



Renegotiations at Firm levels Comprehending effects of Covid-19

Research Brief, 6 June 2020

SUMMARY FINDINGS¹

The SARS-CoV2 pandemic, leading to deadly Covid-19, brought disruptions in inter-country as well as within-country flow of goods and services. ERG carried out a phone-based survey of 102 firms engaged in manufacturing and service sectors to assess, (i) extent of initial 'shock' faced, and (ii) coping strategies that involve renegotiations in work practices, rental contract of premises and in contracts with employees. In addition, initial responses following the government declaration of the stimulus package were also looked into. The firms were drawn from a 2018 sample of 298 enterprises, and information were sought through administering a structured questionnaire over phone, during 10th-23rd of May 2020.

Almost 86% of surveyed firms had their head offices in Dhaka and a majority of the rest were from Chittagong. While 70% were locally owned, 20% were JV and 10% were fully foreign owned. The 2018 survey revealed that 22% of the current sample were fully export-oriented and another 9% exported in various degrees. The earlier survey also revealed that 37% were micro and small enterprises (mSE) in terms of employment size.

Of those surveyed, 97.3% reported of facing workorder cancellation or low market demand. Compared to May 2019, firms reported of operating at only 58.8% capacity in May 2020. The expectation regarding withdrawal of lockdown and (possibly) unmet workorder may underlie expectation of more activity in June 2020, at 76.3% of 2019 level. The sight beyond June was incomprehensible and most responses reveal of uncertainty the firms face. More

than three-fourth of the firms closed with the announcement of so-called 'General Holidays' from 25th March 2020, but one-fourth of those reopened by the time the ERG survey was administered. Only 19.2% of firms never closed. Thus, 57.6% of the firms remained closed even after 45 days of government announcement. Uncertainty arising from non-enforcement of policies and/or arbitrary policy making may be worse than firm decisions with calculated risk based on information and reasoning.

Restricted movement and the fear of getting infected forced many to adapt new institutional culture -- 83.3% firms opted for either exclusive work from home or a mix of office with home-based work. Other than a single ISP, all IT firms work either exclusively from home or mix working at office and home. Such adaptation is less observed among agro-processing, food and health services. Similarly, less than 20% of manufacturing firms do their office works from home. With service sectors accounting for more than 50% of GDP, Bangladesh is perhaps ready for undertaking major move towards establishing a culture of home-based work. Such coping mechanism will help in reducing Covid-related losses, as well as prepare the workforce for a post-Covid ICT-dependent global economy. Creating an ecosystem to allow optimal choice in work environment, thus, deserves high priority.

Shift towards working out of home has potentially reduced the demand for office space. Long before the rental market revives and new equilibrium is established, many firms are found to have engaged in renegotiating rents in order to reduce cost and cope with drastic reduction in business size. Three options

¹ The study was undertaken by a team of ERG researchers that included Mutasim Billah Mubde, Senior Research Associate, Abu Hasnat Abdullah, Research Associates, and Sarah Muniyat, Junior Research Associate. They worked under the guidance of Dr. Sajjad Zohir, who is the Executive Director of ERG

were considered: deferred payment, negotiate a reduced rent or both. Of those (71.7%) operating out of rented or leased premises, 87.3% reported delays in rent payment. Among these enterprises, 43.1% successfully renegotiated deferred rent payment, but 57% did not yet approach property owners. The reasons may be many, but 17.7% of tenant enterprises did not feel the need to renegotiate. Among those who attempted to renegotiate deferred rent payment (45.9%), 6.1% failed. Those (21.1%) who had successfully renegotiated rent reduction, the average reduction was 25.7% though the demand was for 46% reduction. The study found that 76.5% of IT/ITeS firms could successfully renegotiate both deferred rent payment and rent reduction.

While rent reduction may help many businesses to survive through the bad times, livelihoods of families living on house rents may be threatened due to rent reduction. It is desirable that relevant parties renegotiate amicably if such needs arise. The study however observed that there are significant number of cases where non-payments of current month's rent along with absence of any settlement raise concerns for gross violations of contracts between property-owners and businesses. It is recommended that government and non-government initiatives be organized to facilitate arbitration between parties when both of them face a deadly common enemy.

When compared with 2018, average employment sizes in manufacturing and agro-processing & food (and beverage) sector are found to have declined before the Coronaz virus hit. In contrast, average employment size in electronics, electric goods and plastic industry had increased significantly by the end of 2019. Information on employees whose salaries were paid in January and April 2020, reveal that most layoffs had been in the latter sectors (by more than 30%). Declines in employment by more than 12% was also reported in the manufacturing and in IT firms, though the size of decline was insignificant in the latter case.

No reliable assessment could be made on negotiating salary reductions since the contacts of employees were not available to the research team. However, more than a quarter of all firms reported of their inability to pay salaries beyond May and 80% would

not be able to pay beyond September 2020. Significant layoffs are however expected during May-June period, as high as 18.7% for some firms in electronic/ plastic industry, while maximum reported in other service and trading was 35%. Some firms in the agro-processing/food will wait it out during July-December, but there are firms in the same industry who will lay off 75% of their employees. If uncertainties continue, the least affected with a reduction of employment by 4-7%. In all other sectors, employment reductions (July-December) are reported to range between 20 to 45%.

Many of the respondents were yet to comprehend the magnitude of Covid19-fallouts for the economy and their individual businesses. Thus, a quarter did not have any demand for supports. More than half however sought stimulus package or other forms of assistance. There were (conscious) 20% who wanted the relevant authority to issue clear health guidelines to be followed once the industry opened. Such demands were voiced primarily from the manufacturing, and the IT firms made no such demands. About 37% of all firms approached the banks for loans while another 20% were looking into the option. Close to 30% of the firms which were closed at the time of the survey had sought loans, but 60% of the IT firms (all of which are open) and two-third of the manufacturing which never closed had sought bank loans. Lack of coordination between Bangladesh Bank and commercial banks, disproportionate coverage and systemic hurdles in accessing loans were named as some of the important concerns.

[Note: The researchers had presented at a webinar organized by Economic Research Group on 6th June 2020 where the participants gave valuable inputs. The full report is currently being revised and will be shared shortly.]

Economic Research Group is a not-for-profit research organization which has been promoting education and research with a view to improving economic justice in society. ERG is registered with the RJSC since December 2003. Beside providing advisory & consultancy service, its members also contribute to public discourses and improve economic governance. The details may be found at www.ergonline.org. Or, write to info@ergonline.org
ERG, D-6, House 06, Road 33, Gulshan-1, Dhaka- 1212