



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

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Economic Research Group had administered a survey on 106 firms in May 2020 to investigate the impact of Covid-19 and associated mitigation strategies on businesses, in four domains – work orientation, adverse market conditions, rental contract renegotiation and employee contract renegotiation. A month later, in June 2020, two follow-up surveys were conducted. This paper presents findings from a matched sample of 63 non-IT firms. Enterprises are grouped into 4: i) RMG and Textiles, Leather, Non-leather Footwear and Fashion industries; ii) Chemical Products, Light engineering and metal works, Electrical & Electronic goods, and Plastics; iii) Agribusiness, Health, and Food & Beverages; and iv) Other sectors with varied activities and small sample sizes.

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ECONOMIC RESEARCH GROUP (ERG)

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Adverse Market Conditions: Imposition of lock-down measures to curb the spread of Covid-19 infections resulted in firms facing workorder cancellations or low market demands, restriction to employee mobility and financial constraints. During lockdown 44.4% of firms ceased all activities and another 46% of firms faced workorder cancellation or low market demand. After the lockdown was lifted, firms in category 1 faced more

Table 1: Adverse market conditions faced by firms during and post-lockdown

Adverse market conditions	Enterprise Category								Total	
	1		2		3		4		In LD	Post-LD
	In LD	Post-LD	In LD	Post-LD	In LD	Post-LD	In LD	Post-LD		
Workorder cancelled/low demand	40.9	45.5	50.0	30.0	33.3	11.1	58.3	41.7	46.0	34.9
Shortage of raw materials	0.0	13.6	0.0	20.0	0.0	0.0	0.0	16.7	0.0	14.3
Employee shortage due to lockdown	9.1	54.5	10.0	40.0	0.0	33.3	8.3	33.3	7.9	42.9
Ceased all activities	40.9	0.0	60.0	5.0	33.3	0.0	33.3	0.0	44.4	1.6
No major concern	4.5	27.3	0.0	20.0	33.3	33.3	0.0	25.0	6.3	23.8
Financial constraints	4.5	4.5	5.0	5.0	0.0	22.2	0.0	8.3	3.2	9.5

Note: LD stands for 'Lock-down'. As firms faced more than one adversity, aggregation results in more than 100%.

workorder cancellation/low market demand, unlike the other categories. One firm permanently closed down its activities during lockdown, whereas others who had ceased operations restarted post-lockdown. 9.5% of firms are facing financial constraints post-lockdown compared to 3.2% of firms during lockdown. Relatively higher proportion of firms in every category facing raw material shortage and employee mobility issue is attributable to the changes in operation status during and post-lockdown, as in, those who reported these issues had ceased all activities during lockdown and restarted operation post-lockdown. Table 1 denotes the share of firms in each category facing various adverse market conditions. Firms in category 3, consisting of 'essential' firms, reported

lowest in facing workorder cancellation and highest in facing no major concern. Meeting similar demand as before, under employee mobility constraints, is forcing the firms to stretch the workforce in conducting services/activities. It is culminating in financial constraints due to low availability of resources.

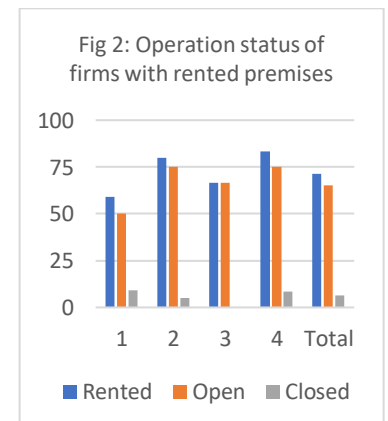
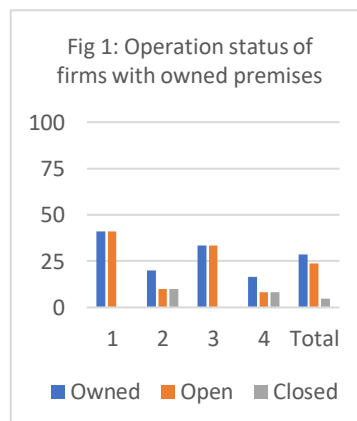
Operation Status & Work Orientation: Including the firm that is permanently closed, 11.1% of firms are currently not in operation. 9.5% of firms restarted operations during lockdown, 42.9% of firms restarted post-lockdown and 36.5% never stopped their operations. Among those who are currently in operation, 41.1% are operating solely from office/production unit (which 16.1% during lockdown). This is due to the proportion of firms who moved from operating mostly at office (16.1% during lockdown to 10.7% post-lockdown) and mostly from home (19.6% during lockdown to 10.7% post-lockdown), as portrayed in Table 2. While the post-Covid era may

Table 2: Operation status and work orientation

Operation Status	Enterprise Category								Total	
	1		2		3		4			
Closed since lockdown started	9.1		10.0		0.0		8.3		7.9	
Closed since lockdown lifted	0.0		5.0		0.0		8.3		3.2	
Closed but reopened before June 1 st	9.1		10.0		11.1		8.3		9.5	
Closed but reopened on or after June 1 st	40.9		50.0		33.3		41.7		42.9	
Never closed	40.9		25.0		55.6		33.3		36.5	
No. of enterprises	22		20		9		12		63	
No. of firms in operation in June	20		17		9		10		56	
Work orientation of firms currently in operation	May	June	May	June	May	June	May	June	May	June
Always at office	20.0	35.0	0.0	47.1	44.4	66.7	10.0	20.0	16.1	41.1
Mostly at office	20.0	10.0	11.8	0.0	11.1	0.0	20.0	40.0	16.1	10.7
Mostly from home	15.0	5.0	29.4	23.5	11.1	0.0	20.0	10.0	19.6	10.7
Not in operation during May	45.0	0.0	58.8	0.0	33.3	0.0	50.0	0.0	48.2	0.0
Did not disclose	0.0	50.0	0.0	29.4	0.0	33.3	0.0	30.0	0.0	37.5

down the use of remote working environment, activity constraints will impede the transition. The proportion of firms which restarted operations after lockdown grants credence to the argument as majority of the activities conducted by these firms require hands-on labor. Firms in category 1 & 2 (engaged in industrial production) stand as example with almost 60% of firms not being in operation during lockdown and almost 50% restarting operations post-lockdown exclusively in office. The firms that had employees working from home in some degree reported meetings, planning, consultation and desk-work to be advantageous to be conducted from home, and hands-on or production activities to be disadvantageous.

Rent Renegotiations: Renegotiations in rental contracts is a coping mechanism for firms to sustain operation/existence. Distribution of firms according to their operation status and rental arrangements shows that a larger proportion of firms operating in owned premises to not be able to continue/restart operations post-lockdown, relative to the proportion of firms operating in rented/leased premises (See Fig 1 and 2). This is the direct result of renegotiation efforts in rental arrangements. Among the 71.4% of firms (those operating in rented/leased premises), 24.4% of



firms renegotiated rent deferral, 4.4% renegotiated to a lower rent and 2.2% left the premise. An additional 4.4% reported that there was no need for a rental contract renegotiation.

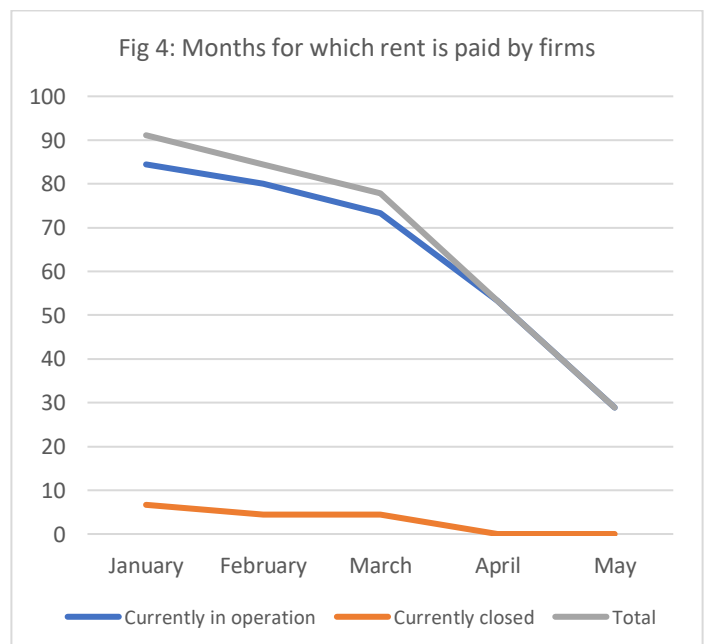
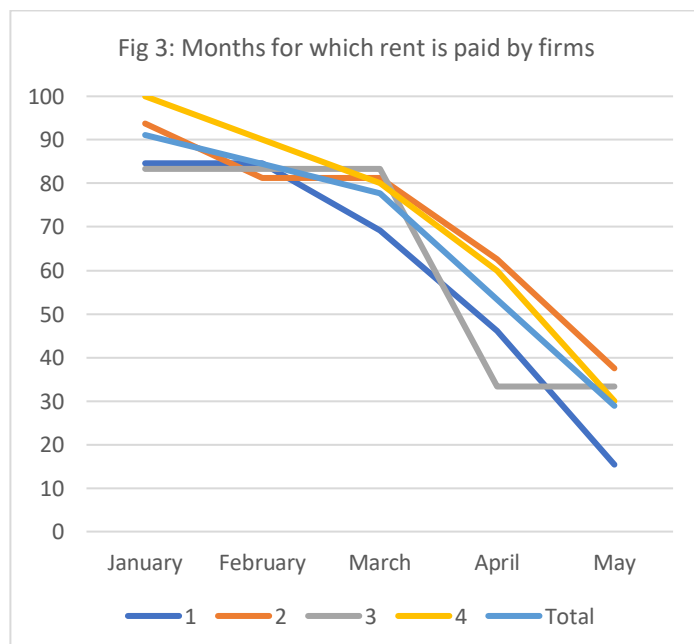
Table 3: Premise type and rent renegotiations

Premise type and rent renegotiations	Enterprise Category				Total
	1	2	3	4	
Owned	40.9	20.0	33.3	16.7	28.6
Rented or leased	59.1	80.0	66.7	83.3	71.4
Single unit	15.4	12.5	16.7	30.0	17.8
Office only	53.8	43.8	16.7	40.0	42.2
Production unit only	0.0	6.3	16.7	0.0	4.4
Both	30.8	37.5	33.3	30.0	33.3
missing information	0.0	0.0	16.7	0.0	2.2
Rent renegotiation	59.1	80.0	66.7	83.3	71.4
Rent delayed	38.5	18.8	0.0	30.0	24.4
Rent reduced	0.0	6.3	16.7	0.0	4.4
Haven't discussed	38.5	50.0	33.3	30.0	40.0
Tried but failed	7.7	25.0	50.0	30.0	24.4
Left premise	7.7	0.0	0.0	0.0	2.2
No need	7.7	0.0	0.0	10.0	4.4

The large majority of firms which have not discussed or initiated renegotiation reported the unavailability of owner, lack of a direct communication channel between owner and tenant, and verbal consideration for post-Covid discussion as the reasons for not having any discussion. Many firms opted to not pay rent in this period without even attempting to renegotiate, to which they responded to renegotiate the terms and conditions after the pandemic passes. 24.4% of firms operating in rented/leased premises reported a failure to renegotiate, with category 3 being the biggest contributor. However, as the firms of category 3 are involved in Health, Agribusiness, and Food & Beverages, owners may have been

reluctant to renegotiate with all these sectors being deemed as essential.

Among firms operating in rented or leased premises, trend shows a decline in proportion of firms paying rent, across all categories, from January to May 2020 (see Fig 3). With the lifting of lockdown, the proportion of firms paying for rent for the missed months is expected to increase from June 2020 onwards. The trend according to operation status shows that those which are currently not in operation have not paid for the month of April and May 2020 at all, reminiscent of the extent of impact the adverse market conditions and lockdown has been on these firms (see Fig 4). The same expectation of rent being paid for the missed months hold for those firms currently in operation, June 2020 onwards.



Employment Status: Compared to the same months of 2019, observed capacity of operations was below 50% for all categories. In the May survey, firms across all categories expected a higher capacity of operations in June but only firms in category 2 were able to reach and exceed their expected capacity (expected capacity was 34.5% on average and observed capacity was 31.9% on average for the month of June). In the June survey, firms reported an expected capacity of operation of 42.3% for the month of July. Table 4 reports the average capacity and employment scenario of the firms according to their activity categories.

Table 4: Employment & Capacity

Employment & capacity	Enterprise Category				Total
	1	2	3	4	
Capacity of operation, compared to same month of 2019					
Observed at May	28.8	15.5	40	27.5	26
Expected at June	40.4	23.2	44	33.9	34.5
Observed at June	35.7	23.6	42	30	31.9
Expected at July	44	31.8	53	47.9	42.3
Professional employees paid in 2020					
January	23.3	24.3	15.4	38.3	25.4
April	23.3	19.1	14.8	38.3	23.7
May	14.7	19.8	14.8	39.4	20.9
Support employees paid in 2020					
January	205.9	82.9	76.8	289.9	167.8
April	205.9	50.1	74.4	289.9	157.7
May	107.7	68	52.4	272.1	119.5
Number of firms reporting	14	11	5	7	37

Number of employees paid in the month of April 2020 is lower than those paid in the month of January 2020. Apart from firms in category 2, other firms have paid an even lower number of employees on average for the month of May. Layoffs and

deferral of salary payments are the main sources of this fall. The values reported are from a subset of firms for which all information was available.

Expected reduction in employment varies by a large margin across firm categories, where firms in category 2 and 3 reports a maximum reduction in employment at May-June period by 40%. Expected employment cutback in July-

Table 5: Employment and salary reductions

Employment & salary reductions	Enterprise Category				Total
	1	2	3	4	
Employment reduction (%)					
Expected minimum at May-June	0	0	0	0	0
Expected maximum at May-June	5	41	40	15	19.7
Expected minimum at July-December (May)	15	19	40	15	17.8
Expected maximum at July-December (May)	41.9	50	40	15	40.9
Expected minimum at July-December (June)	0	0	0	0	0
Expected maximum at July-December (June)	6.3	32	0	0	13.1
Salary reduction (%)					
Expected minimum at July-December (May)	0	8	0	5	3.1
Expected maximum at July-December (May)	13.8	18	0	10	13.8
Expected minimum at July-December (June)	0	0	0	0	0
Expected maximum at July-December (June)	25	0	0	0	12.5
Number of firms reporting	8	5	1	2	16

December period, according to their responses in the May survey, ranged from 5-40%. The expectation was adjusted in the June survey changing the range to 0-32%. It is important to note that firms in activity category 3 & 4 are not expecting to reduce employment at all in the July-December period, as of June survey.

As for salary reduction, firms are less willing to reduce salaries as lay-offs are perceived to be a less costly alternative. According to the responses in May survey, expected salary reduction in July-December period ranged from 0-18% on average. However, expectation was adjusted in the June survey and only firms

in category 1 are expecting to reduce salary by a maximum of 25%. Table 5 reports the employment and salary reductions according to firm category. The values reported are from a subset of firms for which all information was available.

Perception on Lockdown Measures: Despite the adverse effects of lockdowns being faced by enterprises, 42.9%

of firms are in favor of prolonging the lockdown measures. Some have even suggested to impose curfews to curb the transmission of Covid-19. Among those who are in favor of the lockdown, 60% considers a District-wise lockdown to be the ideal spatial coverage and 37% considers 30 days to be the ideal timeframe. One-fifth of firms in favor of lockdowns specified no timeframe. No firm responded Upazila as an ideal coverage for lockdown and hence is not mentioned in the table.

Only 9.52% of firms reported receiving health guidelines in some form. Guidelines were received from IEDCR, the Department of Inspection for Factories and Establishments or the Civil

Table 6: Perception on lockdowns

Lockdown	Enterprise Category				Total
	1	2	3	4	
In favor	36.4	45.0	55.6	41.7	42.9
Against	63.6	55.0	44.4	58.3	57.1
Spatial coverage (% of those in favor)					
Specific building	12.5	11.1	0.0	0.0	7.4
Ward	12.5	44.4	0.0	60.0	29.6
District	62.5	44.4	100.0	40.0	59.3
Country	12.5	0.0	0.0	0.0	3.7
Temporal coverage (% of those in favor)					
15 days	12.5	0.0	0.0	0.0	3.7
20 days	25.0	11.1	20.0	0.0	14.8
30 days	50.0	22.2	40.0	40.0	37.0
60 days	0.0	33.3	0.0	40.0	18.5
90 days	0.0	11.1	0.0	0.0	3.7
No days specified	12.5	22.2	40.0	20.0	22.2

Surgeon Office.

Status of Finance: Table 7 reports the distribution of firms who had taken stimulus package loans, trying to take said loans, gathering information and if initiative was not taken. Almost 40% of firms looking to take loans,

Table 7: Stimulus package loans

Stimulus package	Enterprise Category				Total
	1	2	3	4	
Trying to take loans	36.4	45.0	33.3	41.7	39.7
Gathering information	18.2	5.0	11.1	0.0	9.5
No initiative	36.4	50.0	55.6	58.3	47.6
Taken loan	9.1	0.0	0.0	0.0	3.2

reported in June, displays the extent of financial crunch faced by the enterprises for the pandemic and its mitigation strategies. However, 47.6% of firms reports not taking any initiative, partly because there is no need for financial assistance and partly because they are ineligible to receive these loans. Only 3.2% of firms have been able to avail the stimulus package loans. Lack of coordination and guidelines exchanged between Bangladesh Bank and

the commercial banks, along with structural hurdles, were reported to be the primary reasons behind the low loan sanction rate (according to May survey).

As for loans that were previously taken by the firms (discounting 30% of firms that had taken no loans), the debt

to banks has increased for almost 50% of all firms due to non-repayment of installments. About 10% of firms were able to renegotiate the details of repayment to not have their debt rise (see table 8).

Table 8: Condition of Other Bank Loans

Bank debt condition	Enterprise Category				Total
	1	2	3	4	
Increased for non-repayment	54.5	40.0	77.8	33.3	49.2
Decreased for repayment	9.1	20.0	0.0	16.7	12.7
Renegotiated	4.5	25.0	0.0	0.0	9.5
No loans taken	31.8	15.0	22.2	50.0	28.6

Apart from bank loans, 77% of firms had some form of due (either payables only, or both receivables and payables). Almost half of these firms were able to reduce their due after the lockdown was lifted.

Suggestions: With adversities being faced by firms across activity/product/service space, it is important to facilitate strategies to recuperate the economy. Few suggestions are outlined below.

1. With the developed countries on their way towards recovery from the pandemic, it is important to ensure that the cancelled workorders be reinstated and dues be paid. While the “Pay-Up” movement has gained traction in social media to mitigate some of the losses in the RMG sector, government initiative to ensure said situation is required for further improvements. The ripple-effect of the pandemic streaming through forward and backward linkages between industries can be mitigated by coordinated multi-governmental effort in ensuring production, distribution and payment of imports and exports. Relaxation of import/export duties and customs formalities may propagate a faster recovery.
2. A temporary industry-zone centric transportation system can be setup to ensure safe movement of employees from residence to office (specially in Dhaka, Gazipur, Narayanganj and Chittagong). A proportion of private buses, allocated according to small industry-zones, can be formed where part of the fare comes from the employees availing the service, a matching fee comes from enterprises and rest are subsidized by the government. Only the health sector had a similar system during the “General Holidays” in Dhaka.
3. Investment in IT infrastructure development through government mandates and subsidies may help in allowing some firms to transition to a remote-working environment. The facilitation of which may avoid the designation of corporate rental arrangements for SMEs. However, it is dependent upon clear and informed guidelines for doing business under such new system. Many governmental services, which are yet to be made available over the internet/telecommunication network (i.e. income tax filing), must be facilitated through IT adoption.
4. A platform may be created to facilitate arbitration of conflicts arising in the rental/employment contract breaches. It is necessary to ensure the rights of both owners and tenants (for rental contract disputes) and between employer and employees (for employment contract disputes). At least the former must be attempted considering it to be relatively easier.