



# THE IMPACT OF COVID-19 LOCKDOWN ON NEPAL'S CONSTRUCTION SECTOR: A RAPID ASSESSMENT

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## **Background**

This paper presents an assessment of the challenges faced by the construction sector<sup>1</sup> in Nepal in the aftermath of the nationwide lockdown announced on March 22. The lockdown ordered by the Government of Nepal essentially banned all movements of all citizens except to purchase food and other essential items beginning 6:00 am on March 24. That left an estimated 4.4 million<sup>2</sup> daily wage earners and their employers with roughly one day to plan their next move. It was reported that close to two hundred thousand migrant workers left for home from Kathmandu and surrounding areas in those 24 hours. Even after the lockdown, this movement could not be halted. As late as April 23, newspaper reports of migrant workers walking home on the highways from Kathmandu and other employment sites kept pouring in.

Construction sites in Kathmandu and other urban centres of Nepal came to a sudden halt after the lockdown. In isolated sites, lack of supplies and government enforcement of the lockdown closed construction in the 3-4 days that followed. Many of the larger contracts were halted under *force majeure* provisions. Some of the construction sites with camp facilities operated for a few more days but for the lack official guidance and lack of supplies, they too came to a gradual halt. The government did try to ease the situation on April 21 by announcing that construction sites and industries that can house and feed workers in their own premises in relative isolation can resume operations with due social distancing precautions but this “easing” could be applied to about 250 construction sites and industries<sup>3</sup>. Due to disruptions in labour supply and other reasons, even these sites are not operating at full capacity.

## **Size of the industry and scale of the impact**

Based on the post-pandemic revision of national accounts, the construction sector output for the year 2019-20 is expected be Rupees 488 Billion<sup>4</sup>, which represents a contraction of 0.31 percent over the previous year.<sup>5</sup> Any contraction in this sector gets translated as reduced demand in other sectors such as manufacturing, trade, services, and transportation. The overall impact of further contraction in this sector can be significant for Nepal’s economy.

The sector employed 978,000 workers in 2018.<sup>6</sup> Since the sector has been growing at an average rate of 9 percent each year since 2018, we can assume that the pre-pandemic employment numbers could have been around 1.2 million. It is further estimated that about

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<sup>1</sup> Includes all forms of general and specialized construction such as residential and commercial buildings, airports, highways, irrigation canals, sewerage systems, drinking water, industrial facilities, etc. but excludes manufacturing of construction material. CBS follows UN System of National Accounts, 1993.

<sup>2</sup> Gopal Sangraula. 4.4 Million Workers Jobless. Karobar Daily. April 9, 2020. Quotes CBS Officer Prithvi Bijay Sijapati.

<sup>3</sup> Based on Bhim Gautam’s (Karobar Daily) interview with Secretary, Ministry of Physical Infrastructure and Transportation, April 25, 2020 (unpublished, transcript obtained by the author).

<sup>4</sup> Approximately USD 4 Billion

<sup>5</sup> National Accounts 2019-20. Central Bureau of Statistics. Kathmandu.

<sup>6</sup> Nepal Labour Force Survey 2017-18. Central Bureau of Statistics. Kathmandu.

500,000 seasonal and Indian workers work in the sector particularly in the months of February to May.<sup>7</sup> While accurate data is not available, it is reasonable to assume that about 1.7 million workers were wholly or partially employed by the sector when the lockdown started.

Of the 1.7 million workers, it is estimated that about 300,000 workers are on regular payrolls.<sup>8</sup> Currently, the estimated 300,000 workers in the payroll are being paid at 50 percent of the regular salary. Of the remaining 1.4 million, up to 95 percent may have lost their jobs. The 5 percent exception is mostly based on the assumption that some of the workers may have found other jobs and some of them may have been absorbed by the 200 contracts in hydropower, roads, airports, and bridges that the government has allowed to proceed even during the lockdown. The 200 contracts that have received government permission to resume work also form about 4 percent of the approximately 2,200 federal government contracts operational before the lockdown.<sup>9</sup> This brings the estimated total number of workers displaced and unemployed as a result of the lockdown in the construction sector to about 1.33 million.

It is difficult to determine how many of the 1.33 million workers were employed within 20 kilometres of their homes.<sup>10</sup> For everybody else, the journey back home after the announcement of the lockdown has been a traumatic one. By now, numerous television and print media reports have documented the plight of these workers.

There were two main drivers of the mass exodus of migrant workers. First, the fear of the epidemic itself. By the time the lockdown started on March 24, television screens and the social media were abuzz with images of death and chaos from China, Italy, Spain and New York City. The government of Nepal, for its part, never quite mounted a public information campaign to make citizens aware of who was at higher risk and who was not or what was the prognosis of the disease for healthy, young adults—the demographic cohort that predominantly constitutes the construction sector work force.

Most workers also received a barrage of calls from family and friends back home urging them to start walking home. There was a fear of death and disease and an urge to be in the safety of their homes in the minds of the workers who chose to suddenly leave whatever they were doing and start walking home. Similar mental state prevailed among the millions of migrant workers who started to walk home after the lockdown announcement in India.<sup>11</sup>

A second driver of the mass exodus was the understandable lack of visibility as to when the epidemic would end. The initial lockdown announcement was for a seven-day period and carried no hint or guidance on what is likely to follow. Some workers nonetheless chose to stay

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<sup>7</sup> Based on an interview with Rabi Singh, Chairperson, Federation of Contractors Association of Nepal.

<sup>8</sup> Based on an interview with Rabi Singh, Chairperson, Federation of Contractors Association of Nepal.

<sup>9</sup> Based on Bhim Gautam's (*Karobar Daily*) interview with Secretary, Ministry of Physical Infrastructure and Transportation, April 25, 2020 (unpublished, transcript obtained by the author).

<sup>10</sup> Reasonable walking distance for an able-bodied person.

<sup>11</sup> Sushant Singh, Explained: Indian Migrants, Across India. The Indian Express. April 29, 2020.

back even after the lockdown commenced on April 24. That very evening, when India announced a three-week lockdown, it became clear to the workers as well as their employers that the lockdown would perhaps not end soon. This confusion is what trapped many of the workers. When they started to walk home, the government chose to clampdown on the walkers instead of facilitating their safe passage. Harassed by the police, stigmatized by communities along the way, and in lack of food and water, thousands have now reached the safety of their homes. This trauma of the return journey will remain, as I discuss in the coming sections, an impediment to their return to work, for some time to come.

### **Impediments to reviving the construction sector**

There are deep uncertainties that surround the prospects of re-opening the construction sector. The current lockdown period ends on May 7. Through several extension announcements, what started as a seven-day lockdown has now become 43 days. The government has not made any announcement on easing or ending the lockdown on May 7, as of writing this report. Noted economist Paul Krugman has equated the effects of lockdowns on the economy to the effects of a medically-induced coma on the human body—the longer the lockdown stays, the longer will be the recovery period and larger the risk of longer-term damages. This section looks at some of the salient short-term impediments to reviving the construction sector.

***Epidemiological uncertainty.*** The Covid-19 pandemic has certain characteristics to it that make effective control over the spread uncertain. It is highly contagious and cannot be controlled by social distancing and other habit changes alone; a large percentage of the infected population tends to be asymptomatic, therefore, it cannot be contained by expansion of testing and isolating capacities alone; and, we don't know how long the post-infection immunity reliably lasts, therefore, a second-wave cannot be ruled out either. The earliest vaccine, on the other hand, is at least 6-9 months away. In this context, reviving the construction sector or, for that matter, the broader economy only means reviving to the extent possible and not reverting to the pre-lockdown pace, at least for the next 9-12 months or more.

***Disrupted supply chains.*** The lockdown announcement brought the entire transportation and aviation industry to sudden halt. All borders were shut and all import-export activity came to a grinding halt, with the exception of food, fuel, medical supplies and a few other essentials. Even mining and quarrying that occurs in remote, isolated areas were stopped, despite there being no epidemiological reason to go to that an extreme. The cement industry, which depends on mining and quarrying of limestone is now left without raw material. The crusher industry, which produces aggregate for concreting, is similarly stalled. Nepal's steel milling, rolling and forging industries depend in entirety on imported steel. Because India too is in a lockdown and global supply chains as well are disrupted, Nepal's construction steel industry is also likely to

run out of stock soon<sup>12</sup>. Import of raw materials for wires, pipes, and paints have not been allowed either. Brick kilns have not been able to replenish their coal stocks. The lockdown has created completely avoidable scarcities at the core of the construction industry. Even if India's lockdown eases and the global supply chain recuperates in the next 4-6 weeks, the supply chain of essential construction materials in Nepal is likely to remain disrupted for around three months after the lockdown is lifted and imports are allowed to resume.

**Disrupted hiring networks.** In most large-value contracts (Rupees 50 million or more), contractors tend to source labour through labour contractors. This practice has become more prevalent since Government of Nepal introduced mandatory social security deductions in the payroll of daily wage earners at the start of the current fiscal year<sup>13</sup>. The practice provides the contractor a way of "out-sourcing" the compliance burden at a lower cost. Depending on the size of labour demand, many labour contractors in turn pass the hiring and payroll management functions to the labour foremen. The foremen then source potential workers from communities and villages in groups. The hiring chain, below the contractor, operates mostly on co-dependencies, trust, and relationships. Since the labour market operates with very few features of the "market" a disruption as deep as this one is bound to show inefficiencies once the recovery begins. The entire network needs to be restored: the labour contractors will have to recall or rehire the foremen, the foremen will have to bring their groups or find other groups, and the individual workers have to be ready to go back to work. Even if contractors wanted to ramp up construction activities immediately after the lockdown eases, factors such as these will cause additional delay.

**Unfortunate timing.** The busiest time in the construction industry is after the festivals get over in November and before the rains begin in June. The lockdown started in the third week of March and, if further easing happens, it will be after the first week of May. That leaves just about four weeks of work time before the Monsoon hits in early June. Once the rains start, seasonal workers return to their farms. Roads travel becomes difficult and rains disrupt construction activities. Most construction sites operate at 10-15 percent capacity during June, July and August. It picks up slightly during September and slows down for the festivals in October. Given this cycle, a majority of the 1.33 million workers will not re-employed until November of 2020, even if all other conditions, including the epidemic, become better in the next 6-8 weeks.

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<sup>12</sup> Timing is tricky here. Till about November the demand is likely to show a slump. It is my estimate—and I don't have accurate stock figures from factory inventories to put forth—that the current stock may last till October–November. Because India is aggressively opening up and so is China, if Nepal takes the correct steps to ease the supply, it may ride over the possible scarcity. This is also the reason why I have argued for opening up of domestic supply chain quickly, so the factories get a healthy outlook indicator and place orders on time.

<sup>13</sup> Based on an interview with Sanjeev Koirala, Managing Partner, Claims and Dispute Resolution Consultancy Pvt. Ltd.

***Psycho-social readiness.*** This issue remains underexplored in Nepal at this time but early studies and surveys in India<sup>14</sup> and elsewhere do suggest that the triad of traumas—the loss of livelihood, the harrowing conditions around which the migrant workers had to return home, and the continued fear of the pandemic—is bound to impact the migrant workers’ confidence to return to work, at least, for some time to come. After mid-May, most households in the rural areas will start to get busy with the planting season. This is also a time when rural employment opportunities grow for a short period of time. Being in the safety of their own home and finding some work in their own community should have some restorative effects. However, gathering the confidence to journey back to work within the next three months might be difficult for many, particularly, if the pandemic doesn’t stop being part of the everyday conversation in families and communities by then.

***Contractual disputes.*** From the discussion above, it now clear that almost all current construction contracts in the country will have to go through a time extension negotiation. Time extensions do add overhead costs and reduce contractor’s profits. It is also clear that supply chains across the globe as well as in Nepal have been disrupted. This too will have a cost-escalating effect. It is also clear that workplace safety guidelines will have to change until a vaccine becomes available, this too will add to the cost of construction. It is likely that with slackening fiscal discipline observable across all countries, inflation too will rise. Nepali currency has already lost 10 percent of its value, making imports more expensive.

Whichever way we look at the situation, a cost-escalation negotiation as well will be needed in most contracts.<sup>15</sup> These processes can take a long time. Claims can run into disputes. So far, the government has not come up with any guidance on this matter. As the largest client for the construction industry in the country, if the government fails to address this problem at a policy level, each contract under dispute will have to have its own dispute resolution process and its own resolution time, which can shift timelines for reviving the sector significantly.

***Demand slump.*** If we are to go back to the question as to when can we realistically expect the construction sector to recreate 1.33 million full-time and seasonal jobs, we have to look at the broader economy that generates the demand for the construction sector as well as what the government can afford to spend in this sector. Indeed, the picture is not clear yet. On April 29, the Central Bureau of Statistics (CBS) revised the GDP growth estimates for the year downward from 6.7 percent to 2.2 percent. The CBS has assumed that apart from the tourism-related sectors, other sectors of the economy will gradually normalize beginning mid-May. From what this paper has been highlighting so far, this assumption may not hold true, at least for the construction sector.

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<sup>14</sup> See, for instance, 21 Days and Counting: Covid-19, Migrant Workers, and the Inadequacy of Welfare Measures in India. Stranded Workers Action Network (SWAN) and Azim Premji University. An equivalent survey work on the Nepali workers has not happened yet but the circumstances around which migrant workers hit the highways have been similar on both sides of the border.

<sup>15</sup> Contracts with performance period less than 15 months do not qualify for cost extension by Nepali laws.

The revised estimates show four key sectors of the economy in contraction: construction, manufacturing, ‘transportation, communication and storage’, and ‘hotels and restaurants’. In an economic contraction, private sector demand for goods and services begins to slump first. Once the private sector demand begins to slump, and this process is already underway, government spending becomes the only way to revive the sector. From this point on, whether and when the construction sector returns to the pre-lockdown state and rehires 1.7 million workers depends on whether and how soon the government provides the sector with the fiscal stimulus it needs. So far, there have been no discernible signal from the government that suggests that the government is working on a stimulus package for the sector.

### **Cross-cutting concerns**

There are a number of developments at the political level that may make the government’s response less effective than expected. First, in response to the crisis, the government chose to rapidly consolidate and centralize all decision-making powers. A high-level committee headed by the deputy prime minister, which has a few senior ministers as members, has now assumed all responsibilities related to the pandemic response.

The highly centralized decision-making structure takes away the scope of decentralized responses to local problems in a significant way.<sup>16</sup> This disarray and the lack of decisive response was noticeable in provincial and local governments as thousands of migrant workers started to walk the highways. Despite there being adequate human and fiscal resources to tackle this problem locally, sub-national governments, particularly in the first two weeks, had to remain distant observers to the unfolding problem. Cement factories not being allowed to maintain mining operations in uninhabited areas where the threat of the Covid-19 spread is almost non-existent or returning migrants from India being forced to cross rivers and barbed wires to reach home or federal government deputed Chief District Officers taking charge of pandemic response rather than allowing local and provincial governments to take responsibilities are all indications of how disjointed the administrative machinery has become in the wake of the crisis. Selected and gradual easing of the lockdown will be even more difficult to manage and coordinate through a centralized decision-making structure of this nature. These developments are bound to make policy responses, including those that pertain to the construction sector, less prompt and less effective.

Second, there also appears to be a general apathy in Kathmandu towards the plight of the poor across the country. The sudden disappearance of over 90 percent of the informal, daily-wage jobs has hit the poorest the most. For the poorest households, the easily accessible, low-threshold, daily-wage job market constitutes a key source of income during household crisis. Women escaping abusive men, farmers seeking some extra cash to buy fertilizers, single mothers working a few days a month to secure food for the children, all such possibilities have now been shut out. There is no doubt that this crisis has driven the poorest, the weakest, and

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<sup>16</sup> Although there have been sporadic examples of sub-national initiatives that have transgressed the federal government’s grip on their agency.

the most marginalized households, women and children to extreme financial fragility. Yet the appeals to ease the draconian lockdown even as the country is yet to cross a hundred cases of infection after 40 days is plainly ignored. Nepal is also the only country in South Asia that has not taken any initiative to repatriate thousands of workers stranded in the Gulf, East Asia and India.

Third, the required political initiative to curb the social stigma associated with the infection is also missing. While the Ministry of Health's daily briefing often raises the issue appealing to the public not to stigmatize infected individuals, there has been no political reinforcement of the message. There have been newspaper reports of villagers blocking roads and bridges to prevent returning migrants from entering the villages<sup>17</sup>. On May 4 and 5, twenty-three new cases were confirmed in Nepalganj in a community cluster. Almost immediately, small neighbourhoods took the matter in their own hands and started putting barricades and vigilante groups on the streets. While the local administration tried to discourage communal reactions of this type, without serious political messaging these tendencies cannot be curbed across the country. If fear and stigma continue unchecked, it will be further difficult to resume economic activities particularly in construction sites that employ large number of people.

### **Conclusion and Recommendations**

All arguments considered, the construction sector in Nepal is unlikely to return pre-lockdown vibrancy before November 2020. Whether the sector manages to revive itself by November 2020 depends on five conditions: first, the government manages to contain the expected spread of the pandemic after the lockdown eases and international borders opens for traffic in 6-8 weeks; second, the current lockdown eases enough to restore domestic supply chain of construction materials within 4-6 weeks from now; third, the government takes appropriate steps to reduce anticipated contractual disputes as quickly as possible and restores the cash flow into the sector; fourth, the current relief and welfare system manages to prevent widespread hunger and rural distress; and, fifth, the FY 21 budget manages to significantly<sup>18</sup> ramp up allocations in the construction sector.

Based on this assessment, we would like to make the following recommendations:

***Find an alternative to nationwide lockdowns.*** The curfew-type, nation-wide lockdown method that Nepal has adopted ignores the fact that epidemics have a geography of spread. There are locations where the spread is on the surge and there are locations where the spread as well as the risks are completely manageable. The cost of ignoring this very basic nature of the epidemic and resorting to a homogenous response for the entire country and entire population can be very high. In addition, the real risk of spread comes when Nepal opens its international borders and aviation traffic. Cases will go up, most likely in waves. If lockdown is the only solution the

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<sup>17</sup> Because of the lockdown, it is difficult to establish how widespread this problem has become. See for instance: <https://www.recordnepal.com/covid19/a-man-returning-home-on-foot-dies-in-desperation-instead/>

<sup>18</sup> Rupees 400 – 450 Billion is the figure that comes up in conversations with economists and sector experts.

government has then Nepal will be under lockdown every two months or so until a vaccine comes along. A geographically disaggregated and demographically segmented response strategy has to be drawn up, communicated, and implemented at the earliest in order prevent further shocks to the economy.

***Clean out contract management kinks, speed up procurements, and expedite payments.*** There cannot be a more opportune time than the one accorded by this crisis for Nepal to clean up the kinks in its procurement and invoicing systems. The expected barrage of claims and disputes in thousands of contracts will have to be handled at a systemic level and not on a case by case basis. A rapid survey of on-going contracts has to be carried out to identify which cost items have been genuinely affected by the pandemic and a guidance on how to handle cost escalation claims issued at the earliest so that contractual disputes do not get stuck in negotiations. The faster the government manages to procure and pay, the faster will be the recovery of the sector and faster will the money end up in the hands of the construction workers who need it the most.

***Significant fiscal stimulus for the sector can be a way of reviving the entire economy.*** The government has no option but to shore up this sector as the main employment generator as long as tourism and remittances stay depressed. Tourism will not revive in earnest until a vaccine becomes accessible across the world; remittances will remain down until the Gulf and East Asian economies pick up steam. It is difficult to put a timeline on both these events. The construction sector, on the other hand, is not depended on the global economy as much as other sectors are. There is enough domestic capacity to produce core raw materials such as cement, aggregate, and steel components within Nepal. A growth in the construction sector stands to stimulate the manufacturing sector as well. A rapid surge in employment in this sector helps private consumption and potentially prevents all out spread of rural hunger. Without a significant fiscal stimulus in this sector, the redundancies expected from the tourism sector and potential returnees from international labour markets cannot be absorbed.

***Ramp up infrastructure investment, welfare programs, and cash transfer schemes at the local level.*** Poverty in Nepal is skewed towards rural areas; incidence of poverty in rural areas is 33 percent as against 7 percent in urban areas<sup>19</sup>. With most jobless migrant workers from the construction as well as other sectors now returning back, there will be added pressure in the rural areas. The relief packages currently being distributed through local governments need to be upgraded, expanded and standardized across the country at least for three additional months. Cash transfer schemes currently administered through social security program might have to be extended to children under 14 years of age to prevent nutrition-related health problems, particularly in poor household, at least for six months. Since large infrastructure projects are likely to be stalled for the next 6 months, the focus should shift towards smaller (less than Rupees 50 million) projects that are targeted to poverty pockets and areas where

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<sup>19</sup> National Planning Commission. Nepal Multidimensional Poverty Index. 2018

migrant back flow is most prevalent. From a governance point of view, this is perhaps an opportunity to test the effectiveness of provincial and local governments as well. These schemes cannot be directed and implemented by the federal government.

***Communicate, communicate, communicate.*** The economy doesn't like surprises. In a crisis of this nature even the government may not have all the answers, but a physical lockdown does not have to become an information lockdown. Forty days into the lockdown, there has been no communication from the government on how it plans to revive the economy; with less than three days left before the end of the lockdown period there has been no indication as to whether the lockdown will ease after May 7 or not; most Nepalis don't know who qualifies for the relief package and who doesn't; provincial governments have been similarly quiet; and, local governments don't have access to nationally influential broadcast media. Businesses in the construction sector and in the wider economy are looking for guidance on a variety of issues but apart from the daily Covid-19 press briefings from the Ministry of Health, no other ministry speaks to the public. The demand for policy response and information is mounting and responding to this demand is the first step towards re-starting the economy.

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