



ECONOMIC RESEARCH GROUP

Coping with the Pandemic ERG follow-up study on IT Firms

Research Brief, 4 July 2020

The Economic Research Group (ERG) had undertaken a survey of enterprises in May 2020 and the findings were reported in the Financial Express on June 11. The IT firms included in that survey were found to be in e-commerce, web development and other IT services, representing non-software IT firms (NSW-IT). Subsequently, another survey was administered in June on a sample drawn from BASIS member list, all of whom are into software (SW-IT). The respondents in both the surveys were senior executives of the firms -- 30 in total, 28 of which are located in Dhaka and 2 in Chittagong.

Compared to the SW-IT firms, the NSW-IT firms generally use comparatively lower skill and technical expertise. As expected, the SW-IT firms are relatively more export-oriented, while the NSW-IT firms largely depend on local market. This paper contrasts between the two groups in areas of immediate effects and coping strategies those firms adopted. Since there is a difference of one month between the two surveys, findings presented need to be interpreted accordingly (for NSW-IT, June figures are expected).

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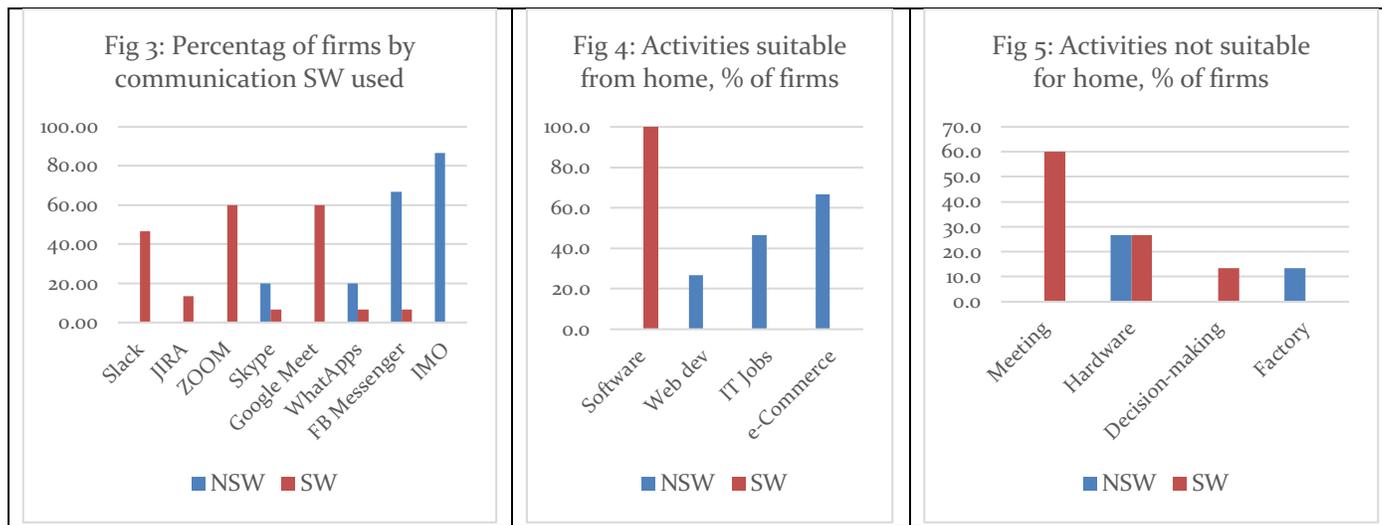
ERG is a not-for-profit research organization which has been promoting education and research with a view to improving economic justice in the society. ERG is registered with RJSC since December 2003. Besides providing advisory & consultancy services, ERG members contribute to public discourses and towards improving economic governance.



Work orders: Immediate effect felt by the IT industry was with work orders – full cancellation was reported by 13.3% in each of the two segments. Rest of the firms in the non-SW segment reported partial cancellation, while more than half of the software firms reported of no cancellation. Decline in market demand is reported to have been in foreign demand, though some of the SW firms reported to be facing decline in the domestic market as well. However, on the net, increase in domestic demand for the IT services has been reported by both groups of firms. Higher reduction in workorder is reported by SW and

this appears to have preceded the pandemic (see Figures 1 and 2). Though more than half of the SW firms did not face cancellation of orders, value of current orders is reported to be less than one-third of that negotiated in 2019.

Decline in workorders was associated with disruptions in regular office works as a result of the fear and declarations on lockdowns. Firms were forced to adapt and have employees work out of home, which was more prominent in May. Recent survey suggests of increase in the incidence of working out of offices. There appears to be two reasons: (i) Compared to May, there has been an increase in workload, particularly, due to increased demand from local markets; and (ii) difficulties of monitoring, particularly, for NSW IT works. Contrary to common beliefs, the software firms face greater difficulties to ensure higher productivity from employees working from home. Almost three-fourth of these firms complained of internet problem, while 60% found coordination difficulties as hindrances. While noteworthy switch to online activities is anticipated, none of the surveyed NSW firms expressed willingness to allow employees to work out of home, while one-third of SW firms may avail such option.

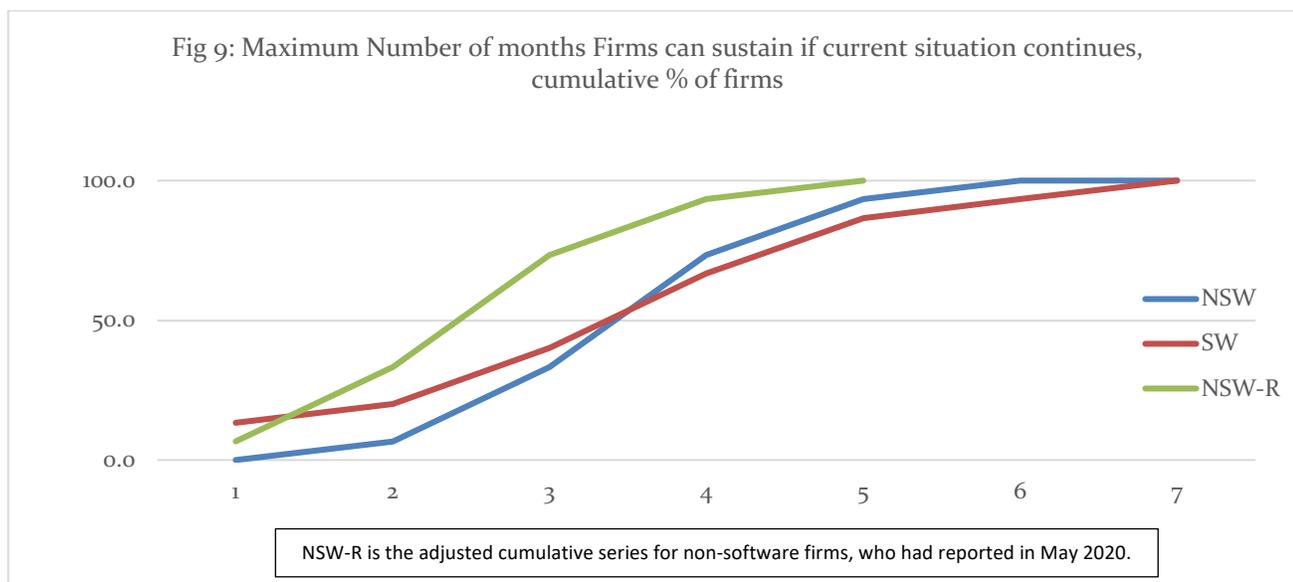


Communication: IMO, followed by Facebook Messenger, are found to be most popular communication tools used by the non-SW IT firms. About 20% of NSW segment reported of using WhatsApp and/or Skype as well. Those routes are rarely availed by the software companies, with none mentioning of IMO. Among the latter, Zoom and Google Meet are availed by most (60%), with 47% reporting use of Slack, and only 12% reported use of JIRA.

Fig 6: Last month for which rent was paid (NSW survey in May)			Fig 7: Status of Rent negotiations (% of Surveyed Firms)			Fig 8: If deferred, by how many months (% of firms)		
Month	NSW	SW	State of Negotiation	NSW	SW	# of months	NSW	SW
March	6.7	6.7	Deferred Payment	6.7	26.7	0	0.0	73.3
April	73.3	33.3	Reduction negotiated	6.7	20.0	2	6.7	0.0
May	20.0	26.7	irregular, to be sorted	80.0	26.7	3	73.3	20.0
June		33.3	Tried, no agreement	6.7	26.7	4	0.0	6.7
						5	20.0	0.0

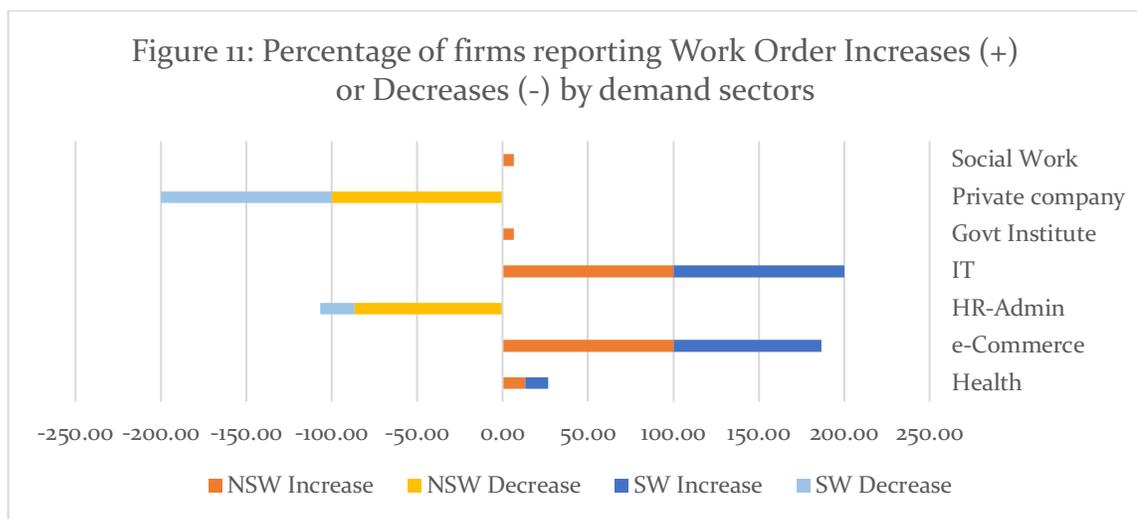
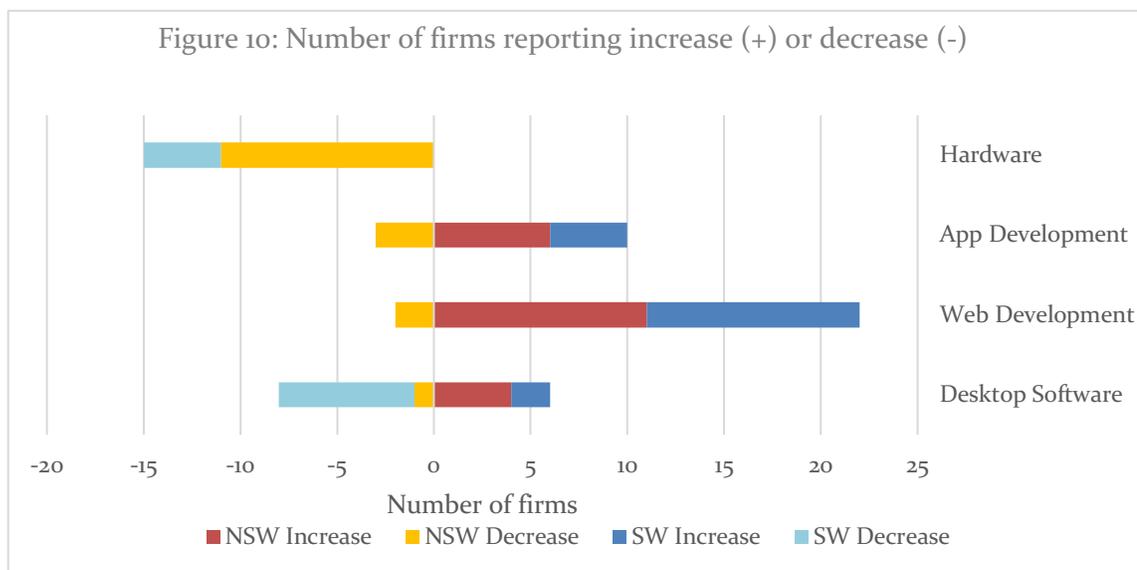
All companies have their offices in rental premises, which generally have one to two years' contract, some ending during end 2021. Majority of the non-SW firms had been regular in rent-payment till the month preceding the survey, but 80% went irregular from May. While majority of NSW firms wanted to defer rent payments by at least 3 months, 20% want to delay by 5 months. In contrast, almost 70% of the SW firms, even though surveyed a month later, were up to date on rent payment. Further details are in Figures 6 to 8.

In some instances (20% of SW firms), rents could be renegotiated. On an average, 40 % reduction was demanded, though they had to settle for 28 % reduction. The few instances of rent-reduction reported by non-SW firms reported figures, not much different from SW (46 and 26 percent respectively).



Market demands: While work-order reduction faced by SW has been higher than that faced by NSW, the latter are 'micro' firms and are more fragile against adverse situations. If the current situation continues, 50 % of the NSW firms may have to fold their offices from current premises by mid-September and others reported of doing so by end November. The pace of attrition is reported to be slower for SW firms, with a difference of one to two months. It is expected that businesses will relocate unless there is downward adjustments in office rents, which will adversely affect the property market, especially the high-valued ones. The final adjustments may however favor lower-valued properties if businesses survive.

In this pandemic, see Figures 10 and 11, the work order for the apps and web development are reported to have increased. Most of such increases originated from local IT and e-commerce sectors. There has also been an increase in demand for health-related software and apps.



Employment: Unlike some manufacturing and other service sectors, the IT firms are reported to have paid salaries of the employees till April/May 2020. There had however been reduction in employment to the tune of 7.7% to 14.4%, felt more in the SW segment. In case of support staffs in SW, where the group accounted for only 10-12% of total number of employees, one in every three had been dropped by end May. If the situation continues, further reductions in employment over July-December period are anticipated – 5.6% for NSW and more than 12% reduction in SW (professional+support)) employment. Furthermore, those remaining in employment may have to face reductions in their take-homes, 14% in NSW and 27% reduction in SW firms. The ability to survive, expressed in terms of the maximum number of months the firms may continue to pay salaries, show cumulative distribution of firms (in Fig 13) similar to that observed for retainment of office space (Fig 9). If the pandemic continues, the NSW firms can give the salary to their employees for up to 2-4 months while some of the better-off software (SW) firms may do so for up to 7-8 months.

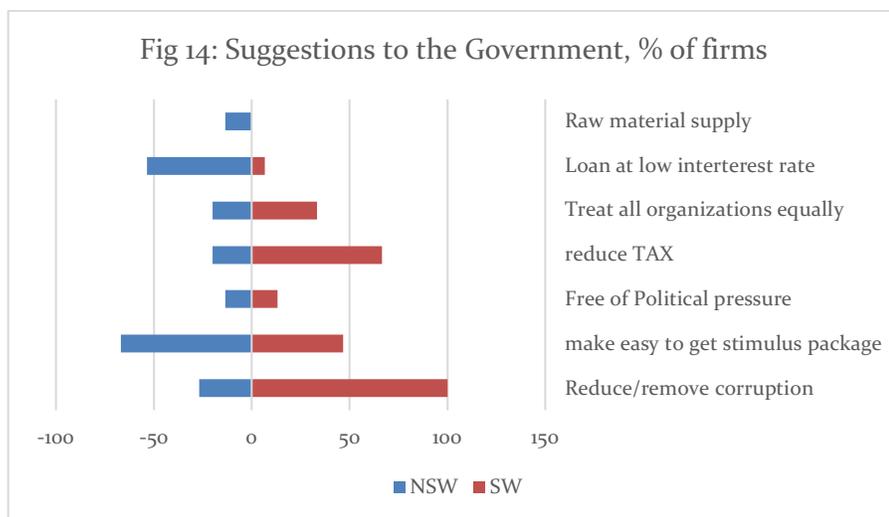
Figure 12: Effects on Employment and Salary

Description of items	NSW	SW
<i>Professional employed</i>		
Jan-20	23.2	24.0
% reduction by end April (NSW)/May (SW)	7.7	14.4
<i>Support staff employed</i>		
Jan-20	12.9	3.3
% reduction by end April (NSW)/May (SW)	11.6	32.0
<i>Expected % reduction in July-Dec period</i>		
Employment	5.6	12.7
Average salary	13.9	27.3



Living through COVID-19: Both groups of IT firms require at least 18-24 months for their businesses to return to normalcy if the virus spread comes under control from following month. 87% of the NSW will take 2 years to recover, while only one-third of the SW firms reported of such long delays. Most of them, as of mid-June 2020, are struggling to find ways out, and majority are yet to come up with ideas and strategies for change in order to adapt to the COVID-19 pandemic and beyond. Almost half to two-third of the firms are caught with the elusive idea of stimulus package from the government and are seeking easier access to avail it, none yet reported any progress.

Assistance and general supports sought by the IT firms differed significantly in the mix of recommendations. As shown in Figure 14, NSW firms are keen to get loans at low interest rates (53.33%) and avail stimulus package (66.7%) in order to continue paying salary to their employees. The SW firms see prospect of progress amidst the current crisis and find ‘corruption-riddled’ governance and unfavorable tax measures as major hinderances.



Suggestions: Without any attempt to summarize the findings, the researchers recognize the need to make way for the IT sector to develop when local markets and domestic economic activities need to be further inter-linked. Drawing upon the findings and numerous consultations with stakeholders, several suggestions are made below.

- Quality of broadband connectivity needs to be significantly improved and the regulatory authorities need to find ways to protect the right of business and private citizens (many of whom will be working out of home for businesses) in ensuring that the service providers deliver the required minimum bandwidth. If there are issues with bandwidth that bring additional profit to ISPs, rules may be put in place to ensure auto-transfer of such unearned income (or a part of it) for investment on expanding the capacity. Improved security arrangements by law-enforcing authorities with assistance of local community groups may reduce the private cost of maintaining undisturbed cable connections. The latter, along with mandatory online payment (that can be easily monitored) will ensure fair business and reduce costs. It is important that no additional cost is imposed on connectivity that provides Covid-period livelihood.
- All procurements of ICT-related services need to give priority to local firms, keeping in mind the fact that there are equity participation of foreign agencies in many of these firms, and more importantly, some of the local firms may only act as commissioning agents for foreign firms! The need of the hour is to promote local economic activities with minimum dependence on external procurements. It is common knowledge that the latter is associated with corruption and capital flight.
- While online engagements to carry out business will increase, for various reasons noted earlier, businesses, even in software firms, will primarily rely on office-based work. Unfortunately, the health guidelines that are localized and affordable to our micro and small businesses and are implementable within existing building structures (where offices are housed), have not been developed. It is important to encourage open exchanges on the good and bad practices, without yet being legalistic about it.