

EMERGING FROM THE CRISIS – POTENTIAL ISSUES AND OPPORTUNITIES



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With the world in the midst of the greatest pandemic since the Spanish Flu of 1918, the Novel Coronavirus, or as it is more commonly known, Covid-19, is continuing to put unprecedented pressure on global economic activities. The construction industry, like others, is feeling the effects from widespread shutdowns to manufacturing facilities, continued closures of international borders and restrictions to site activities due to local lockdown measures.

In the absence of any clear timeline showing how long projects and site operations may be affected, contractors, subcontractors, suppliers and clients need to demonstrate their agility and pragmatic approaches to sustain their operations and avoid any potential disputes placing a further financial strain on their businesses as they emerge from this crisis.

Impact of Covid-19 on Construction Site Operations



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Although governments have yet to formally shutdown site operations in the Middle East, the unpredictability of when the virus will peak in individual countries means that border closures are likely to remain for the foreseeable future. The resultant controls on the movement of people, goods and equipment means that supply chains will continue to be severely affected, and in some cases may ultimately lead to the suspension or termination of agreements or projects in their entirety.

First, for ongoing construction projects, one of the immediate effects will be disruption to manpower deployment on projects due to quarantine and infection control measures, such as restrictions on the number of people at site or altered working patterns. While some construction support activities can be carried out remotely, site operations are likely to encounter significant disruption from declining productivity and slowdown of administrative processes. Post-Covid-19, the situation may be further compounded by new government controls on visas, stringent health and safety checks, enhanced Personal Protective Equipment (PPE) requirements, social distancing, along with a potential increase in insurance premiums.

Second, projects will also be faced with supply chain issues due to limitations on the manufacturing and shipping of materials, goods and equipment. As construction processes regularly involve resources beyond the project country's boundaries, significant delays and/or disruption are likely to continue to projects, unless contractors and their subcontractors are able to procure items elsewhere from countries that have relaxed their restrictions. In this case, the pressure will be put on local demand and supply capabilities which may cause construction costs to increase.

Third, due to sudden unplanned closures of project sites due to the Covid-19 outbreak, there is the risk of damage to uninstalled materials and equipment and improperly protected works.

Finally, due to the above issues, the solvency of contractors, subcontractors, suppliers and clients will be heavily tested in continuing the execution of projects. The robustness and financial position of all construction stakeholders and governments will be stretched and tested.

This article considers some of the many challenges and potential issues that contractors, subcontractors, suppliers and clients alike may face once restrictions are lifted, considering the likely radically different global economic realities of a post-Covid-19 world.

“A resilient construction sector is responsive, adaptable and able to lead in a disaster... Loss of functionality of the construction sector leads to slow, uncoordinated recoveries.”¹

Resuming Operations

The Covid-19 Lockdown Measures

There is no doubt that certain measures implemented to control the spread of Covid-19 will remain and indeed change the operation of construction projects for a long time, if not forever.

For new projects put on hold due to Covid-19, these will likely be further delayed to comply with the necessary permits and new legislation, which is likely to come or remain in force with regards to Covid-19. Contractors, subcontractors, suppliers and clients will have to come to terms with:

- (i) likely new government controls on visas – it is probable that due to the continuing spread and/or lack of vaccine to control Covid-19, governments in the region may introduce stricter controls on labourers entering the country;
- (ii) more stringent health, safety and welfare checks on site to meet increased requirements and satisfy the social distancing demands being implemented in each country;
- (iii) likely requirements to enhanced PPE provided to the workforce;
- (iv) likely requirements for additional insurance cover as a result of the demands on each country’s health-care systems; and,
- (v) increasing pressure from stakeholders to renegotiate prices.

Delays in implementing the above requirements may lead to projects being disrupted further as the continuing effects of Covid-19 are felt. All stakeholders will need to be fully informed of any new government directives or legislation to ensure that they understand the practicalities of meeting these requirements. For example, travel restrictions and border closures may continue long after individual country’s lockdowns are lifted. Contractors and clients should be in a position to understand the availability of local resources which could be utilised and start developing

1 Wilkinson et al. Improving Construction Sector Resilience, 2016.

new relations with local agents, suppliers and subcontractors to resume work quickly and efficiently once restrictions are lifted.

The Supply Chain

By maintaining regular communication with all project stakeholders and suppliers, this will help mitigate problems within the supply chain:

- Contractors and clients should be fully aware of the capacity of individual supply chains to continue on the project. In cases where the relevant parties are no longer trading, early discussions with project suppliers to find alternative resources will help avoid potential disputes.
- Contractors and clients should stay abreast of any changes and be proactive in case materials, equipment and tools need to be procured elsewhere. In instances where specific materials or tools cannot be sourced, early consideration alongside stakeholders may be required to change designs to suit changes to methods and resources. This will require a degree of flexibility from all parties, to minimise additional time and/or cost implications.
- For supply chain agreements and commitments beyond borders, Covid-19 could compound the trend of reduced international movement and foreign transactions. Numerous countries have restricted exports until further notice or lockdowns are lifted. This protectionism will mean cross-border trade will continue to be affected by Covid-19 long after countries lift their lockdown measures.
- Contractors and clients should be aware that when restrictions are finally lifted, there may be a time lag in the availability of goods whilst manufacturers reopen factories and restart production. This could lead to a shortage of materials in the market, which then drives up cost.

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Damage due to suspension of Projects during Covid-19 lockdown measures

All parties involved should be proactive and ensure they maintain good record-keeping practice.

If a project has been suspended, all parties should jointly agree to a comprehensive survey to audit the status and condition of the project before commencing the works. This includes carrying out new inspections and tests on any equipment installed on site. The contractor should identify any damage to the works and report these promptly to the client, for the parties to agree on the actions to be taken and how the additional costs are to be covered.

Going Forward

Given the unprecedented economic impact of Covid-19, it is too early to predict the depth of the likely recession and the length of the recovery period. Perhaps a silver lining can be found in most governments announcing stimulus measures to support businesses in fulfilling existing commitments.

That said, contractors, subcontractors, suppliers and clients should be putting in place measures early to alleviate any financial pressure resulting from Covid-19 shutdowns and try to build and maintain their cash reserves by prioritising the collection of outstanding payments.

As for how to cope in the meantime, the industry has been forced into a corner from which the only way out is to adapt to new ways of working.

While construction operations cannot entirely shift to remote working methods, parties should explore the flexibility this may bring.



It is in everyone's interest that the construction sector, as the 'boilerhouse' of most economies, gets back on its feet as quickly as possible. To ensure this happens, stakeholders will have to deal with the financial 'fall out' caused by Covid-19 as quickly and smoothly as possible. Now maybe the time for parties to finally grasp non-adversarial alternative dispute mechanisms (such as expert determination, mediation and the like) to fast-track the resolution of disputes and resume works swiftly when lockdowns are lifted.

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In the long term, the fundamental challenge will be restoring confidence, rebuilding capacity, and re-establishing supply chains to improve cashflow and nurture growth. Construction is a known key impetus for economic recovery and all stakeholders should utilise this time to demonstrate their resilience, agility and preparedness to their clients. By keeping thorough contemporaneous records, retaining open-communication channels and collaboratively solving problems, recovery of the industry and all those involved will be quicker and more efficient.