



THE ECONOMICS OF CONSTRUCTION IN SOUTH AFRICA

The **cidb**
Quarterly Monitor

The Construction Industry Development Board
Development Through Partnership

OCTOBER
2010

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



CIDB QUARTERLY MONITOR ; OCTOBER 2010

1.	Introduction	1
2.	Background and Assumptions	2
4.	Maintenance Contracts Awarded; Public Sector	6
5.	Business Conditions; Public and Private Sectors	8
6.	Registrations; Current Profile	10
7.	Registrations; Grade 1	12
8.	Registrations; History	14
9.	Contractor Development; Upgrades	16
10.	Contractor Development; Downgrades	18
11.	Equity; Black Ownership	20
12.	Equity; Women Ownership	22
13.	Equity; Contracts Awarded	24

CIDB QUARTERLY MONITOR ;OCTOBER 2010

1. Introduction

The *cidb Quarterly Monitor*, which covers the 4th quarter of 2009 to the 3rd 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.

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 recently introduced **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 and Civil Engineering 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 registration 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 women ownership, and on the relative value of contracts awarded to black and women owned companies. Black and women ownership is defined here as ownership of 50% or more, 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 women 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*.

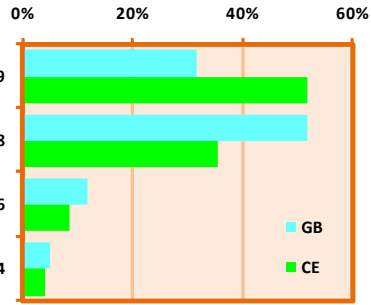
3 Contracts Awarded; Public Sector

The distribution of public sector contracts awarded for South Africa as a whole in Grades 2 to 9 is also 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 17% of total contracts in General Building (GB) and around 13% in Civil Engineering (CE) (although it should be noted 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); 200904 to 201003

Grade	% Distribution
GB	
9	32%
7 & 8	52%
5 & 6	12%
2 to 4	5%
Total	100%
CE	
9	52%
7 & 8	36%
5 & 6	9%
2 to 4	4%
Total	100%

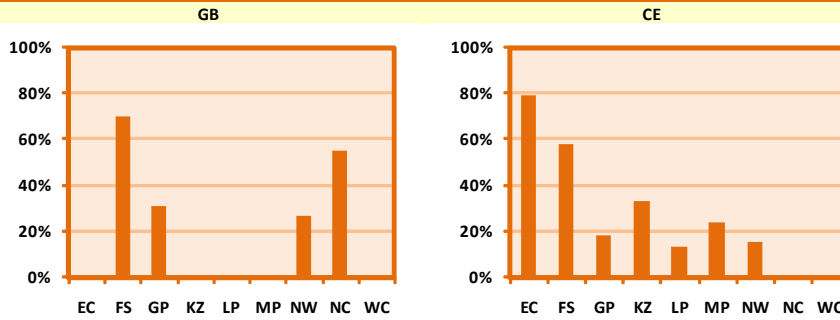


Acknowledgements

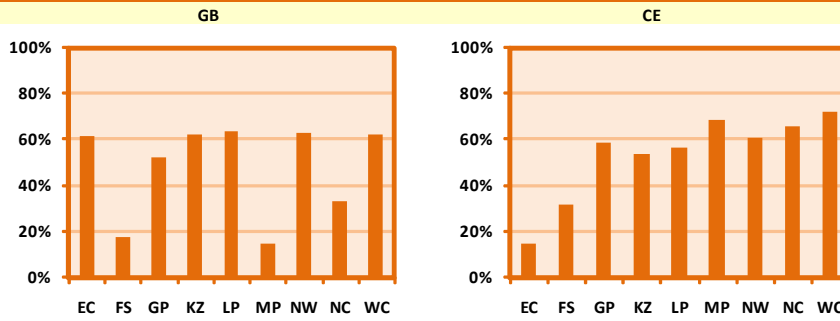


Demand; Public Sector Awards (% Distribution by Value); 200904 to 201003

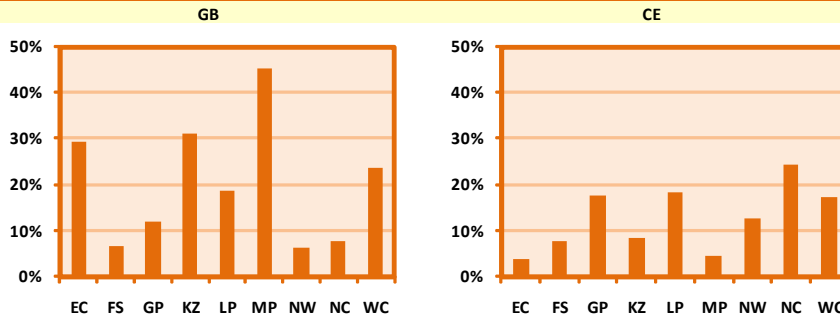
Grade 9



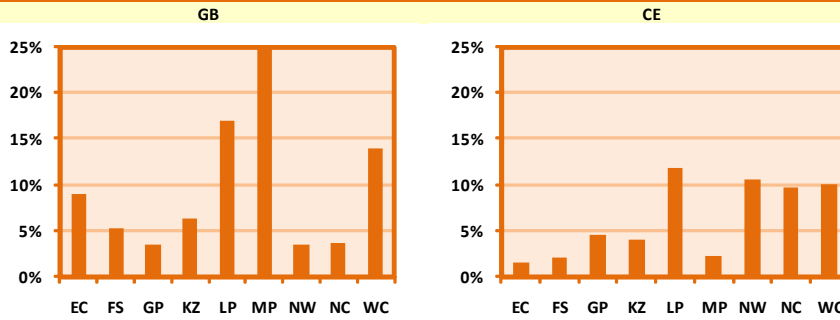
Grades 7 & 8



Grades 5 & 6



Grades 2 to 4



4. Maintenance Contracts Awarded; Public Sector

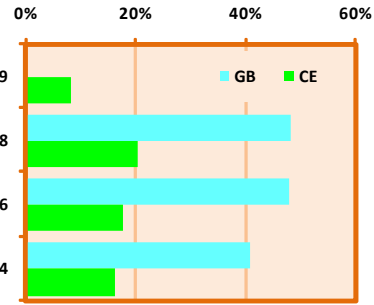
The distribution of public sector maintenance contracts awarded (including refurbishment, renovations, etc.) in South Africa as a percentage of the total contracts awarded in Grades 2 to 9 is shown in the adjacent figure. From the adjacent figure it can be seen that, for the period under review:

- around 50% of total General Building (GB) contracts in Grades 2 to 8 have been allocated to maintenance contracts; and
- around 16% 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.

Maintenance; Public Sector Awards (% of Value per Grade); 200904 to 201003

Grade	% Distribution
GB	
9	0%
7 & 8	48%
5 & 6	48%
2 to 4	41%
Total	33%
CE	
9	8%
7 & 8	20%
5 & 6	18%
2 to 4	16%
Total	14%

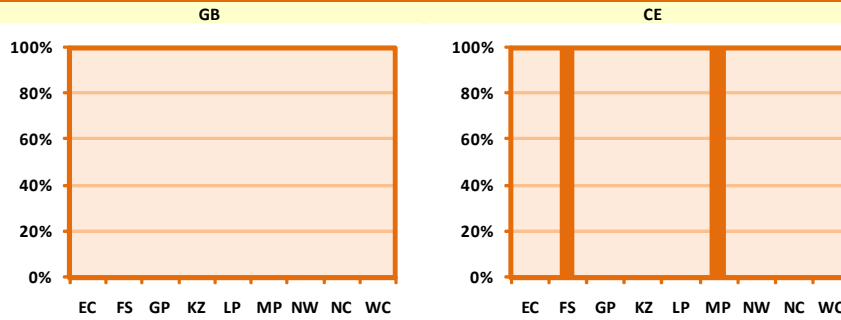


Acknowledgements

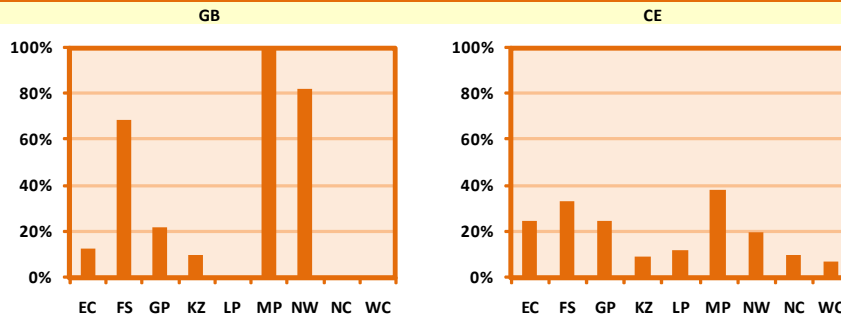


Maintenance; Public Sector Awards (% of Value per Grade); 200904 to 201003

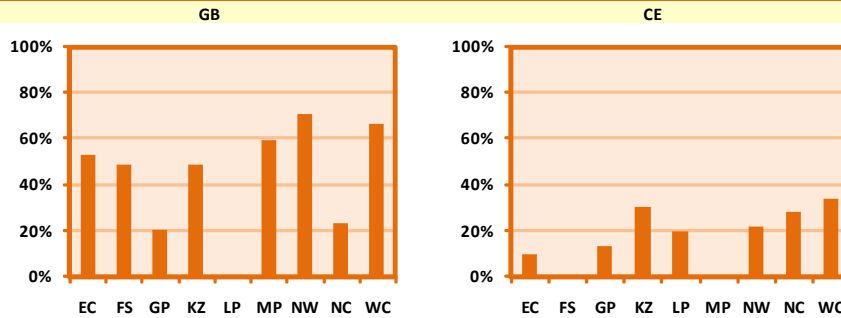
Grade 9



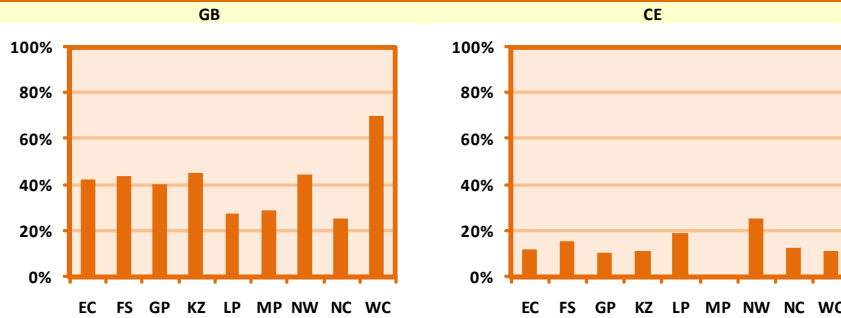
Grades 7 & 8



Grades 5 & 6



Grades 2 to 4



5. Business Conditions; Public and Private Sectors

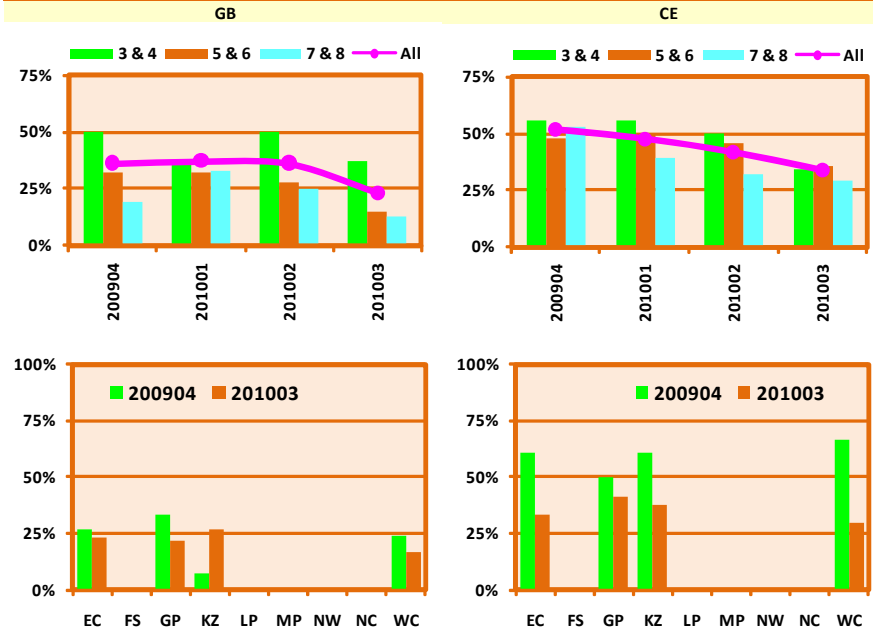
The cidb/BER SME *Business Confidence Index* and the *Index of Insufficient Demand for Work*, which measures business conditions in both the public and private sectors, is given in the adjacent figures. The *Business Confidence Index* represents the percentage of respondents rating the business conditions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

The overall business confidence in the General Building (GB) sector has dropped markedly over the last quarter, in particular in Grades 5 and 6 and Grades 7 and 8. Business confidence in the Civil Engineering (CE) sector has continued to decline.

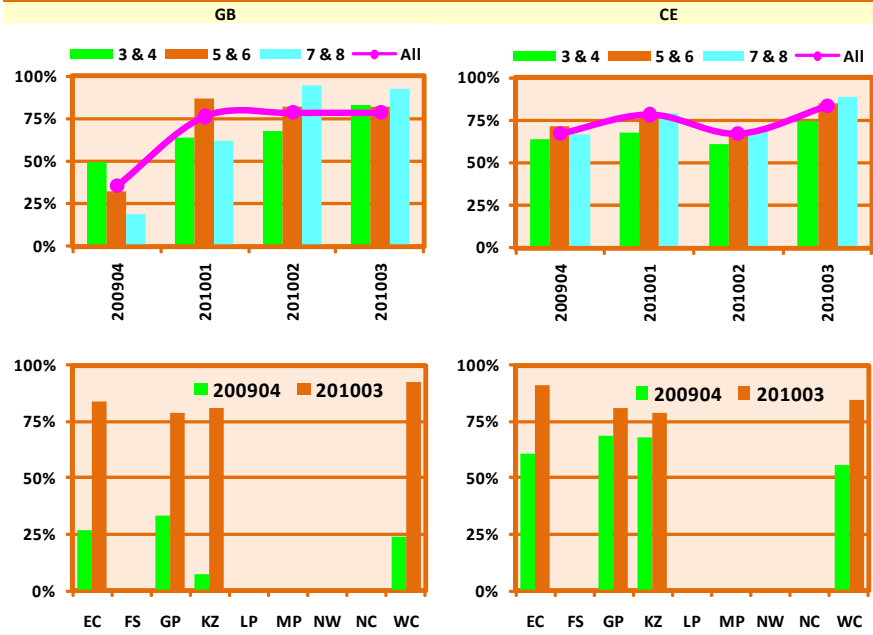
Insufficient demand for work has plateaued in General Building (GB), with around 75% of all respondents reporting that insufficient demand for work is a constraint to business operations. In the Civil Engineering Sector (CE), insufficient demand for work continues to increase.

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

Business Confidence



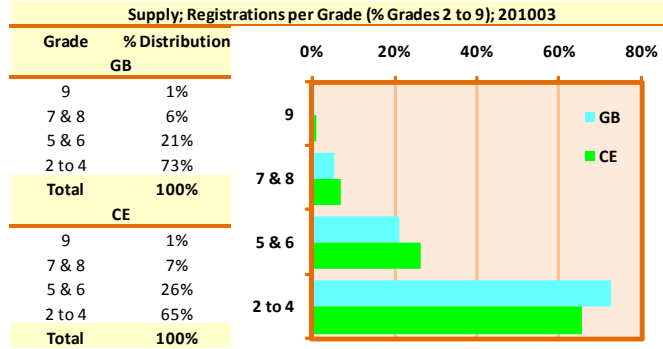
Insufficient Demand



6. Registrations; Current Profile

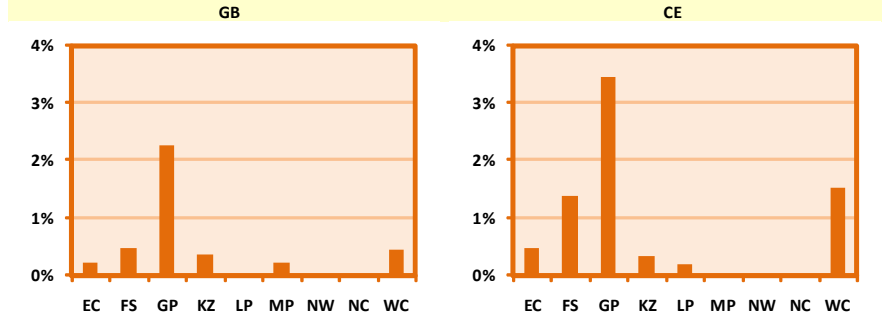
Details of the distribution of the total number of registrations in Grades 2 to 9 for South Africa are shown in the adjacent figure. Overall, it is seen that the number of registrations in Grades 2 to 4 account for around 70% of the total registrations in Grades 2 to 9, whereas the number of registrations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

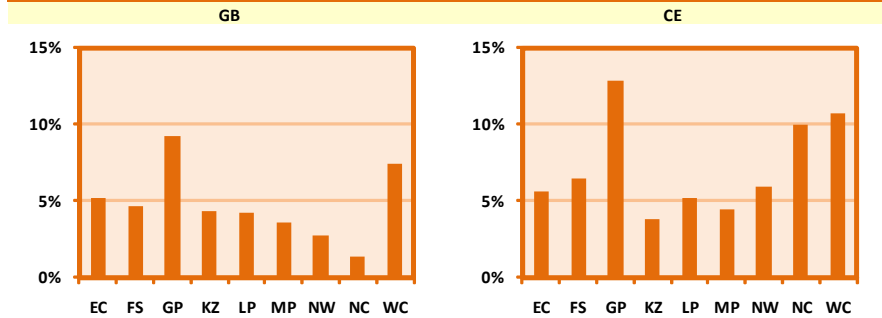


Supply; Registrations per Grade (% Grades 2 to 9); 201003

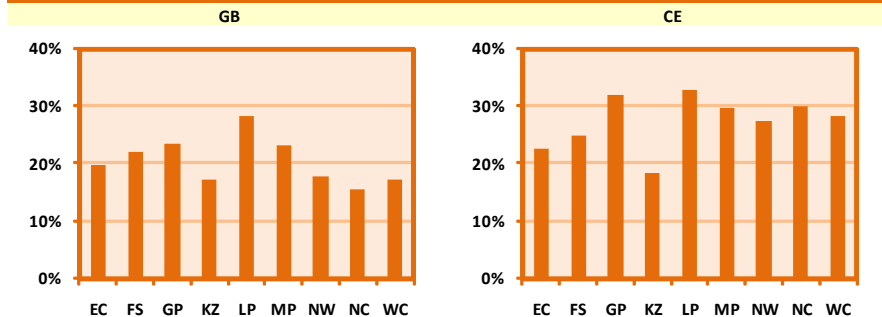
Grade 9



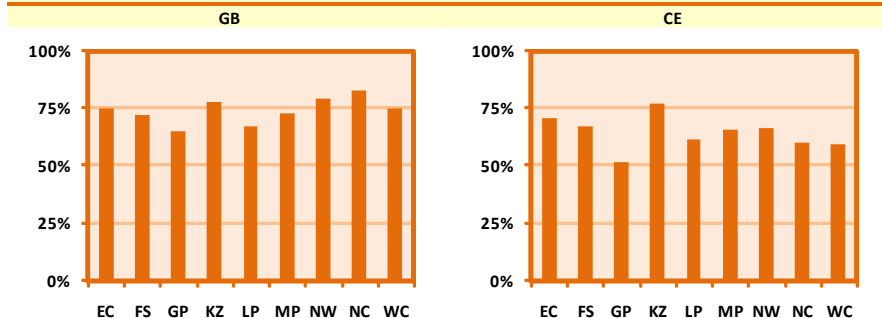
Grades 7 & 8



Grades 5 & 6



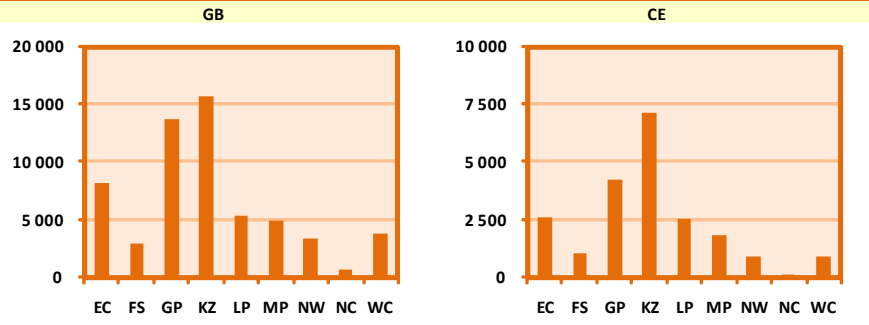
Grades 2 to 4



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.

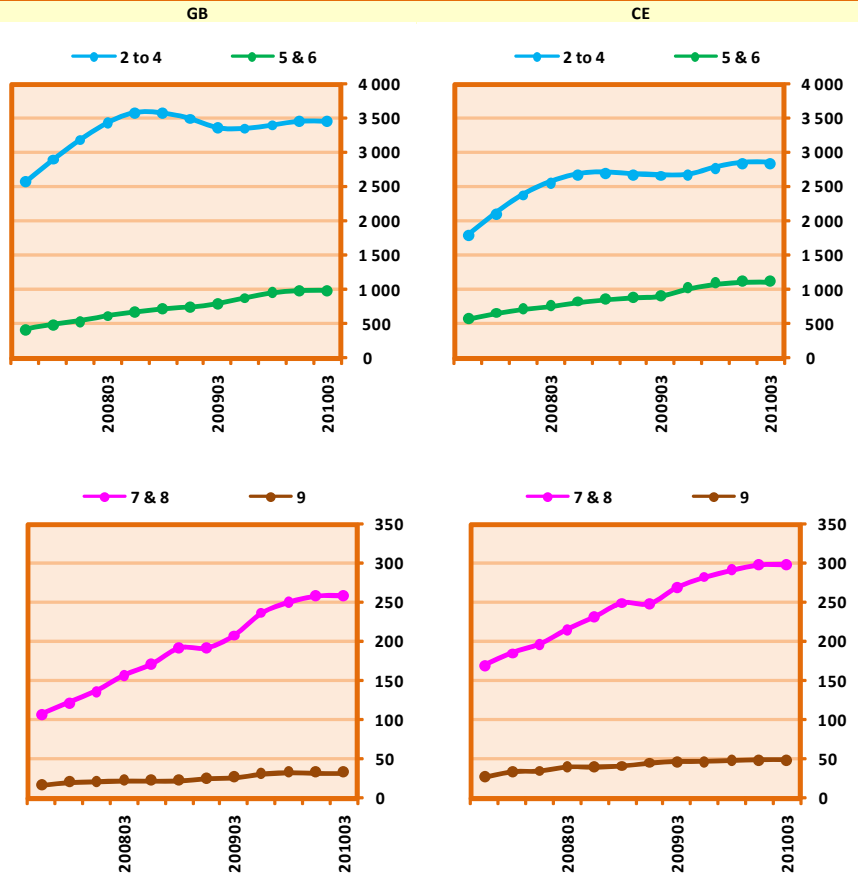
Supply; Grade 1 (Absolute) 201003



8. Registrations; History

Details of the total number of registrations in 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 levelling off in the number of registrations in Grades 2 to 4 in General Building (GB) and in Civil Engineering (CE). However, there has been a constant increase in the number of registrations in Grades 5 and 6 and above.

Supply; Number of Registrations; 200704 to 201003

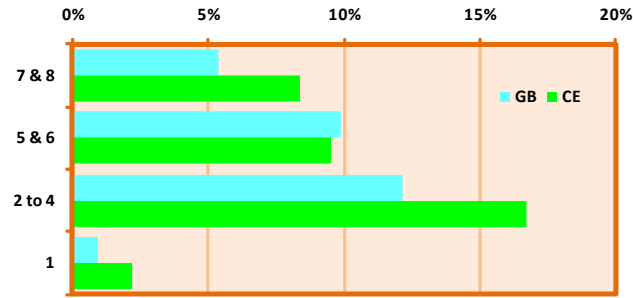


9. Contractor Development; Upgrades

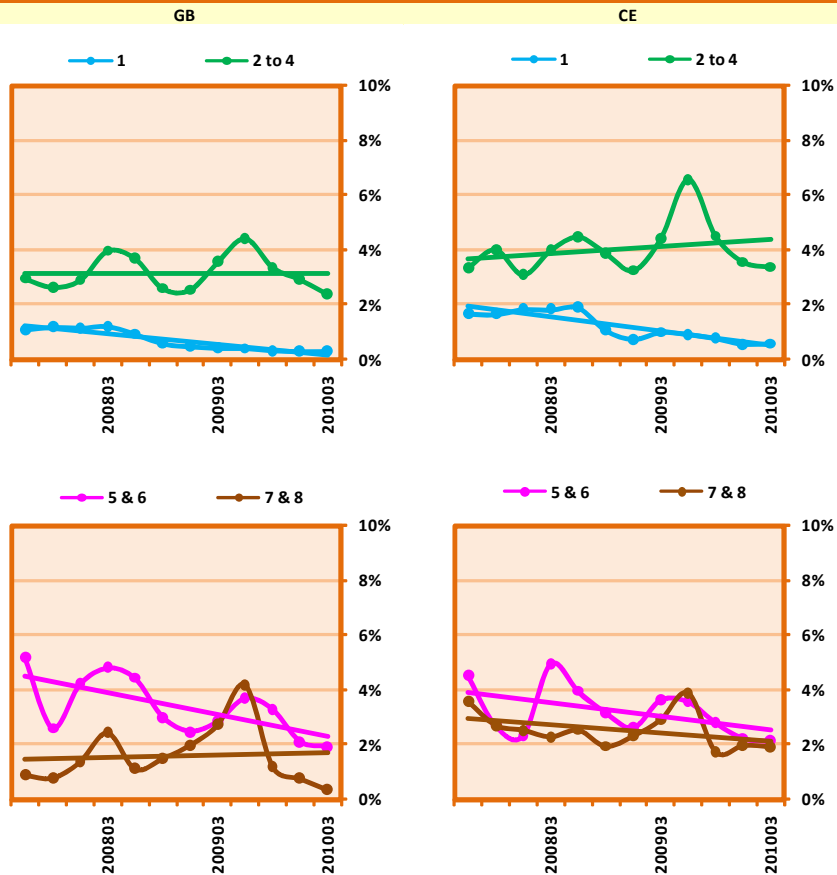
Details of the upgrading of contractors in General Building (GB) and in Civil Engineering (CE) within the past four quarters are shown in the adjacent table. The average rate of contractor upgrades in Grades 2 to 8 is seen to be around 10% to 20% per year – except for Grade 1 contractors, which is significantly lower at around 2%.

Of concern is that the trends in the number of upgrades over the past three years suggests that the number of upgrades per quarter is decreasing in all Grades and Classes of Works other than General Building (GB) in Grades 7 and 8 Civil Engineering (CE) Grades 2 to 4. It is likely that these trends are however market related.

Upgrades; 200904 to 201003							
From/To	2 to 4	5 & 6	7 & 8	9	Total	Registrations	%
GB							
7 & 8	0	0	10	5	15	279	5%
5 & 6	0	47	54	1	102	1 033	10%
2 to 4	231	183	10	1	425	3 501	12%
1	520	54	3	0	577	58 943	1%
Total	751	284	77	7	1 119	63 756	2%
CE							
7 & 8	0	0	17	9	26	310	8%
5 & 6	0	62	50	0	112	1 173	10%
2 to 4	243	224	10	0	477	2 853	17%
1	422	56	0	0	478	21 571	2%
Total	665	342	77	9	1 093	25 907	4%



Upgrades per Quarter; 200704 to 201003



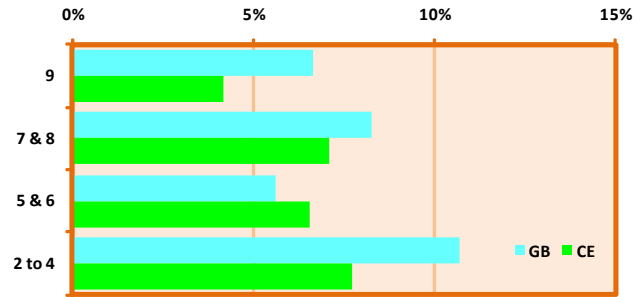
10. Contractor Development; Downgrades

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; 200904 to 201003							
From/To	1	2 to 4	5 & 6	7 & 8	Total	Registrations	%
GB							
9	0	0	0	2	2	30	7%
7 & 8	0	5	16	2	23	279	8%
5 & 6	6	40	12	0	58	1 033	6%
2 to 4	272	102	0	0	374	3 501	11%
Total	131	90	0	0	457	4 843	9%
CE							
9	0	0	0	2	2	48	4%
7 & 8	0	3	18	1	22	310	7%
5 & 6	3	64	10	0	77	1 173	7%
2 to 4	131	90	0	0	221	2 853	8%
Total	272	102	0	0	322	4 384	7%

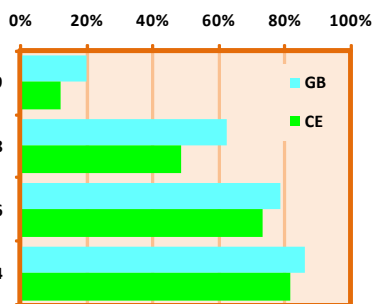


11. Equity; Black Ownership

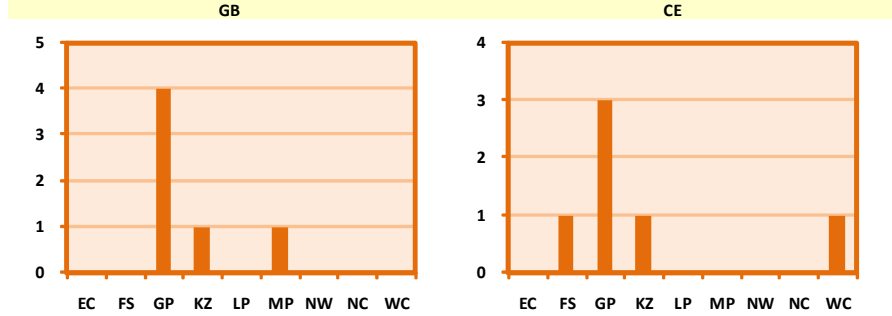
From the adjacent figure it can be seen that around 80% of cidb registered Grades 2 to 4 General Building (GB) and Civil Engineering (CE) contractors are black owned (defined as ownership control of 50% or more). Furthermore, around 70% to 80% of all Grades 5 and 6 General Building (GB) and Civil Engineering (CE) contractors are black owned, while around 60% of all Grades 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 40% 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.

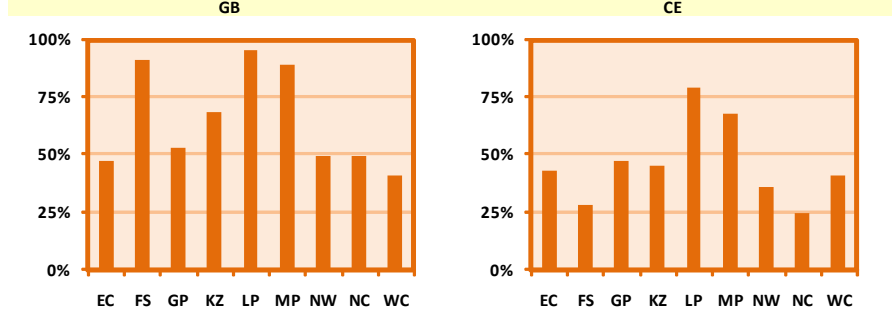
Supply; Black Ownership; 201003			
Grade	Total	Black	Black (%)
GB			
9	30	6	20%
7 & 8	279	174	62%
5 & 6	1033	815	79%
2 to 4	3 501	3 026	86%
Total	4 843	4 021	83%
CE			
9	48	6	13%
7 & 8	310	151	49%
5 & 6	1 173	862	73%
2 to 4	2 853	2 332	82%
Total	4 384	3 351	76%



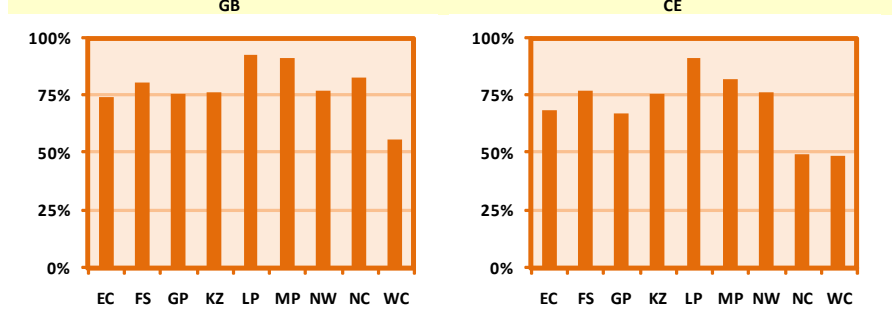
Supply; Black Ownership; 201003
Grade 9 (Absolute)



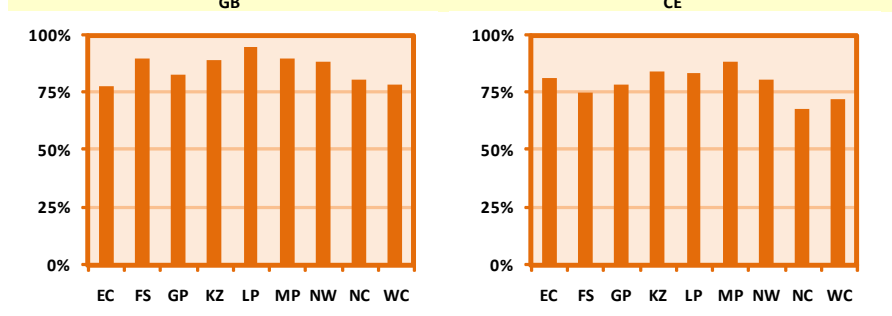
Grades 7 & 8 (% of Grade)



Grades 5 & 6 (% of Grade)



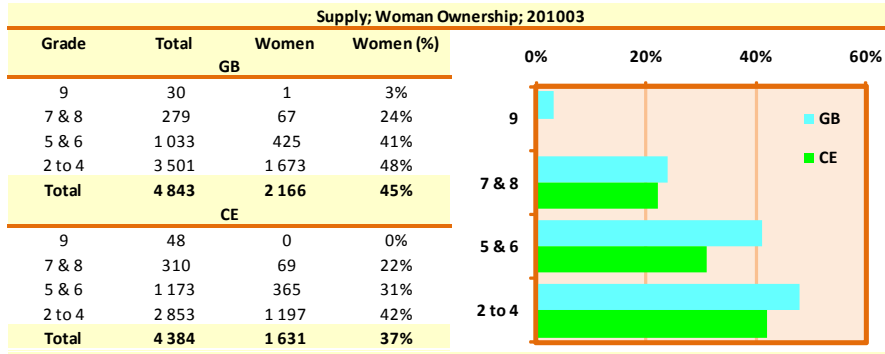
Grades 2 to 4 (% of Grade)



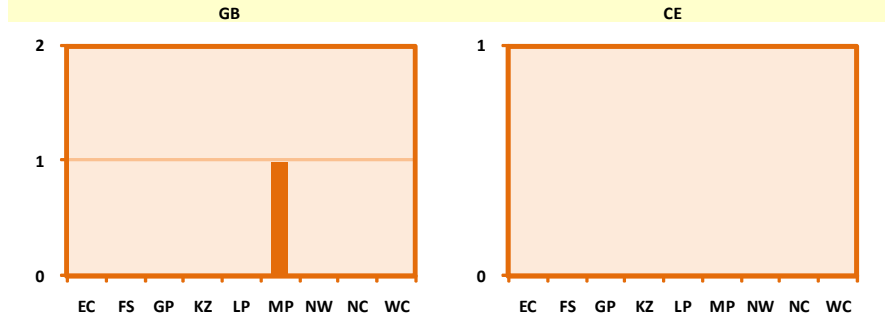
12. Equity; Women Ownership

On average, around 40% of all Grades 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), and in General Building (GB) it is around 30% to 40%.

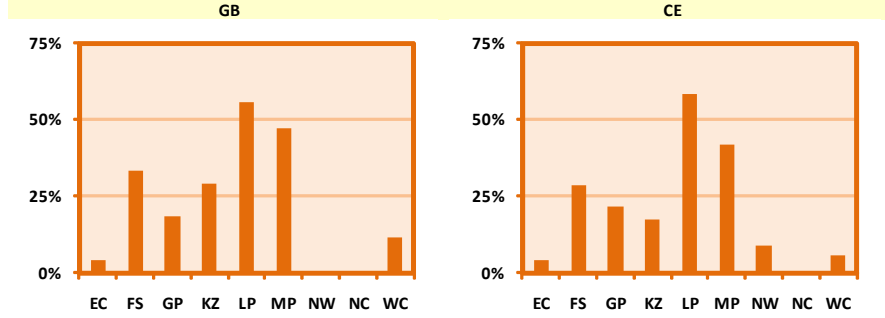
Of significance is that there is only one Grade 9 woman owned contractor – namely in General Building (GB) in Mpumalanga.



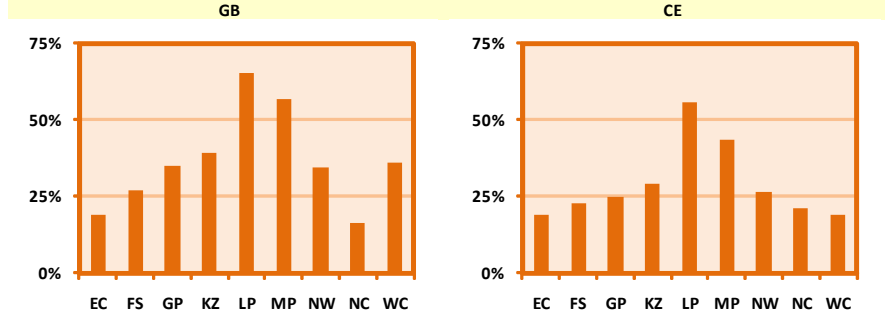
Supply; Woman Ownership; 201003
Grade 9 (Absolute)



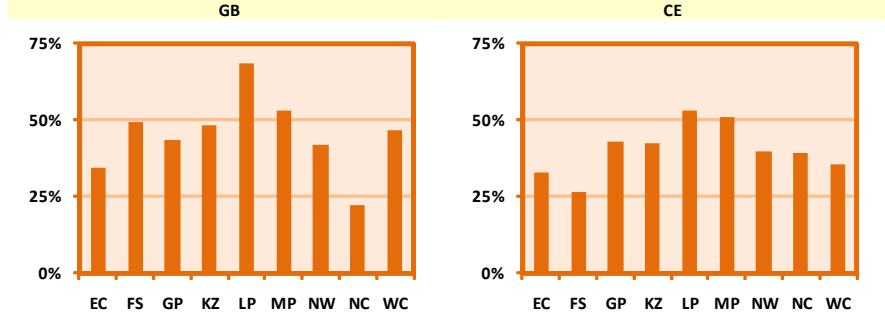
Grades 7 & 8 (% of Grade)



Grades 5 & 6 (% of Grade)



Grades 2 to 4 (% of Grade)



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 50% of the total turnover of Grade 2 to 4 contractors – and decreasing to around 30% in Grades 7 & 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.

