



Revival Package for the Construction Sector

The announcement by the Cabinet Committee on Economic Affairs (CCEA) of a revival package for the ailing construction sector has come at an opportune time, as it seeks to de-stress the liquidity woes of construction companies and the infrastructure sector.

The Government's revival package for the construction sector is expected to translate into a huge liquidity boost for the system, and would save many construction companies from being declared Non Performing Assets (NPAs). The package will also allow the recovery of loans by the banks, and will facilitate construction companies to speed up the execution of on-going projects. Further, it will increase the ability of construction companies to bid for new contracts. The resulting competition will be beneficial in containing the costs of public works.

CII had engaged with key stakeholders across Government to make a case for this crucial sector, often described as the bottom end of the infrastructure chain. Most of CII's recommendations are reflected in the revival package.



'The broad spectrum measures announced by the Government will help the construction sector, which has the potential to generate jobs and boost investments in infrastructure projects, an imperative to revive economic growth.'

Atul Punj

Chairman, CII National Committee on Construction, and Chairman, Punj Lloyd



'Indian industry welcomes this positive and timely initiative taken by the Government. This would unplug stressed assets and revive projects that have been stuck over years in litigation and courts.'

Chandrajit Banerjee

Director General, CII

One of the major decisions by the CCEA includes a direction to Public Sector Undertakings (PSU) to pay 75% of the award amount to contractors against a margin fee in cases where the PSU has lost the arbitration case, and goes in for appeal in the courts. This will infuse liquidity, and can be used by the contractors to repay bank loans or to meet commitments in on-going projects.

Government departments and PSUs have also been instructed to transfer cases under arbitration to the amended Arbitration Act which has an expedited procedure, with the consent of the concerned contractors. This will help disputes to be settled expeditiously, with minimum

cost and time overruns, and will unlock stuck money to go back into circulation in the economy. An estimated amount of around ₹70,000 crores is expected to be unlocked due to this measure.

In the long run, other measures are also under consideration, including changes to bid documents and model EPC contracts. The Cabinet has also directed PSUs and government departments issuing public

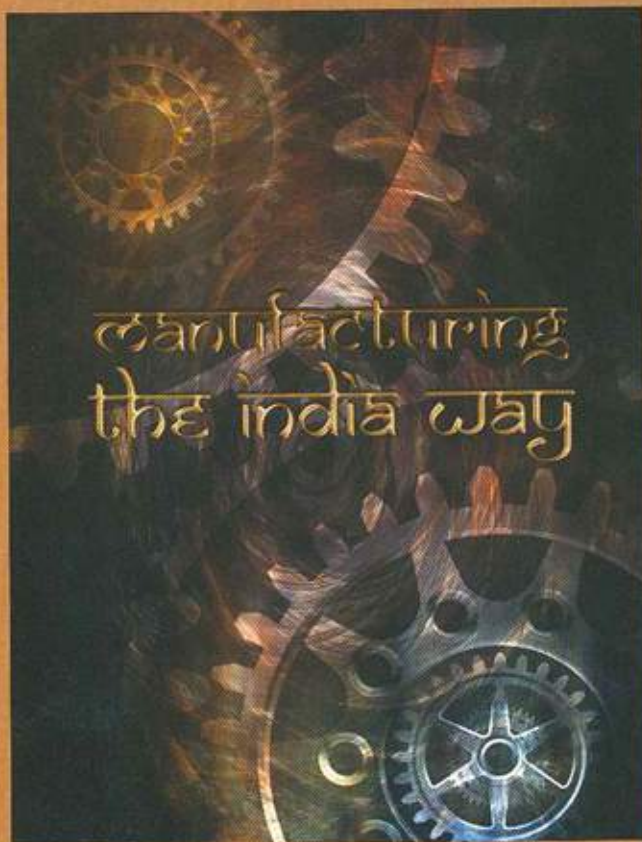
contracts to set up conciliation Committees comprising of independent subject experts to ensure the speedy disposal of pending or new cases. The Department of Financial Services, in consultation with the Reserve Bank of India (RBI), will examine and evolve a suitable one-time scheme for addressing stressed bank loans in the construction sector.

Given that the construction sector generates the highest level of direct and indirect jobs, employing about 40 million people with a 2.7x multiplier effect on the economy, and is the second largest contributor (nearly 8%) of economic activities to the GDP, these initiatives are set to trigger massive expansion of the infrastructure sector. This would boost industrialization, urbanization, rise in disposable incomes and the

success of various Government initiatives to improve India's residential and transport infrastructure.

A few suggestions for possible additional amendments that will further streamline the ease of doing business could include adoption of the ICC Uniform Rules for Demand Guarantees, which are being followed in most major countries. Also, a revision of clauses in public contracts so that the interests of both the client and the contractor are taken care of, is essential for the full recovery of this crucial sector.

While the effect of the amendment may be visible after a few months, in the long run these initiatives would enable the construction sector to attract foreign investments and help revive the sectors crucial for rebooting India's growth story.



Confederation of Indian Industry

AVAILABLE NOW!

The definitive illustrated book on the transformation of Indian manufacturing

“Therefore I want to appeal [to] all the people world over, from the ramparts of the Red Fort, ‘Come, make in India’, ‘Come, manufacture in India.’”

PRIME MINISTER SHRI NARENDRA MODI
Speech on Independence Day of India, 15 August 2014

With Insights From:

- ◊ Adi Godrej
- ◊ Adil Zainulbhai
- ◊ Anant J Talaulicar
- ◊ Banmali Agrawala
- ◊ B Prasada Rao
- ◊ Chandrajit Banerjee
- ◊ C Narasimhan
- ◊ Cyrus P Mistry
- ◊ Deep Kapuria
- ◊ Hari S Bhartia
- ◊ Jamshyd N Godrej
- ◊ Naushad Forbes
- ◊ Rahul Bajaj
- ◊ Sanjay Lalbhai
- ◊ Sumit Mazumder
- ◊ Sunil Kant Munjal
- ◊ Sunil Mathur
- ◊ TV Narendran
- ◊ Venu Srinivasan
- ◊ Vinayak Chatterjee
- ◊ YC Deveshwar



Publication

For price and orders, please contact corporate.communications@cii.in

