

**Address by Deputy Chairman, Planning Commission at XXI All India Builders' Association of India Convention on 18-20 February, 2005 at New Delhi**

Dr. Brahm Datt, Mr. Ajit Gulabchand, Major Dalbir Singh, Mr. BikraDr. Braham Datt, Mr. Ajit Gulabchand, Major Dalbir singh, Mr.mjit Ahluwalia, Mr. Arun Sahai and friends. It is my privilege to be invited here for this Convention organised by the Builders' Association of India.

I had the opportunity to interact with some of the representatives of the Construction Industry in the last few months after I took over my present assignment. There was one message that I got consistently from all of them including Mr. Ajit Gulabchand and Dr. Brahm Datt, was that the Construction Sector is sadly neglected. I have given enough thoughts about the Construction Industry for some time and looking at the evolution of economic policies in India. As we are trying to push the process of economic reforms, I am inclined to agree with the view that it is true that the Construction Sector is neglected.

All over the world, Construction activity is regarded as the principal sign of growing economic activity. During the 1990s, when I met people travelling to parts of the emerging market world, the single most important visual effect that made them say is that, they saw large Construction activity and a lot of modern Construction activity with new technology. Even when investments were taking place, for a variety of reasons, the way we ran the urban economy in India has very much ensured that no serious effort in urban re-generation takes place. That is not the fault of the Construction Industry, it is the way we ran the urban system. Even if lot of constructions are taking place in the National Highway Development Programme, Hydro-Electric Power Projects and lot of factories are being built, somebody flying into Bombay or flying into Delhi, will not see all that. Looking at the landscape, where they do not see much of a construction, they will come to the conclusion that there is something wrong and that both these major cities have a long way to go in terms of development in order to reach modern standards of infrastructure. It is not the problem just with the Construction Industry. I am quoting the urban example simply to say, that if you are running the urban economy in a way in which they don't develop the capacity to build urban infrastructure, we are not going to see much of a construction activity. I think we need to reflect on this aspect.

Now, both the main speakers have made this point and there is complete agreement on the part of everybody looking at the Indian economy and certainly it is the view we take in the Planning Commission and it is the view that the Government also takes — that the single big gap is at the moment the infrastructure deficiency.

The fact is that the Indian enterprises and industries are now very self-confident, which was not the case prior to the reforms were undertaken. There is much more than 'can do' attitude and a willingness to take on competition. It is therefore reasonable to expect that the present growth rate of 5 to 6% can go up between 7 to 8%. I think we can certainly reach 8% over a short period, provided everything else that needs to be done is done.

Many of these things are related to policies in different areas, but undoubtedly, one of them has been the provision for much better infrastructure, which means roads, ports, airports, railways, and urban infrastructure.

The additional investment required in infrastructure is very heavily construction-intensive. To achieve our objectives in the next couple of years, Construction Industry has to expand, modernise and transform itself in the way the rest of the economy is transforming. I think we will have to recognise, and that is most important, that infrastructure is different from other commodities, which can be imported if required but, infrastructure, on the other hand, cannot be imported. If you need infrastructure, there is no alternative other than building it. There are critical issues to be faced and we do not have the policies that are capable of solving the problems.

Clearly, all the money needed to build infrastructure in India cannot come from the public sector, for want of resources. It is now amply clear that lot of this infrastructure has to be built through private-public participation, like BOT projects. Even the Government policy on the growth of infrastructure involves great deal of private-public participation. This has its implications actually on the Construction Industry. It has to deal with parties which will not be entirely public sector customers. This is because there will be a lot of projects that are going to be set up on BOT basis to be done by the private parties. This will have further implications in terms of quality and in terms of legal relationships between the constructor and the concessionaire. It is going to be different from what they were, when you were dealing only with the Government. The answer would be to modernise the Industry to a great deal and to bring in better practices and to set higher standards, and these, to some extent, are evident even today.

One of the main reasons why the Construction Industry has been neglected is that it doesn't have its own Ministry, so that many of the suggestions made here could have been addressed to it. Normally, had the Ministry been there, you would have asked the Minister to look into the problems, and then the Ministry would have come with a note to the Cabinet, who would try to frame a policy and take a decision. Frankly, if you could persuade the Prime Minister that you don't have a Ministry to which you can turn to in matters of difficulty, I think he may consider the same. Dr. Brahm Datt and Mr. Ajit Gulabchand, both requested the Planning Commission to interact with the Ministries and the Cabinet as an intermediary force, since there is no Ministry for the Industry. I think we should do it and I will be very happy there for you to do just that.

It is very important to recognise that many of the problems that you want to address are not Central Government Ministries. Many of these problems will have to be addressed to the State Level Ministries. The Central Government cannot do anything in this. The State-level Ministries only need to attend to these problems at their level.

One of the issues that both Mr. Ajit Gulabchand and Dr. Brahm Datt raised was the problem of having a Model Contract Document. Now, even in the Central Government, technically, it is incredibly difficult to pursue the Model Contract Document suggestion, for the simple reason that every Ministry has potential reasons to say one or two things. They will say first of all that our needs are difficult to bring into practice. They will say that a contract for a contractor, who is going to build low cost housing, will have to be different from a Contract for Hydro-Electric Power Project. The second thing they will say is that this really is not a Ministry matter, but has to be really done by the Public Sector Corporations. I say, it is not an easy job. At the same time, I am quite convinced that the lack of a Model Contract Document is a serious problem. In fact, the whole building procedure, the nature of the document, the nature of dispute resolution, is all an uncharted area, and the Government needs to re-invent itself about the whole procedure. The only examples I am aware of, where efforts have been made to put in place a unified procedure, they are in the context of bidding procedures for externally-funded projects. The external fund-assisting agencies, like the World Bank, the ADB, and so on, have very strict requirements. If you have to execute a project to be funded by them, the procedure has to be exactly in such and such a way, and if it doesn't come in their format, you don't get the money. I am consciously aware of one case many, many years ago, in the Finance Ministry, when a party had to deal with an international agency for one of the projects.

We have thus found that if you prescribed World Bank procedures for State contracts, it would be extremely difficult for the State Government to follow the guidelines simply because there would be great reluctance to accept the degree of discipline on the Government as to how to conduct the whole process of bidding and awarding the Contract. These are issues which are problematical enough with the Centre, but we were able to prescribe such conditions for externally-funded projects, simply because the States were told, that if they do not follow the procedure, funds will just disappear and money will not come.

Nevertheless, there is a case for reason in some of the issues. It is not for the system as a whole, certainly for specific projects at least, like the National Highway Authority, for example, is going to be responsible for major expansion in NHDP. Some of the contracts will be directly awarded by the NHAI, and others will be BOT projects. In the case of BOT projects, there will be contracts for BOT, but these contracts will not be construction contracts which will be done by the BOT concessionaires. I think it will be interesting to see, over a period of time, to compare what are the practical issues by the BOT concessionaires when they put through their plans for construction, as opposed to the ways of the Government. I think we do need to have some kind of a guideline or model. The most important thing is how to resolve disputes.

The truth is that the Government operates on the assumption that, if there is a dispute, Government side is never to conciliate or concede anything. It will be very, very difficult to get the Government to re-think on their support. I think that the Industry should actually interact with different user-Ministries and come forward with a proposal and they will be very happy to consider. However, on our part, I can assure you that we will sensitise the Government that these are major problems and unless we can solve these problems, we will not develop a truly modern and effective Construction Industry. With the kind of Construction we should be aiming at, it will be done.

A number of issues have been raised by both the speakers earlier to mine; I have already mentioned about the Model Contract Document. Relating to tax treatment, I will not comment as the Finance Minister has to present the Budget; there were issues relating to Labour Law that need to be taken up with the Ministry; and the point made by Dr. Brahm Datt and Mr. Ajit Gulabchand on training, which is something that we in the Planning Commission would also like to give some attention to. I completely agree that it is not only in the Construction Industry, but there is a serious lacunae in the efforts we are making on training. We need to correct that at multiple levels, starting with improvement of quality of basic education, going on to things like vocational training and ITI, and certainly the idea of disciplined training field, in which the Industry itself is willing to make voluntary contribution, that is something worthwhile exploring.

In Government of India, most of the knowledge is gained through reading reports from Ministry, and as you do not have a Ministry for Construction, it is actually true that I have not even read a 40-page document on Construction, where there are more than 100-pages documents in every other sector. So, that tells you something. I made a mention of it to both Mr. Ajit Gulabchand and Dr. Brahm Datt that we would be happy to interact with your Association or some similar group, if there are issues coming out of this Convention, which will need the attention of the Government, and I will be very happy to hear a representation after the Convention is over, and I invite you to interact with us regularly.

I wish all success to this Convention.