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EMPOYMENT IN CONSTRUCTION SECTOR UNDER THE PERIOD OF COVID-19:A REVIEW PAPER

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Abstract
The informal sector, despite being a huge contributor to India's GDP, is often neglected when it comes to supportive policies especially in times of crises. Currently, with the spread of the COVID-19 virus, there is significant rallying by governments, policymakers and health professionals for 'social distancing' and maintenance of proper hygiene. This implies minimising contact with the outside world and taking precautionary personal hygiene measures such as frequent use of hand sanitisers, wearing masks when ill and other such .Indian construction sector, which was already struggling to re-emerge from the past turbulence of structural changes, policy reforms, and the liquidity crisis, is now set to witness another major fallout. Unfortunately, 2020 seems to be different. Country-wide lockdown until mid-April has halted all activities. As evident, project sites are shut, site visits have stopped, and construction activity has come to a grinding halt, eventually impacting housing sales. Also, developers have deferred their new project launches for an unknown period.
After agriculture, real estate is the largest employment generator in the country. The sector creates tremendous opportunities for the skilled and unskilled workforce. It has also been instrumental in employing large masses of migratory populations that come to the metropolitan cities in search of work. As per industry estimates, 90% of the workforce employed in real estate and construction sector is engaged in the construction of buildings, while the rest 10% is involved in building completion, finishing, electrical, plumbing, other installation services, demolition and site preparation. Over 80% of the employment in real estate and construction constitutes of minimally skilled workforce, while skilled workforce accounts for over 9% share, and the remaining are spread across work classes such as clerical, technicians and engineers. As per the Economic Survey 2017-18, employment is expected to grow at a compounded rate of 5%. These figures are mainly for construction and development. Foreign Direct Investment (FDI) in construction development: townships, housing, built-up infrastructure currently accounts for only 6% of the total inflows from April 2000 to December 2019. A quick comparison of the absolute inflows between Apr-Dec 2017 with Apr-Dec 2019 shows that the investments in the sector in 2019 reduced by 7% as compared to 2017, indicating that FDI has already slowed down. Amidst the COVID-19 uncertainty, it is anticipated that the forthcoming quarter of the current year may witness a further decline in FDI inflows into the sector.

Impact of lockdown and risks
• Shutdown affecting construction leading to cost overruns
• Slowdown in consumer demand and resultant liquidity crunch
• Risk of default in mortgage loans and possible squeeze in lending
• Affordable housing projects may particularly face issues due to informal sector getting affected from the lockdown.
• Being capital intensive, this sector has relatively higher interest costs compared to others
• Fixed costs as a proportion of total operating revenues for top companies
• Employee costs: 6%
• Depreciation: 3%
• Interest cost: 3%
(Median for 1159 companies)
Source: EMIS Database

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Policy recommendations

Waiver of interest for a period of 3 months on home loans taken for projects under Pradhan Mantri Awas Yojana (PMAY) - Rs 11000 crore

• Double the funding for “Special Window for Funding Stalled Affordable and Middle-Income Housing Projects” to Rs. 50,000 crores and expeditiously deploy it for managing the stalled projects

• Implement NITI Aayog proposal of 75% award of current amount stuck in arbitration with the Government or Government entities without the requirement of bank guarantee to be given by the recipient- Rs 35000 crore

• Permit GST paid on inputs in construction of commercial property to be paid as credit for GST charged on rentals

• Encourage states to waive off stamp duty in major metropolitan areas for the next 9 months to boost demand

• Reduce incidence of stamp duty on transaction documents pursuant to a sale and leaseback transaction

• Encourage states to defer municipality taxes and other fees like IDC/EDC (internal development charge /external development charge) etc. for the period of next 6 months

• To encourage sale and leaseback transactions, permit the lessee to claim an expense deduction under the Income tax Act, 1961 for lease rental payments. Also, the lessor should be allowed to claim tax depreciation on the acquisition price as it relates to “depreciable asset”. These measures will help unlock capital for the sector.

A future beyond the pandemic

The COVID-19 crisis hit an Indian economy that was already slowing. Recovery is unlikely to be V-shaped and more likely to be sluggish and uncertain. Damage will persist throughout the whole economy but most notably in the unorganized sector. A key priority across these dimensions is migrant workers who have been the backbone of the Indian economy and are now some of the hardest hit. Allowing for interstate migrant workers to return to places of work will be critical to reopening the economy but will require sufficient protection of these workers both in terms of exposure to the virus and their incomes and working conditions. As well as boosting immediate support, it is important to set out a strategy for the medium and longer term to address declining demand and speed up the recovery. This should include a comprehensive employment strategy promoting jobs and productivity in key sectors, along with measures for robust social protection, while strengthening occupational safety and health. It will be important to support enterprises and their workers, particularly small enterprises and those in the informal sector. Reskilling and upskilling of worker may be needed in light of changes to labour demand across sectors and occupations. Monitoring wage trends, especially for low skilled workers, needs to be regularly carried out.

Enterprises under financial pressure may be forced to fall into informal sector or tempted to lower working conditions including workers’ protection. However, this would only result in a greater jobs crisis. Instead, based on social dialogue, there should be a priority for incomes and decent work to stimulate demand and productivity, protecting existing rights and working conditions, and where possible extending them, for example, by ensuring access to health care. These are all crucial policy choices that will shape the ‘national interest’ for years to come.

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