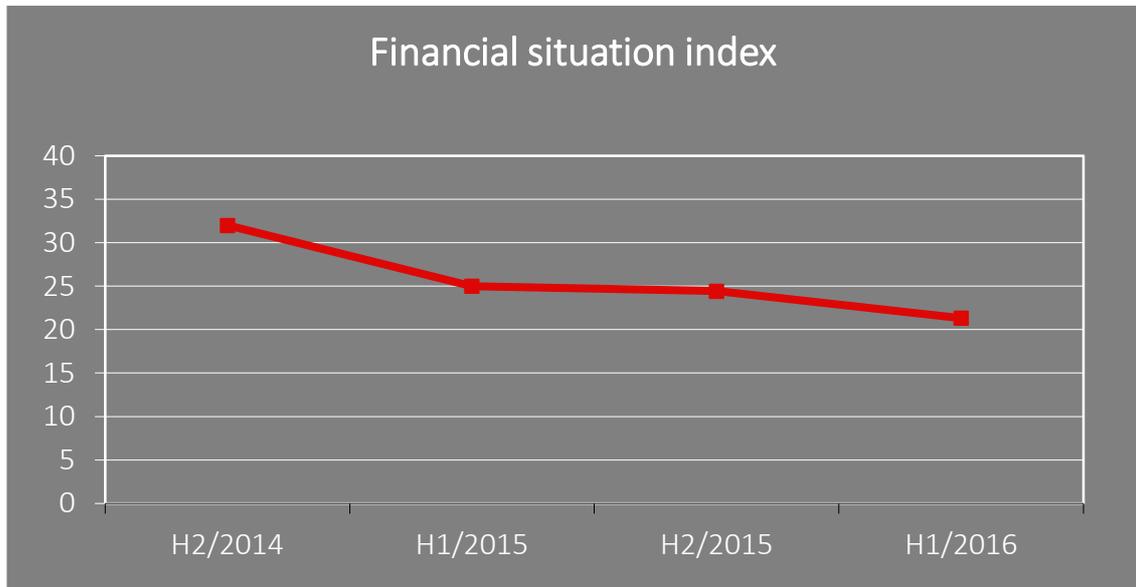


Figure 70: Financial situation index

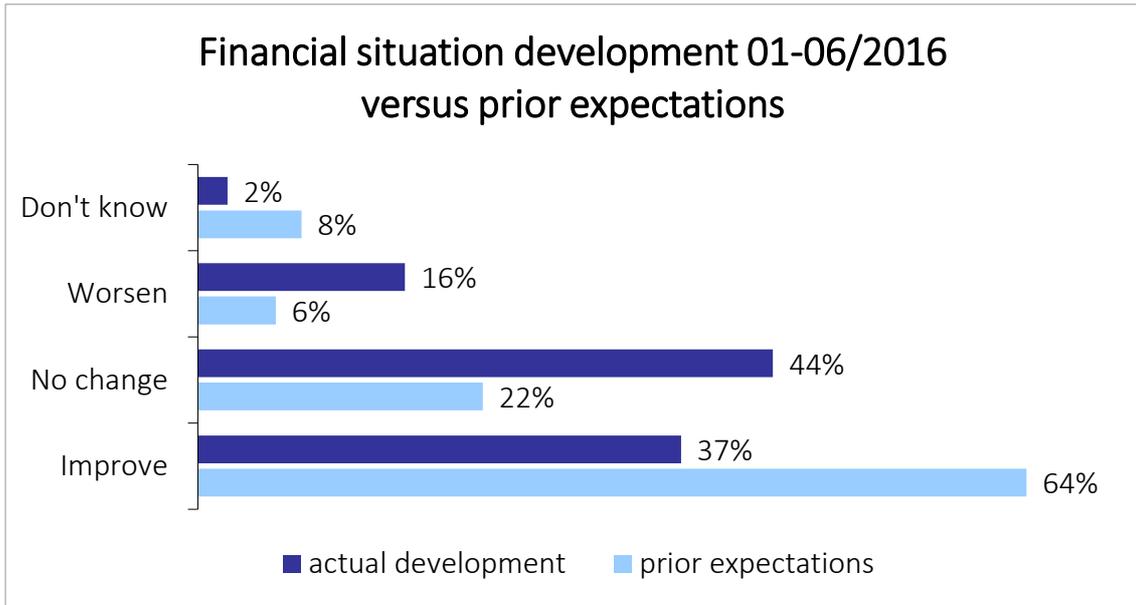


Figure 71: Financial situation development 01-06/2016 versus prior expectations

21. Investment development

After the sharp rise that was assessed during the previous survey, in the past six months the share of companies that invested fell again to 36%. The investment index subsequently dropped to 36 (before 40).

The assumptions about the investments were slightly exaggerated.

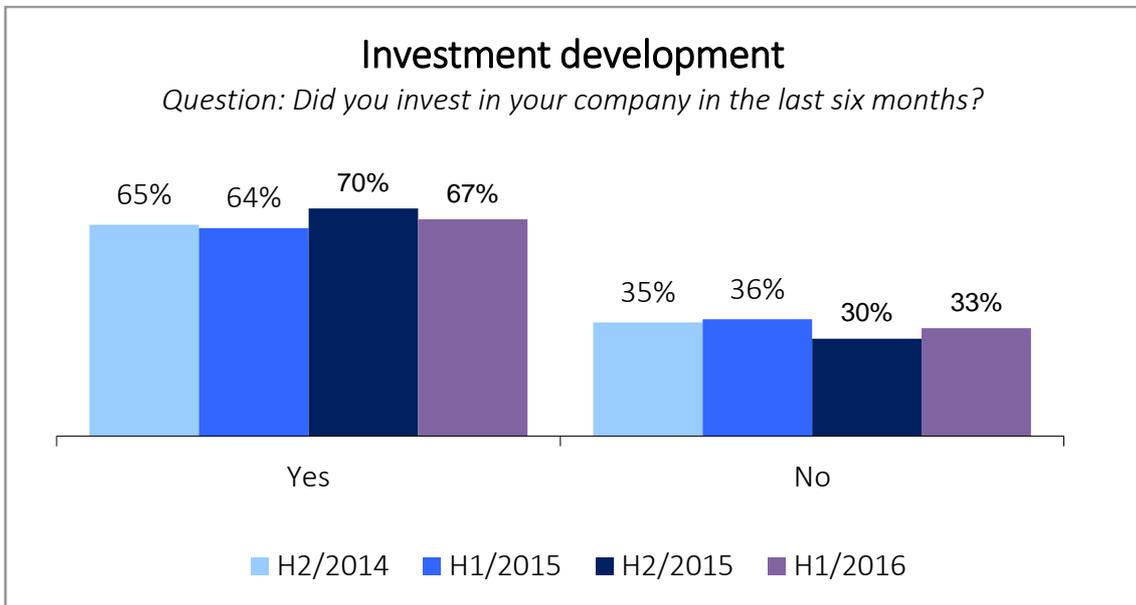


Figure 72: Investment development

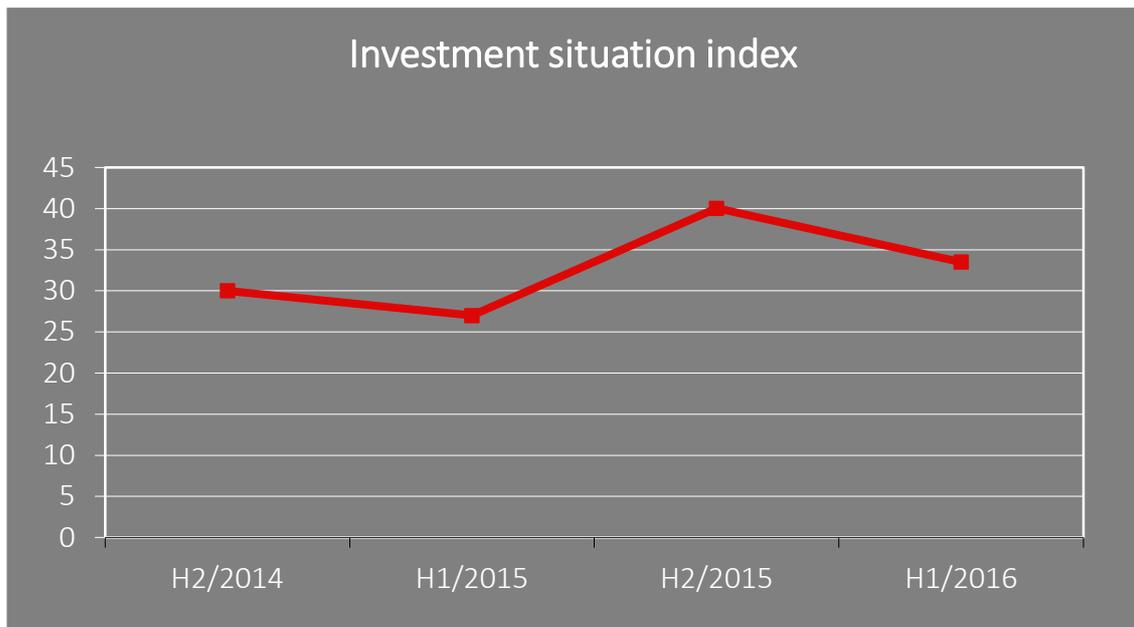


Figure 73: Investment situation index

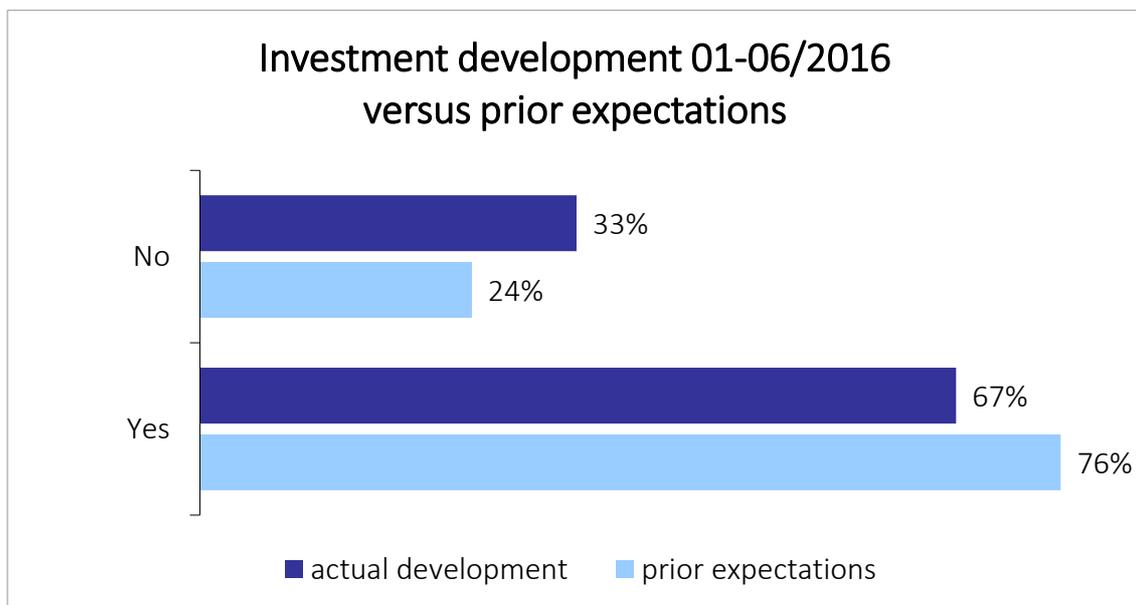


Figure 74: Investment development 01-06/2016 versus prior expectations

22. Employment development

The employment situation developed less positively than half a year ago, similar to the investment development. Subsequently, the employment index fell to 12 from 20 before. This marks the lowest rate since the second half of 2014.

The actual development is lagging behind the expectations by 50% (22% to 44%).

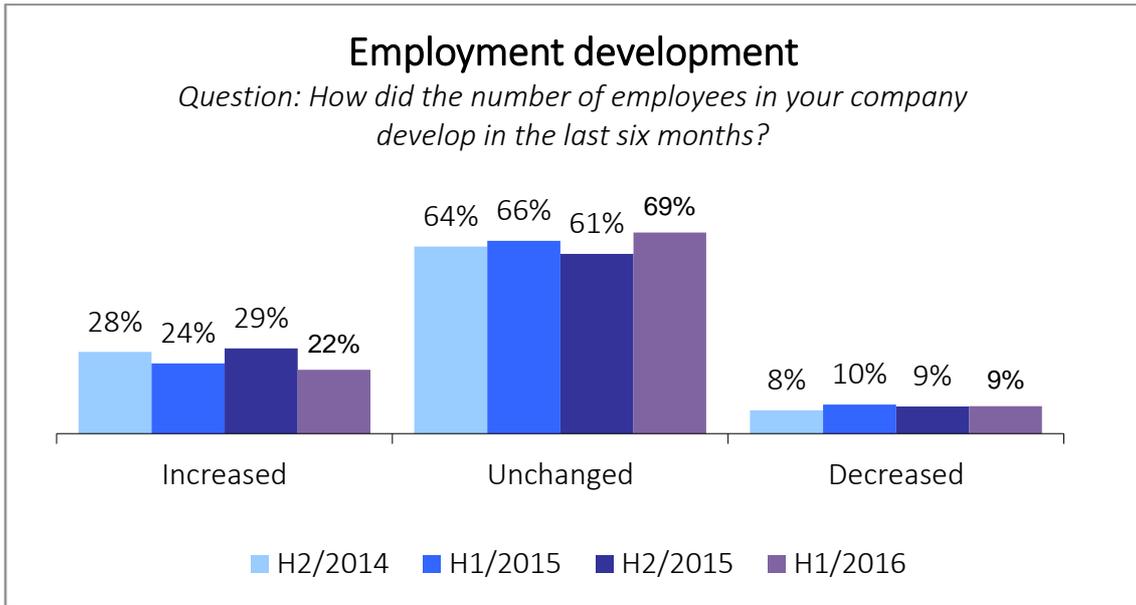


Figure 75: Employment development

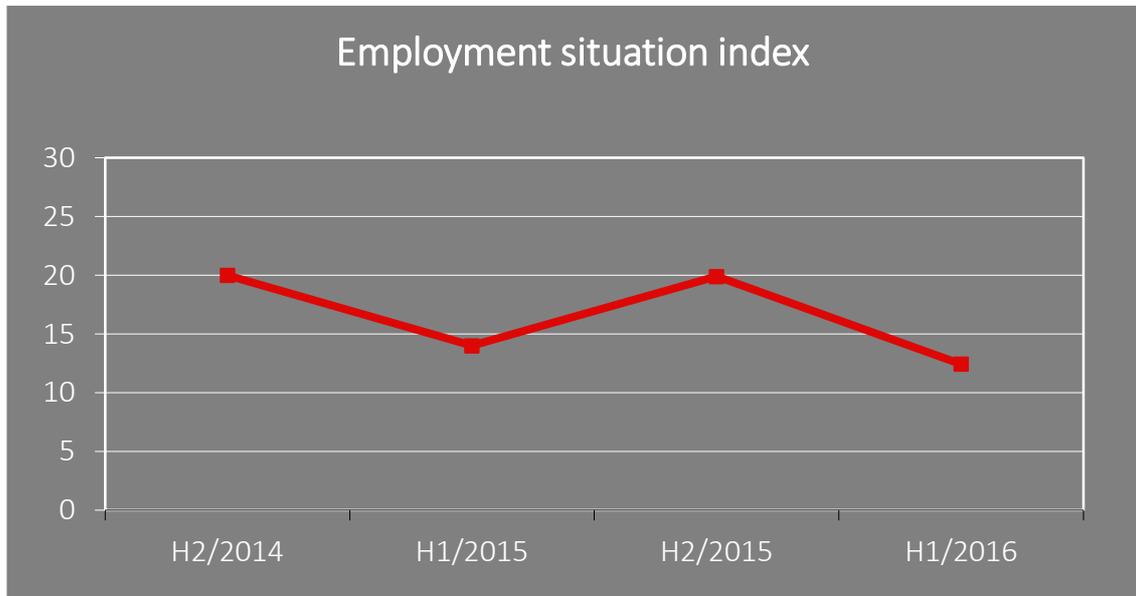


Figure 76: Employment situation index

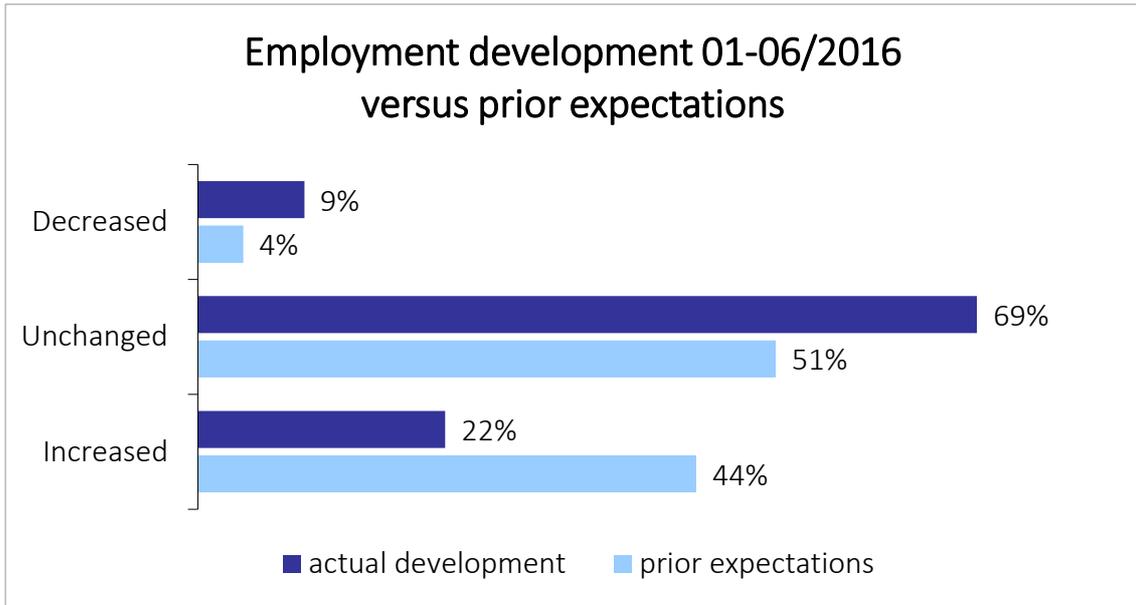


Figure 77: Employment development 01-06/2016 versus prior expectations

23. Development of ASEAN Economic Community awareness

The positive development the ASEAN Economic Community (AEC) awareness took from the second half of 2014 until the second half of 2015 comes to a halt. Less companies expect a positive development and more expect a negative development.

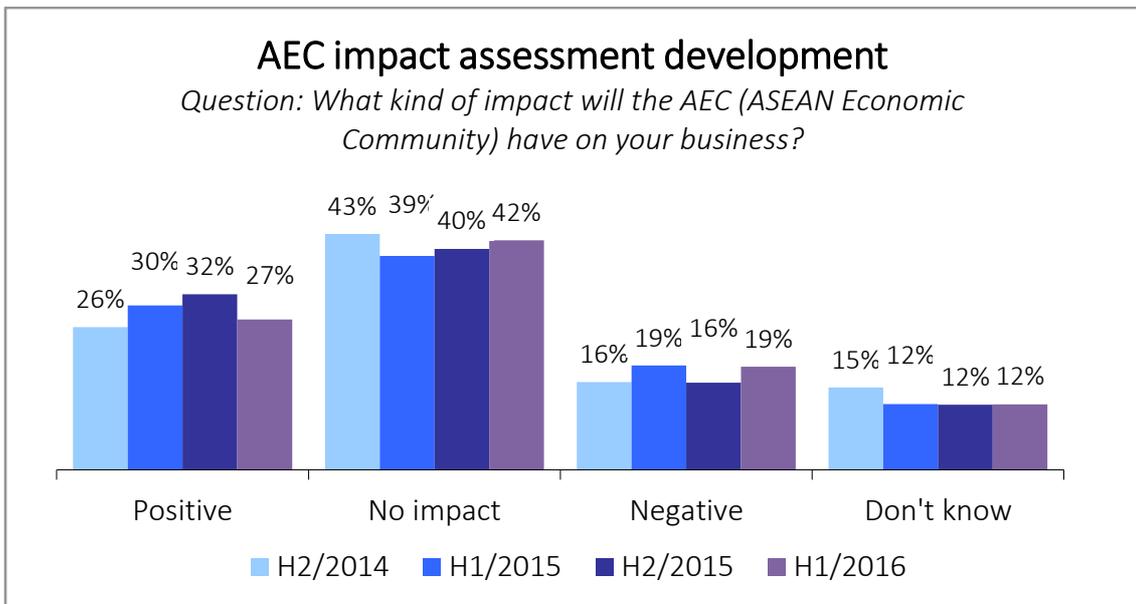


Figure 78: AEC awareness development

Also the preparedness for the AEC, that was on a good way until the second half of 2015, went down again and 9% more than before feel they are not prepared at all.

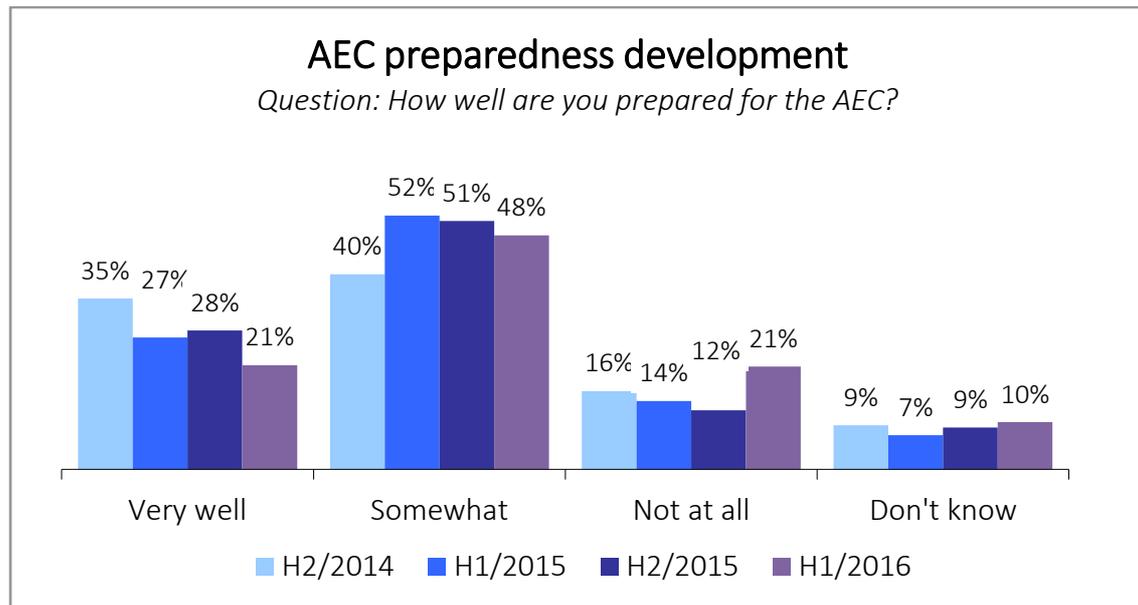


Figure 79: AEC preparedness development

24. Export development

The number of companies that reported increased exports fell again and more companies saw their exports melt. This trend is ongoing for the past four surveys or two years in a row. The export development index thus fell in the second period in a row from 15 to -1 and is negative for the first time. Like in the past three surveys, the comparison between the prior expectations and the actual development indicates that Lao companies remain overly optimistic in terms of export development.

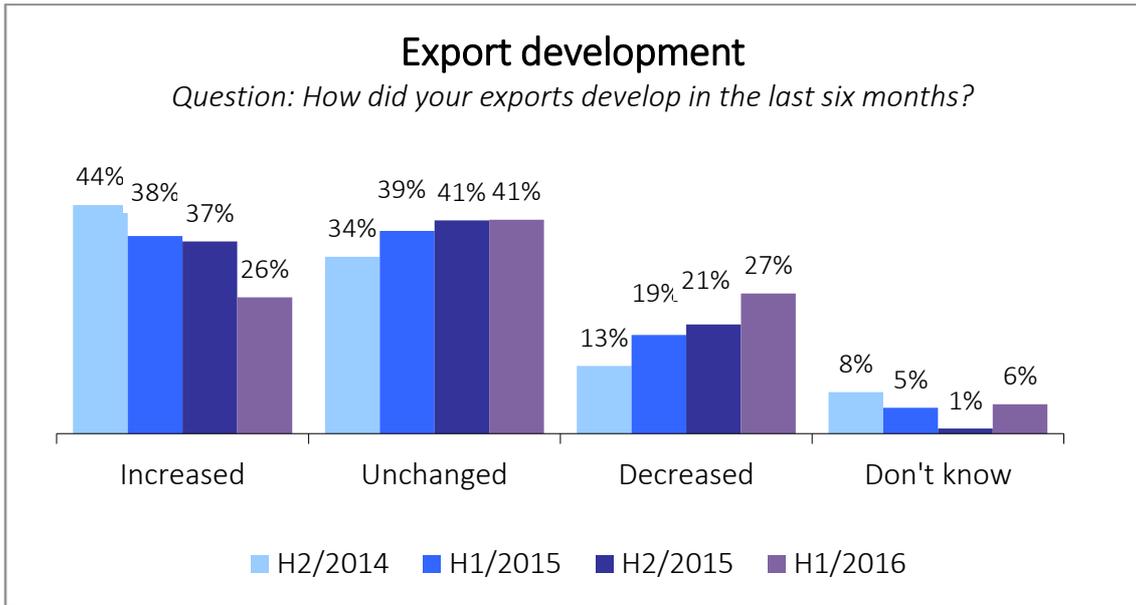


Figure 80: Export development

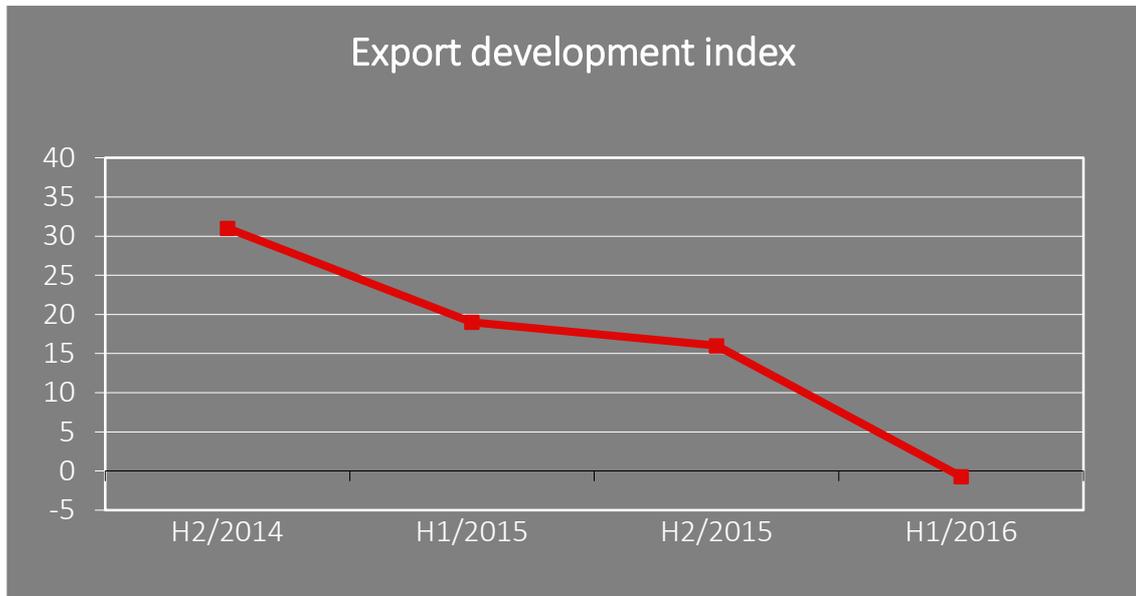


Figure 81: Export development index

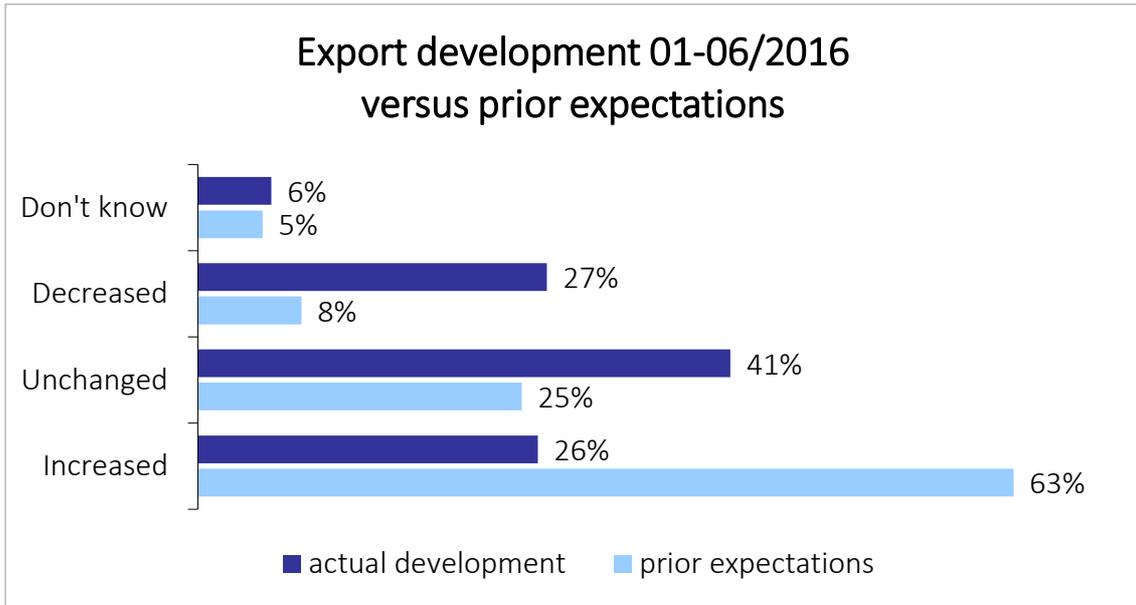


Figure 82: Export development 07-12/2015 versus prior expectations

Business Confidence Index Questionnaire

June 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: _____ Address: _____
 Phone number: _____

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 many years is your business old?

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

How is your current business situation?

good	average	bad	don't know
------	---------	-----	------------

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

good	average	bad	don't know
------	---------	-----	------------

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

improved	unchanged	deteriorated	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 did your turnover develop in the last six months?

increased	unchanged	decreased	don't know
-----------	-----------	-----------	------------

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

increase	unchanged	worse	don't know
----------	-----------	-------	------------

How did your profits develop in the last six months?

increased	unchanged	decreased	don't know
-----------	-----------	-----------	------------

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

increase	no change	decrease	don't know
----------	-----------	----------	------------

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

improved	unchanged	worsened	don't know
----------	-----------	----------	------------

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

improve	no change	worsen	don't know
---------	-----------	--------	------------

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

yes	no
-----	----

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

yes	no
-----	----

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

increased	unchanged	decreased
-----------	-----------	-----------

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

increase	no change	decrease
----------	-----------	----------

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

positive	no impact	negative	don't know
----------	-----------	----------	------------

How well are you prepared for the AEC?

very well	somewhat	not at all	don't know
-----------	----------	------------	------------

In case you are an exporter:

How did your exports develop in the last six months?

increased	unchanged	decreased	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!

Figure 83: Questionnaire

For further information, please contact:

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ECCIL: contact@eccil.org

This publication has been supported by:

