



THE ECONOMICS OF CONSTRUCTION IN SOUTH AFRICA

The **cidb**
Quarterly Monitor

The Construction Industry Development Board
Development Through Partnership

JANUARY
2011

Acknowledgements: The support of Industry Insight in providing details of contracts awarded is gratefully acknowledged.



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1. Introduction

The **cidb** *Quarterly Monitor*, which covers the 1st quarter of 2010 to the 4th quarter of 2010, provides an overview of the state of contractor development in South Africa, and focuses on public sector supply and demand at national and provincial levels, and deals only with the General Building (GB) and Civil Engineering (CE) **cidb** Class of Works.

The **cidb** *Quarterly Monitor* has been developed to be used as input into developing targeted development intervention strategies in support of the *National Contractor Development Programme* (NCDP)¹. The *Quarterly Monitor* must however only be seen as a guide to assist in developing targeted intervention strategies², and the *Quarterly Monitor* should be seen as a tool for interrogating existing intervention strategies.

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- 1 DPW & **cidb** (2008). NCDP Summary Framework; Towards 2010 and Beyond. Department of Public Works and Construction Industry Development Board, http://www.cidb.org.za/knowledge/publications/industry_reports
 - 2 **cidb** (2010). Targeting for Contractor Development Programmes; Guidelines. Construction Industry Development Board, http://www.cidb.org.za/knowledge/publications/industry_reports

2. Background and Assumptions

The background and key assumptions used in developing and in interpreting the *cidb Quarterly Monitor* are highlighted below:

- i) **Business Conditions:** The *cidb Quarterly Monitor* includes perceptions of the confidence in business conditions and insufficient demand for work obtained from the *cidb BER SME Business Confidence Survey*³, which measures business conditions at a national and at provincial level and in various contractor grades.
- ii) **Supply:** Contractor information is obtained from the *cidb Register of Contractors*, and considers:
- contractors registered in Grades 2 to 9; and
 - General Building (GB) and Civil Engineering (CE) Class of Works.

The data is then aggregated into the following categories:

- Grade 9 contractors; typically contractors that operate at a national and international level;
- Grades 7 and 8; typically contractors that operate at a regional / provincial level;
- Grades 5 and 6; typically contractors in transition from operating at a local to a regional / provincial level; and
- Grades 2 to 4; typically established and developing contractors that operate at a local level.

Grade	Characteristics
9	national / international
7 & 8	provincial / regional
5 & 6	local / regional
2 to 4	local

It should be noted that Grade 9 contractors in particular work across provinces, and do not therefore reflect the contracting capacity within a particular province.

- iii) **Contractor Development:** This *cidb Quarterly Monitor* includes information on:

- the number of, and trends in, registrations per categories of contractor grades; and
- the number of, and trends in, upgrades and downgrades per categories of contractor grades.

In assessing upgrades and downgrades, non-compliant applications for regarding have been excluded.

However, while trends in the number of registrations and in the number of upgrades / downgrades are useful indicators of the state of contractor development, it is important to note that these are only weak indicators of contractor development and do not necessarily imply an increase in sustainability or improvement in the performance of the contractor. Rather, indicators of development that should be included (but are currently not available) are that of⁴:

3 *cidb* (2010). *cidb SME Business Conditions Survey*. Construction Industry Development Board, http://www.cidb.org.za/knowledge/publications/industry_reports

4 *cidb* (2009). *SA Contractor Development Programmes; Status Quo Report*. Construction Industry Development Board, http://www.cidb.org.za/knowledge/publications/industry_reports

- a growth in competence reflected through technical skills and construction experience; and
- the 'process maturity' within a contracting organisation – normally expressed in terms of its business and construction processes.

iv) Empowerment: The **cidb Quarterly Monitor** includes information on black and woman ownership, and on the relative value of contracts awarded to black and women owned companies. Black and woman ownership is defined here as ownership greater than 50%, as recorded on the **cidb Register of Contractors**.

Two sources of information are given as empowerment indicators. Firstly, information on the relative value of **public sector** contracts awarded to black and woman owned companies has been obtained from the **cidb iTender Register of Projects**. It should be noted however that the information recorded on the **cidb iTender Register of Projects** is incomplete, and a reliable breakdown of contract awards per province is therefore not possible.

Secondly, the turnover of black owned companies is used as an indicator of empowerment. In this regard it should be noted that the turnover of most companies is derived from contracts with both the **public and private sectors**, and therefore possibly represents a more fair reflection of empowerment.

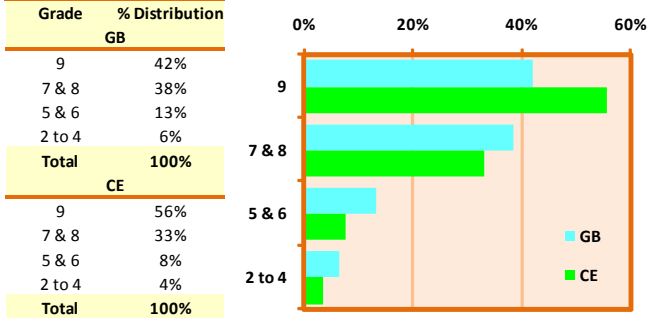
It should also be noted that Grade 9 contractors are largely (but not exclusively) publically listed organisations and black/female ownership is therefore not comparable with privately owned companies – and is therefore not given in the *Quarterly Monitor*.

3. Contracts Awarded; Public Sector

The distribution of public sector contracts awarded for South Africa as a whole in Grades 2 to 9 is shown in the adjacent figure, from which it can be seen that for the period under review, the total value of public sector contracts awarded in Grades 2 to 6 amounts to around 20% of total contracts in General Building (GB) and around 10% in Civil Engineering (CE). (It should be noted however that the largest proportion of the contracts awarded in Grades 7 to 9 are subcontracted down to sub-contractors – typically in Grades 2 to 6).

The distribution of public sector contract awards between the provinces and between tender Grades is also shown in the adjacent figure.

Demand; Public Sector Awards (% Distribution by Value); 201001 to 201004

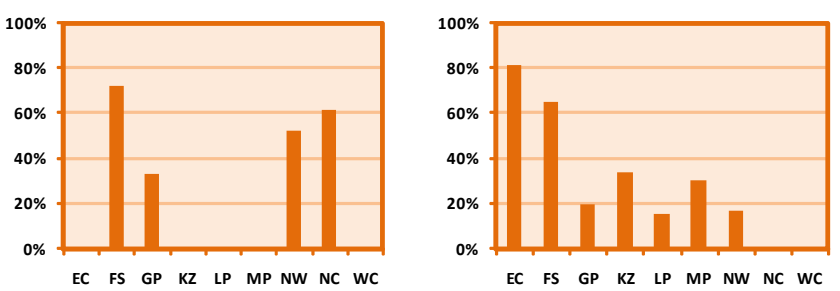


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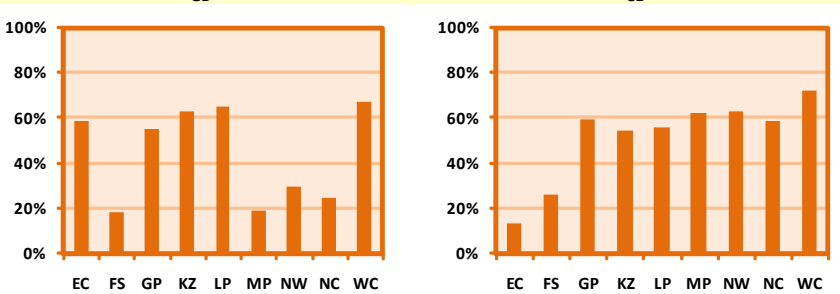


Demand; Public Sector Awards (% Distribution by Value); 201001 to 201004

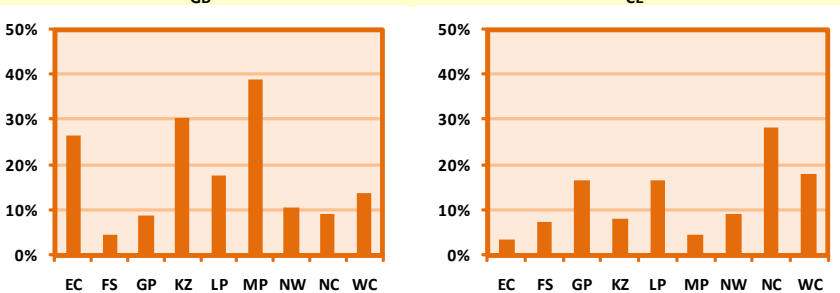
Grade 9



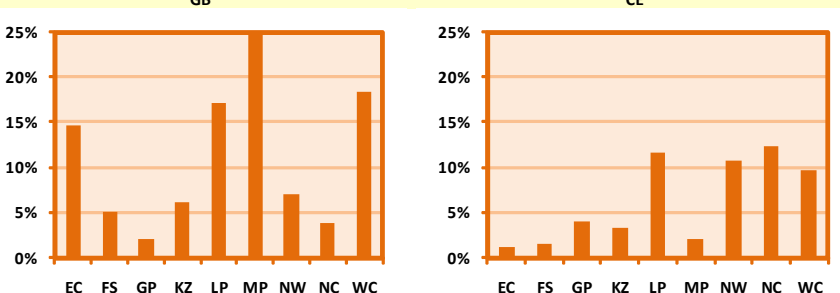
Grades 7 & 8



Grades 5 & 6



Grades 2 to 4

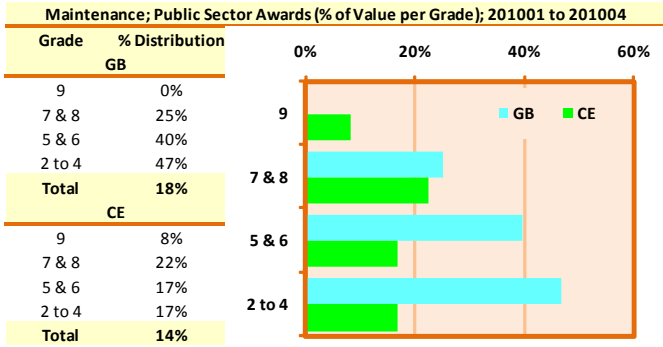


4. Maintenance Contracts Awarded; Public Sector

The distribution of public sector maintenance contracts awarded (including refurbishment, renovations, etc.) in South Africa as a percentage of the total contracts awarded in the Grades 2 to 9 is shown in the adjacent figure. From the adjacent figure it can be seen that, for the period under review:

- around 25% of total General Building (GB) contracts in Grades 7 and 8 have been allocated to maintenance contracts, and around 50% in Grades 2 to 4; and
- around 15% to 20% of total Civil Engineering (CE) contracts in Grades 2 to 8 have been allocated to maintenance contracts.

The distribution of public sector maintenance contract awards between the provinces and between tender Grades is also shown in the adjacent figure.

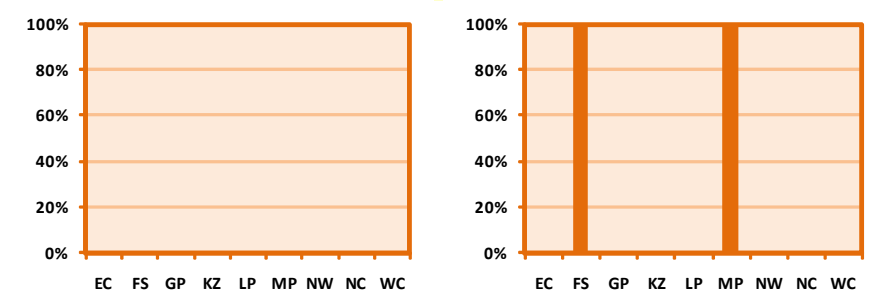


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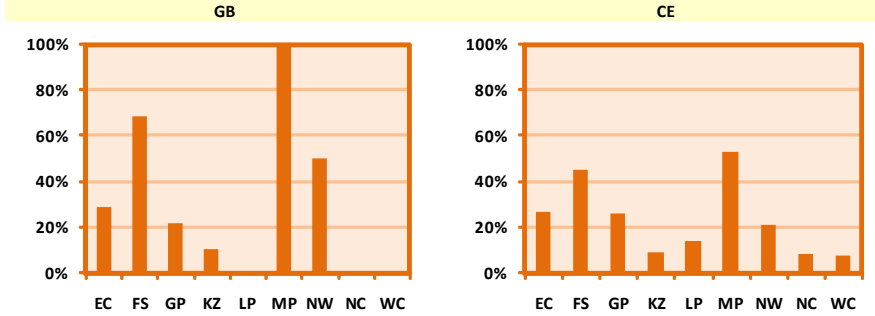


Maintenance; Public Sector Awards (% of Value per Grade); 201001 to 201004

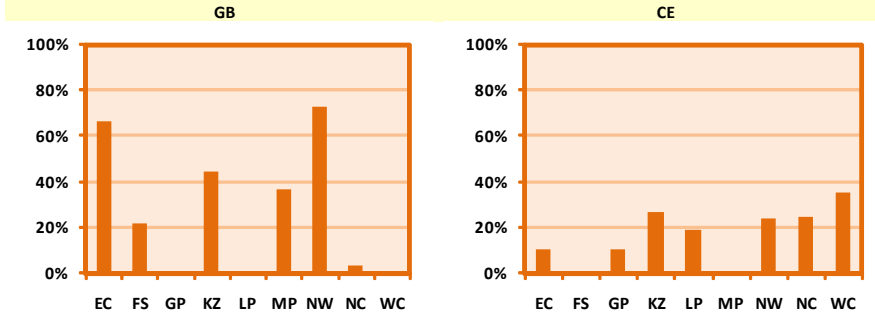
Grade 9



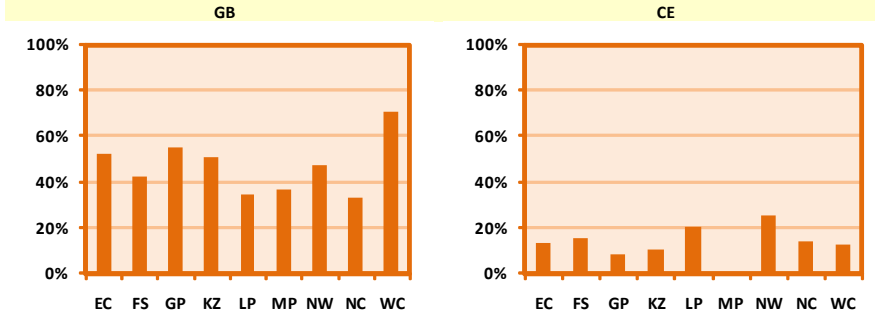
Grades 7 & 8



Grades 5 & 6



Grades 2 to 4



5. Business Conditions; Public and Private Sectors

The cidb/BER SME *Business Confidence Index* and the *Index of Insufficient Demand for Work*, which measures business conditions in both the public and private sectors, is given in the adjacent figures. The *Business Confidence Index* represents the percentage of respondents rating the business conditions as satisfactory, while the index for demand for work is obtained by formula $(0,67 * \text{seriously} + 0,33 * \text{slightly})$ scaled up to 100 to give a % index.

The General Building (GB) sector showed a slight upswing in the overall business confidence in the fourth quarter of 2010, though the business confidence is at its lowest levels. Business confidence in the Civil Engineering (CE) sector has continued to decline.

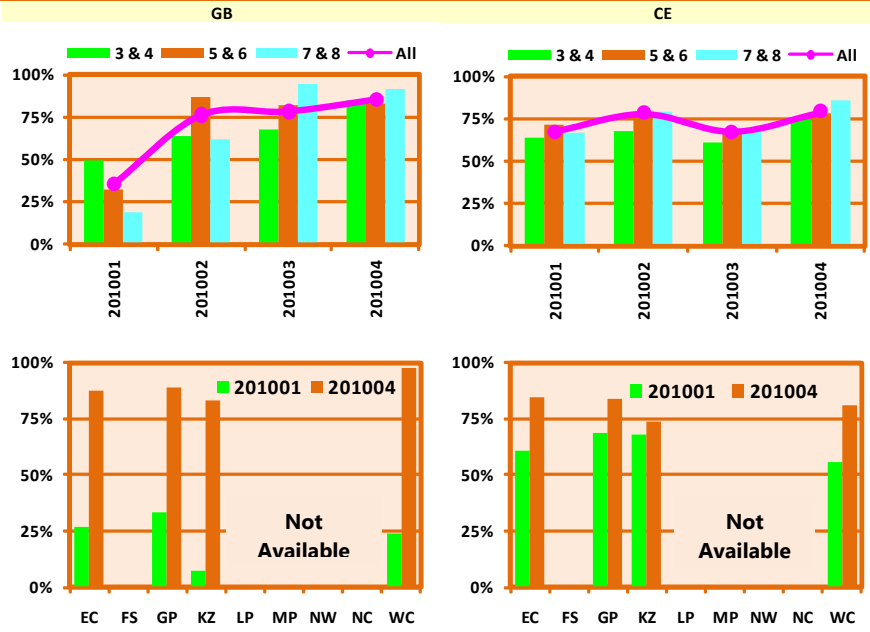
Insufficient demand for work has increased in General Building (GB), and around 75% of all respondents reporting that insufficient demand for work is a constraint to business operations. In the Civil Engineering Sector (CE), insufficient demand for work continues to increase.

At a provincial level the trends are largely consistent with those above.

Business Confidence



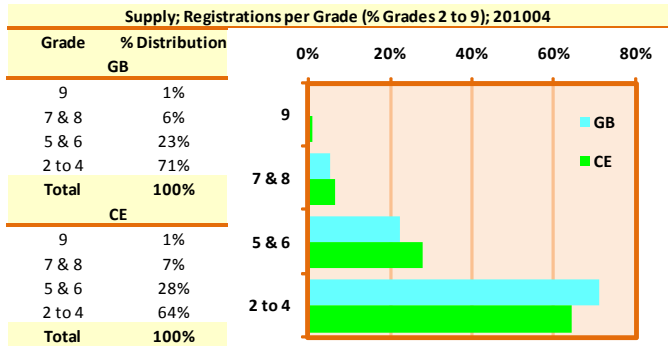
Insufficient Demand



6. Registrations; Current Profile

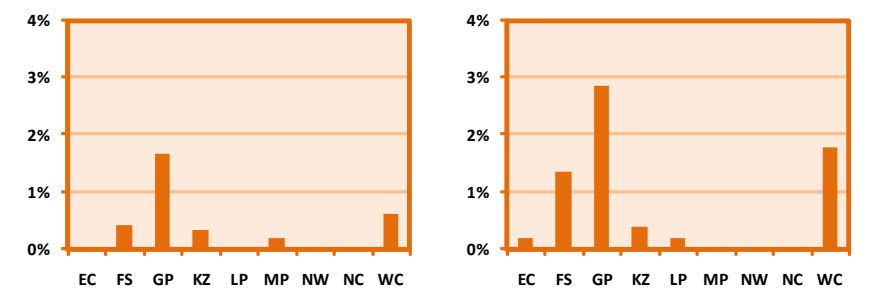
Details of the distribution of the total number of registrations in Grades 2 to 9 for South Africa are shown in the adjacent figure. Overall, it is seen that the number of registrations in Grades 2 to 4 account for around 70% of the total registrations in Grades 2 to 9, whereas the number of registrations in Grades 7 and 8 account for around 6% to 7% of the total.

The distribution of the total number of registrations in Grades 2 to 9 per province is shown in the adjacent figure. Again, it should be noted that the Grade 9 contractors, and to a lesser extent Grades 7 and 8 contractors, are largely regional contractors and operate in any province – but tend to be based in Gauteng and the Western Cape. Other than the concentration in the Grade 9 contractors and the Grade 7 and 8 contractors, it is seen from the adjacent figure that the distribution in profile in registrations is reasonably consistent between provinces.

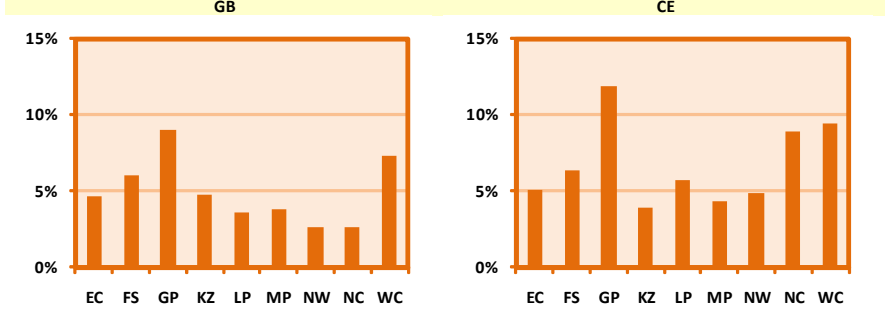


Supply; Registrations per Grade (% Grades 2 to 9); 201004

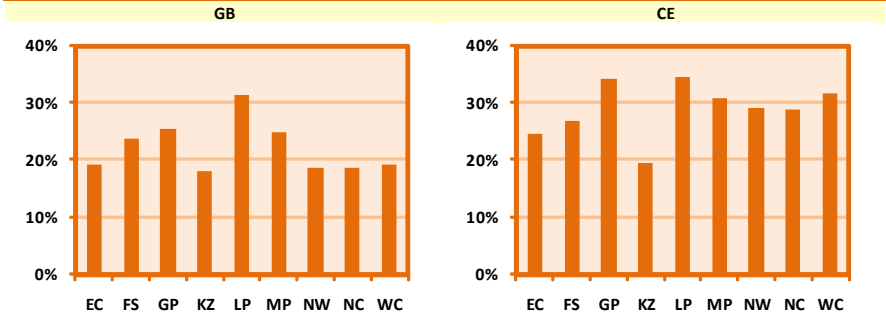
Grade 9



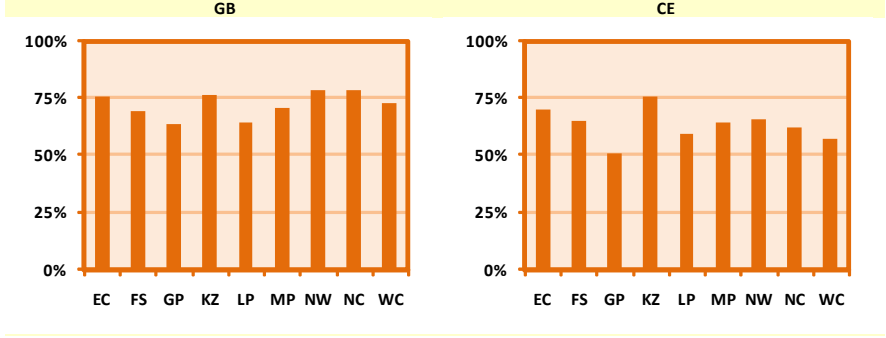
Grades 7 & 8



Grades 5 & 6



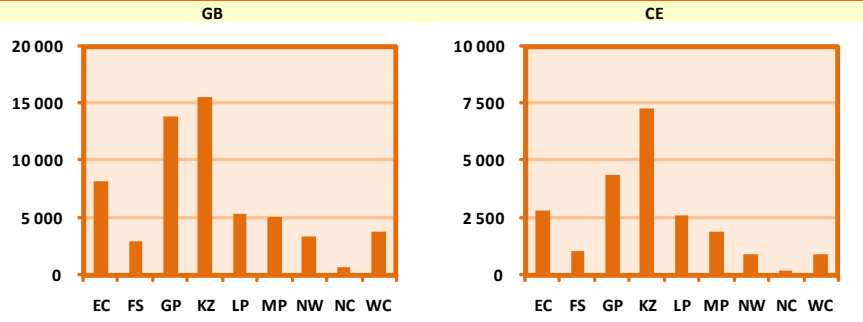
Grades 2 to 4



7. Registrations; Grade 1

The absolute number of Grade 1 contractors per province is shown in the adjacent figure. It is seen that the number of registered Grade 1 General Building (GB) and Civil Engineering (CE) contractors in KwaZulu-Natal and the Eastern Cape appears to be disproportionately high – especially compared to the GDP or construction spend per province.

Supply; Grade 1 (Absolute) 201004

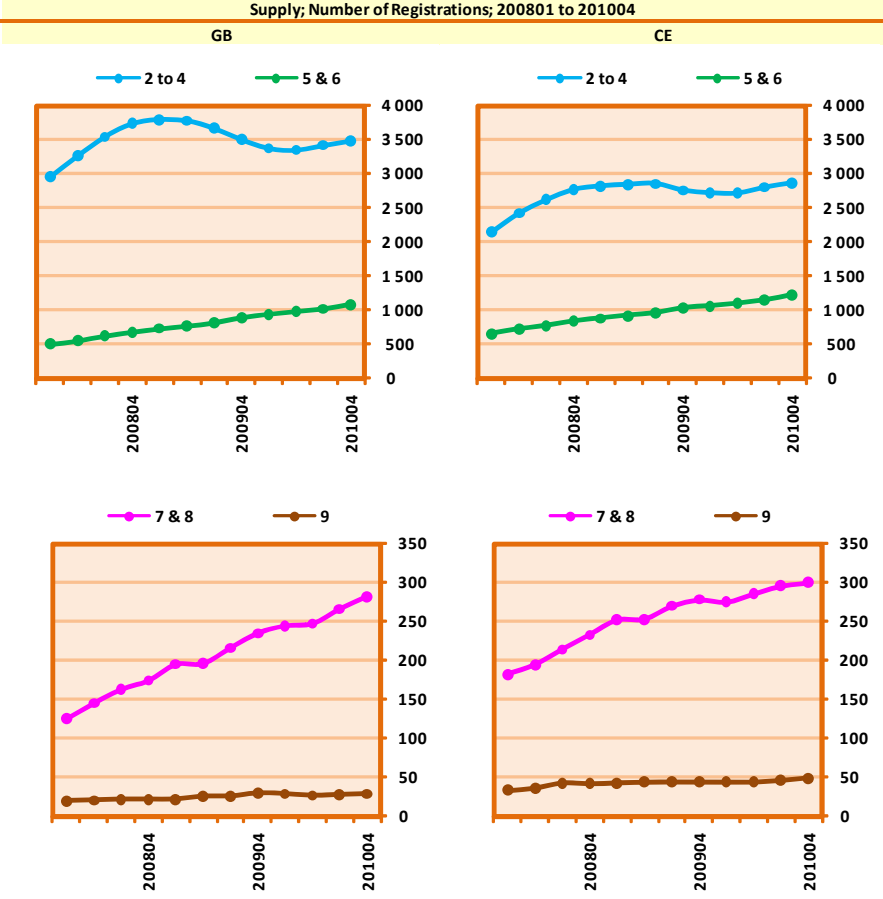


8. Registrations; History

Details of the total number of registrations in the General Building (GB) and Civil Engineering (CE) classes of works for the past three years in South Africa are given in the adjacent figure. It is seen that there has been a slight increase in the number of registrations in Grades 2 to 4 in General Building (GB) and in Civil Engineering (CE) in the last quarter under review. Furthermore, there has been a consistent increase in the number of registrations in Grades 5 and 6 and above.

Of interest, the number of registrations do not yet appear to show any response to the more difficult business conditions.

Supply; Number of Registrations; 200801 to 201004

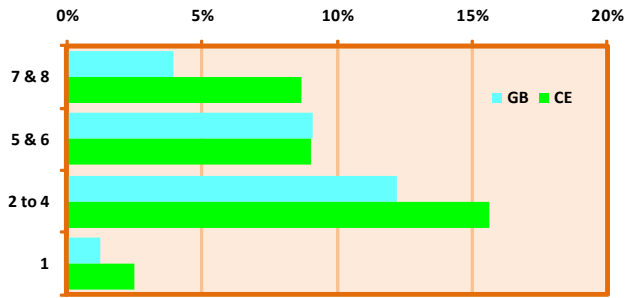


9. Contractor Development; Upgrades

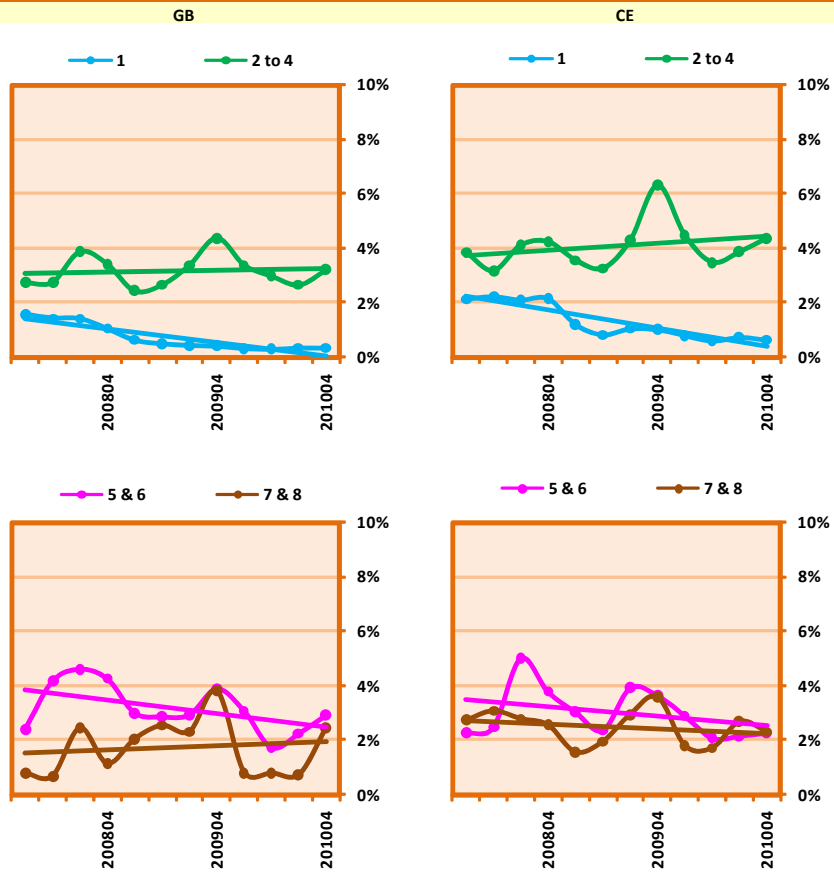
Details of the upgrading of contractors in General Building (GB) and in Civil Engineering (CE) within the past four quarters are shown in the adjacent table. The average rate of contractor upgrades in Grades 2 to 8 is seen to be around 5% to 15% per year –while for Grade 1 contractors the rate of upgrading is significantly lower, namely around 2% to 3%.

Even though the rate of upgrading in both General Building (GB) and Civil Engineering (CE) has, overall, largely shown a decline over the past three years, there appears to be a slight recent upswing in General Building (GB) and Civil Engineering (CE) Grades 2 to 4, as well as General Building (GB) Grades 5 to 8.

Upgrades; 201001 to 201004							
From/To	2 to 4	5 & 6	7 & 8	9	Total	Registrations	%
GB							
7 & 8	0	0	11	0	11	280	4%
5 & 6	0	51	51	0	102	1 117	9%
2 to 4	228	193	6	1	428	3 511	12%
1	687	69	4	0	760	59 162	1%
Total	915	313	72	1	1 301	64 070	2%
CE							
7 & 8	0	0	16	10	26	300	9%
5 & 6	0	69	44	0	113	1 248	9%
2 to 4	234	205	9	0	448	2 866	16%
1	484	73	0	0	557	22 225	3%
Total	718	347	69	10	1 144	26 639	4%



Upgrades per Quarter; 200801 to 201004



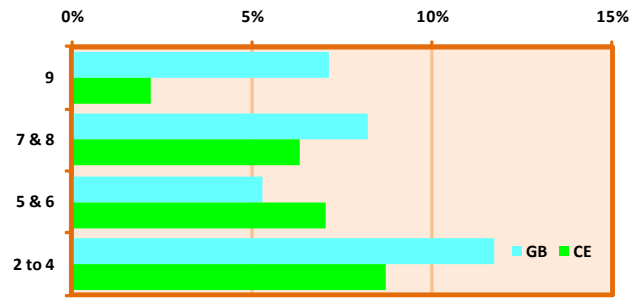
10. Contractor Development; Downgrades

Details of downgrading of contractors are shown in the adjacent figure, in which only compliant applications have been considered. Overall, in Grades 2 to 8, it is seen that the number of downgrades is between 5% to 10% per year.

In comparison between the number of upgrades over the same period, it can be seen that:

- in Grades 7 and 8, the number of downgrades is comparable to the total number of upgrades;
- in Grades 2 to 6, the number of downgrades is substantially less than the number of upgrades.

Downgrades; 201001 to 201004							
From/To	1	2 to 4	5 & 6	7 & 8	Total	Registrations	%
GB							
9	0	0	0	2	2	28	7%
7 & 8	0	6	15	2	23	280	8%
5 & 6	12	37	10	0	59	1 117	5%
2 to 4	309	103	0	0	412	3 511	12%
Total	151	99	0	0	497	4 936	10%
CE							
9	0	0	0	1	1	45	2%
7 & 8	0	2	17	0	19	300	6%
5 & 6	5	72	11	0	88	1 248	7%
2 to 4	151	99	0	0	250	2 866	9%
Total	309	103	0	0	361	4 459	8%



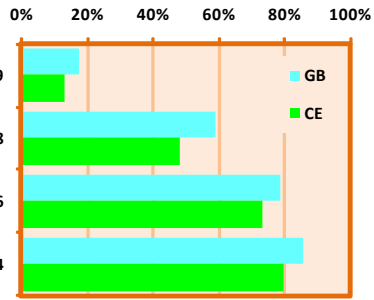
11. Equity; Black Ownership

From the adjacent figure it can be seen that around 80% of cidb registered Grade 2 to 4 General Building (GB) and Civil Engineering (CE) contractors are black owned (defined as more than 50% ownership control). Furthermore, around 70% to 80% of all Grade 5 and 6 General Building (GB) and Civil Engineering (CE) contractors are black owned, while around 60% of all Grade 7 and 8 General Building (GB) contractors are black owned. Black ownership of Civil Engineering (CE) contractors in Grades 7 and 8 is however much lower – around 50% on average.

Details of black ownership per province are also shown in the adjacent figure. Levels of black ownership in Grades 2 to 4 and in Grades 5 and 6 are relatively consistent across the provinces, although the black ownership in Grades 5 and 6 is noticeably lower in the Western Cape.

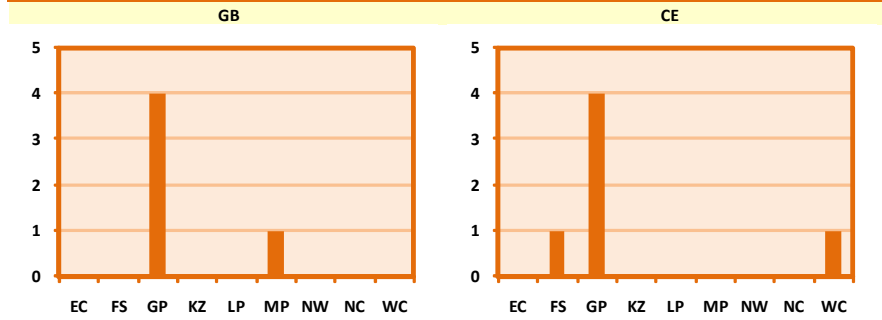
Supply; Black Ownership; 201004

Grade	Total	Black	Black (%)
GB			
9	28	5	18%
7 & 8	280	166	59%
5 & 6	1 117	882	79%
2 to 4	3 511	3 004	86%
Total	4 936	4 057	82%
CE			
9	45	6	13%
7 & 8	300	145	48%
5 & 6	1 248	914	73%
2 to 4	2 866	2 294	80%
Total	4 459	3 359	75%

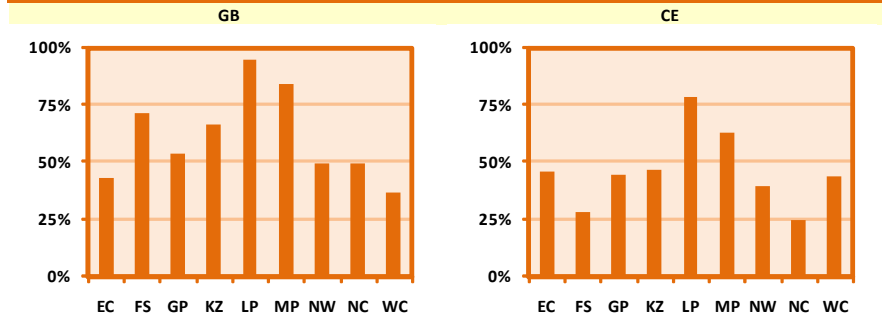


Supply; Black Ownership; 201004

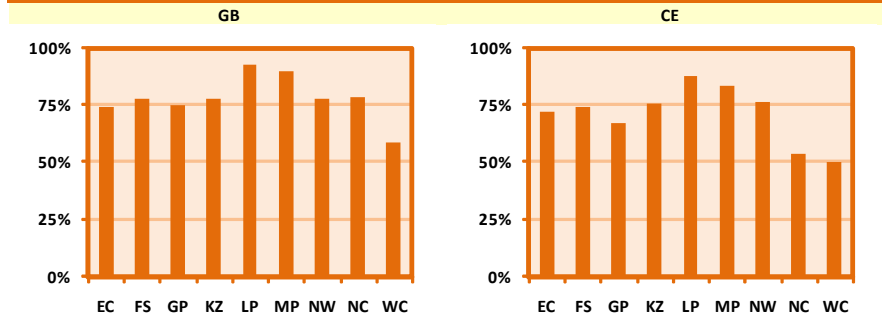
Grade 9 (Absolute)



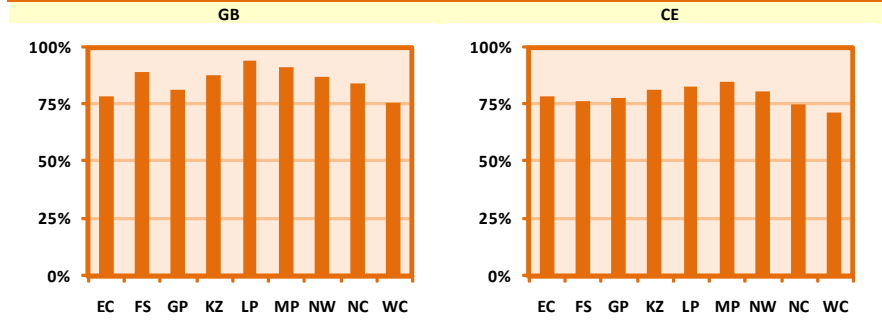
Grades 7 & 8 (% of Grade)



Grades 5 & 6 (% of Grade)



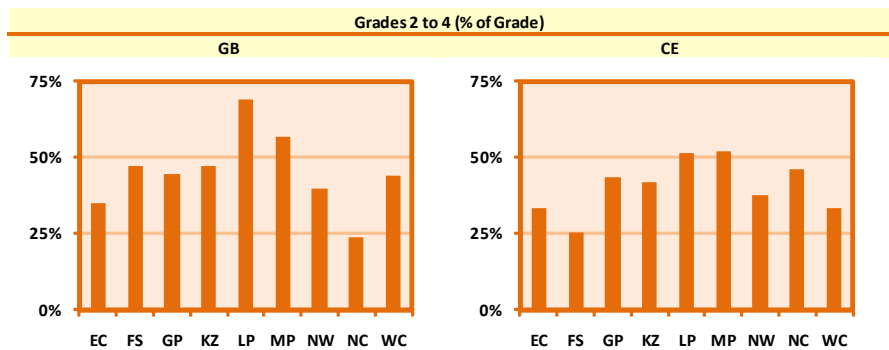
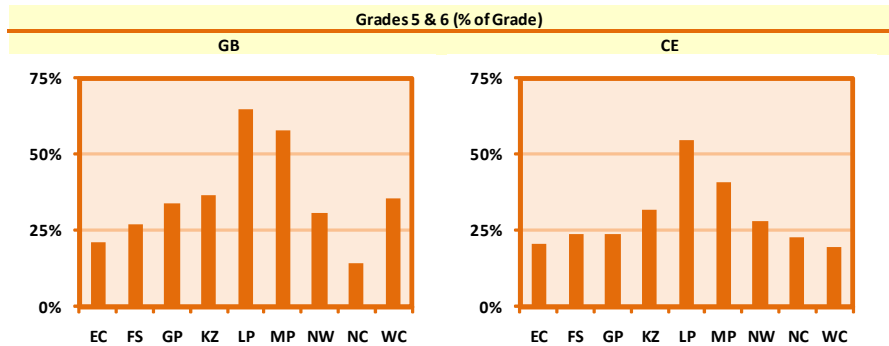
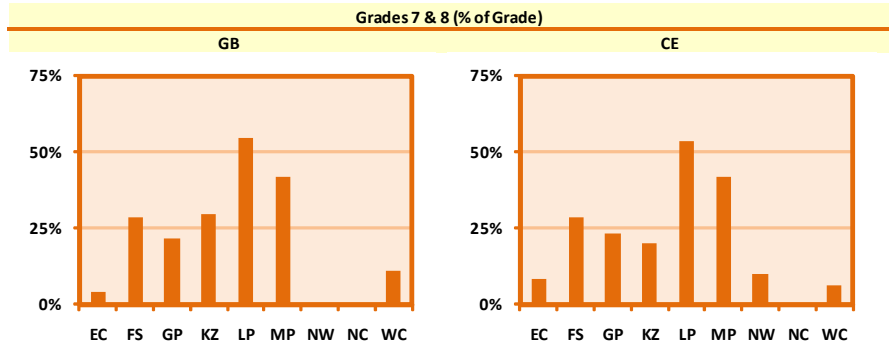
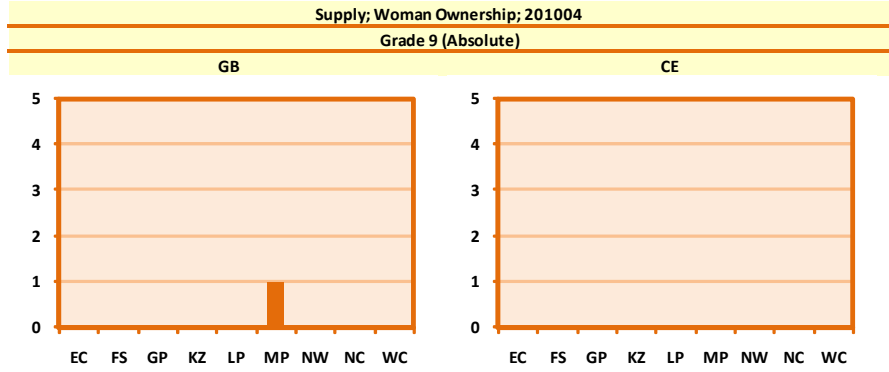
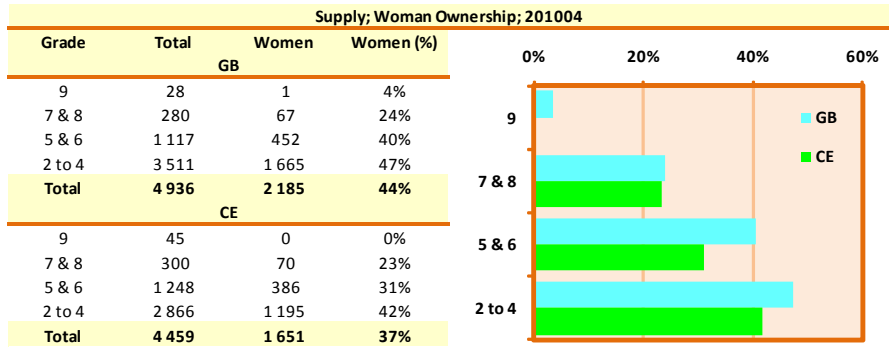
Grades 2 to 4 (% of Grade)



12. Equity; Women Ownership

On average, around 40% of all Grade 2 to 4 contractors are women owned – with the highest ownership in Limpopo (which probably reflects tender preferencing in this province), followed by Mpumalanga. However, women ownership varies significantly from province to province, and across the Grades. From Grades 5 and 6 and above, women ownership is typically less than 30% in Civil Engineering (CE), when in General Building (GB) it is around 30 to 40%.

Of significance is that there is only one Grade 9 woman owned contractor – namely in General Building (GB) in Mpumalanga.



13. Equity; Contracts Awarded

Estimates of the value of **public sector** contracts awarded to black owned companies during the four quarters under review are shown in the adjacent figure, from which it is seen that around 80% to 90% of the value of Grade 2 to 4 tenders have been awarded to black owned contractors. In tender Grades 7 and 8, the value awarded to black owned contractors is lower – namely around 50% to 60%.

An alternative estimate of the value of the **public and private sector** contracts awarded to black owned companies is also given in the adjacent figure, obtained from the turnover reflected in the companies' recent financial statements. This estimate suggests that black owned companies in Grades 2 to 4 generate around 60% of the total turnover of Grade 2 to 4 contractors – and to around 50% in Grades 5 to 8.

Details of the percentage turnover of black owned companies per province are also shown in the adjacent figure – showing some noticeable variations in turnover of black owned companies between the provinces in the higher Grades.

