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Russian Tech Industry Faces Coronavirus Brain Drain

Companies warn top talent will flood overseas, echoing 1990s brain drain.

By Vladimir Kozlov for bne IntelliNews

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IT companies fear up to 15,000 programmers could leave Russia without government support to fight the effects of the coronavirus economic downturn. **Kirill Zykov / Moskva News Agency**

The Russian IT industry will experience a severe brain drain in the wake of the coronavirus pandemic and ensuing economic crisis, unless the government introduces support measures for the sector, major local IT companies have warned.

By the end of 2021, 10-15,000 IT professionals could leave Russia as the overall economic downturned caused by the pandemic is likely to hit the sector, said Natalia Kasperskaya, chair of the Otechestvennie Soft programmers association, and Valentin Makarov, president of Russoft, in a letter to Prime Minister Mikhail Mishustin.

The two association heads warned that the industry will face massive wage arrears and layoffs, unless it receives government support just like other industries that have suffered from the pandemic.

“The software development industry is characterized by major skill requirements and a high entry threshold,” the pair said in the letter, cited by Russian business site RBC. “It creates complex products that take years to develop, and in case of company bankruptcies, it will be very difficult or impossible to restore operations.”

“Taking into consideration the fact that wages account for about 80% of IT companies’ expenses, a decline in the industry is set to lead to layoffs,” they added.

Russian software developers' average revenue declined by nearly 50% in May, compared to last year, while about 10% of companies reported a decline of more than 90%, the letter stated.

Calls for relief

The two associations are calling on the government to recognize the IT sector as an industry that has been hit by the coronavirus pandemic and provide relief measures for the sector.

Specifically, the IT sector is requesting the introduction of instalment plans for social security payments by firms, and income tax for their employees, to cover the next four years, and subsidies for locally developed software products.

As other industries are experiencing a major downturn as a result of the pandemic, they are cutting back on their IT spending, Renat Lashin, executive director of Local Software said.

According to Lashin, payment arrears have been reported by about 50% of all IT-related contracts, while between 10% and 20% of all contracts have been terminated, pushing IT firms to reduce salaries or staff numbers.

“A brain drain in the IT industry would lead to the country’s decline in competitiveness in crucial innovative segments, such as artificial intelligence, information security, automation, medical and defence technology,” he said.

A poll conducted by Russoft among Russian IT companies revealed that over 15% have lost at least 10% of their employees, while 42% have had to let staff go. Another survey found that between 20-25,000 IT professionals could lose their jobs.

Crypto laws

Meanwhile, another factor that could have a negative impact on the situation in the Russian IT industry is the new law on digital financial activities, expected to be adopted later this year.

The current draft law stipulates that digital assets, such as cryptocurrencies, can only be bought in Russia on foreign exchanges and need to be declared by the purchaser.

“The adoption of the digital financial asset law in its current state is likely to speed up an exodus of IT professionals,” Yuri Pripachkin, head of the Russian cryptocurrency and

blockchain association said.

“People won't see prospects here. For instance, those who are currently using e-citizenship as a temporary solution will decide that there’s no future for them here and they’ll just leave. We’ll again lose potential Googles, WhatsApps and Telegrams."

IT associations have already petitioned Russia’s communications ministry to add them to the list of industries hit by the pandemic, but so far, nothing has come out of that, even though President Vladimir Putin promised to look into their situation back in May.

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