The cidb Quarterly Monitor: April 2010

development through partnership

THE ECONOMICS OF CONSTRUCTION IN SOUTH AFRICA

The Construction Industry Development Board

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

CIDB QUARTERLY MONITOR ; APRIL 2010

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1. Introduction

The cidb *Quarterly Monitor* 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.

This edition of the *Quarterly Monitor*, which covers the 2nd quarter of 2009 to the 1st quarter of 2010, has been substantially revised, and includes more detailed information on empowerment and on up- and down-grades. The *Quarterly Monitor* has also been expanded to provide more information on Grade 9 contractors.

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 strategies[2], 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

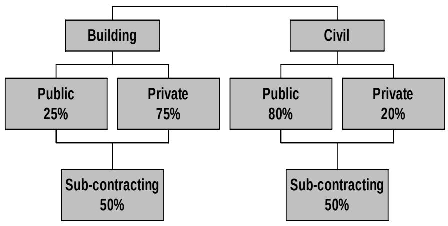
The background and key assumptions used in developing and in interpreting the *cidb Quarterly Monitor* are highlighted below:

i) ***Contracts Awarded:*** Details of contracts awarded is obtained from the cidb ***i****Tender Register of Projects* supported by the Industry Insight *Project Database*. The support of *Industry Insight* in providing this information is gratefully acknowledged.

ii) ***Public vs. Private Sector Demand:*** The cidb *Quarterly Monitor* only presents information on public sector contracts for General Building (GB) and Civil Engineering (CE) cidb Classes of Works. Most contractors would however target both public and private sector opportunities. Currently, public sector spend accounts for about 25% of total General Building activity and about 80% of Civil Engineering activity, although lower grade contractors, and in particular emerging contractors, would be more dependent of public sector contracts.

Class of Works	% Public Sector Spend
General Building (GB)	25%
Civil Engineering (CE)	80%

iii) ***Sub-contracting:*** The cidb *Quarterly Monitor* only presents information on contracts awarded as prime (or main) contracts, and does not provide information on sub-contracts. Note that much of the work of contractors in Grades 2 to 6 in particular is obtained through sub-contracting to higher level contractors, and not as main contractors. Typically, around 50% of work is sub-contracted to lower Grade or to speciality contractors.



iv) ***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.

v) ***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 a national and international level;
- Grades 7 and 8; typically contractors that operate a regional / provincial level;
- Grades 5 and 6; typically contractors in

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

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

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.

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.

vi) ***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 of[4]:

- 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.

vii) ***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 ***i****Tender Register of Projects*. It should be noted however that the information recorded on the cidb ***i****Tender 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*.

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

3. Contracts Awarded; Public Sector

The value and distribution of public sector contracts awarded between provinces and between tender Grades clearly reflects the infrastructure requirements of South Africa, and is therefore a key determinant of market conditions across provinces and contractor Grades.

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:

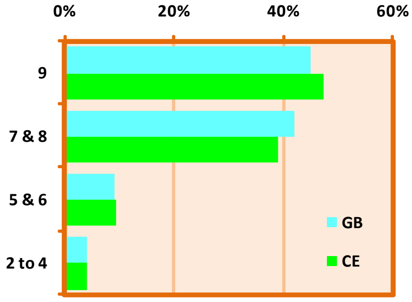
- public sector contracts in Grades 2 to 4 and in Grades 5 & 6 account for only around 15% of the total value of contracts awarded – although it should be noted that the largest proportion of the contracts awarded in Grades 7 to 9 are subcontracted down to sub-contractors; and
- the contracts awarded in Grade 9 General Building (GB) is proportionally higher than that awarded in Grade 9 Civil Engineering (CE).

The distribution of public sector contract awards between the provinces and between tender Grades is shown in the adjacent figure, from which the following can be observed:

- no Grade 9 contracts were awarded for General Building works in Mpumalanga, North West and Northern Cape in the four quarters under review (2nd quarter of 2009 to the 1st quarter of 2010) – which is reflected by the higher proportion of the total contracts awarded in these provinces in the lower tender Grades;
- similarly, no Grade 9 contracts were awarded for Civil Engineering works in North West and Northern Cape in the four quarters under review;
- relative to other provinces, smaller portions of the total budget are allocated to tender Grades 2 to 4 and in Grades 5 & 6 in General Building in KwaZulu-Natal, Limpopo and Western Cape.

Demand; Public Sector Awards (% Distribution by Value); 200902 to 201001

Grade	% Distribution
GB	
9	45%
7 & 8	42%
5 & 6	9%
2 to 4	4%
Total	**100%**
CE	
9	47%
7 & 8	39%
5 & 6	10%
2 to 4	4%
Total	**100%**

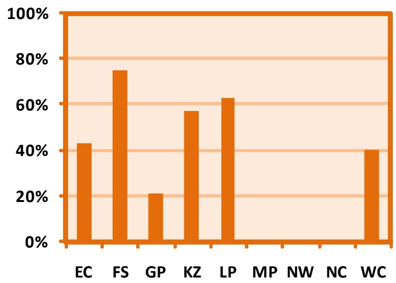


Acknowledgements

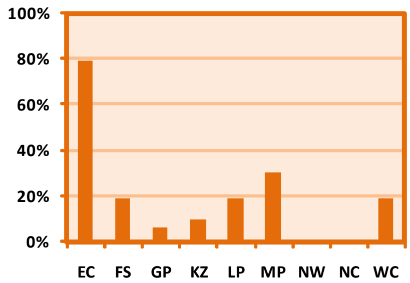
Demand; Public Sector Awards (% Distribution by Value); 200902 to 201001

Grade 9

GB

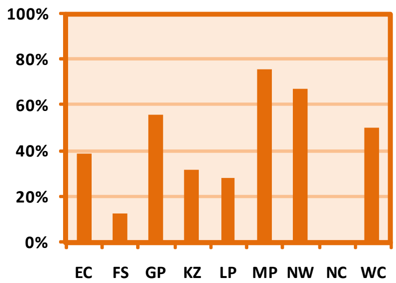


CE



Grades 7 & 8

GB



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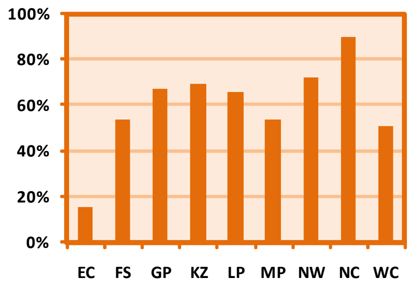
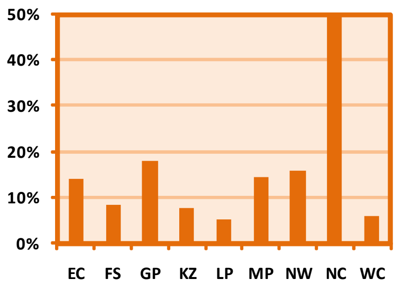
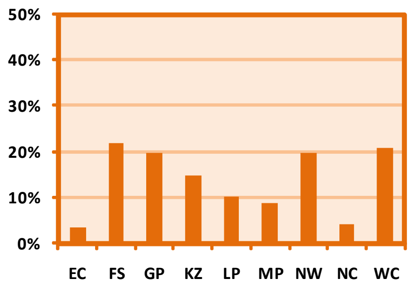


Grades 5 & 6

GB

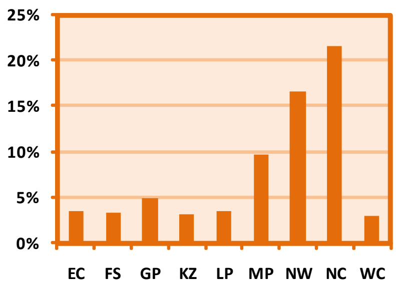


CE

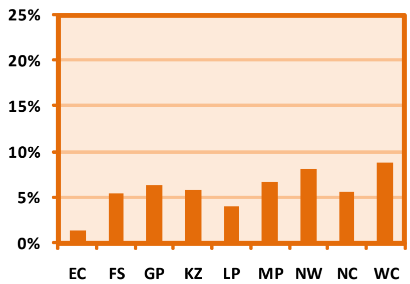


Grades 2 to 4

GB



CE



4. Maintenance Contracts Awarded; Public Sector

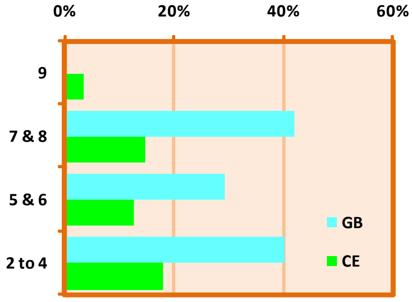
The distribution of public sector maintenance contracts awarded (including refurbishment, renovations, etc.) in South Africa as a percentage of the total contracts awarded in the Grades 2 to 9 is shown in the adjacent figure. From the adjacent figure it can be see that:

- in General Building (GB), maintenance contracts awarded accounts for around 30% to 45% of the total contracts awarded in Grades 2 to 8; and
- in Civil Engineering (CE), maintenance contracts awarded accounts for around 15% to 25% of the total contracts awarded in Grades 2 to 8.

At a provincial level, large variations are seen in the relative proportion of maintenance contracts in Grades 2 to 4 and in Grades 5 & 6 in General Building.

Maintenance; Public Sector Awards (% of Value per Grade); 200902 to 201001

Grade	% Distribution
GB	
9	0%
7 & 8	42%
5 & 6	29%
2 to 4	40%
Total	**22%**
CE	
9	3%
7 & 8	15%
5 & 6	13%
2 to 4	18%
Total	**9%**



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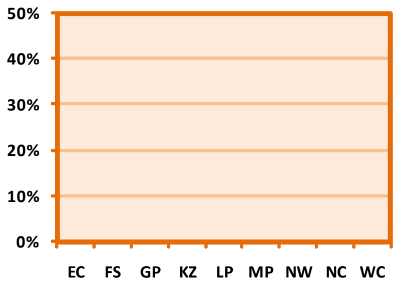
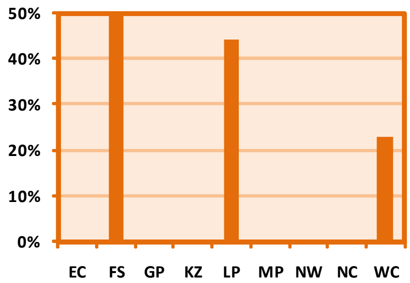
Maintenance; Public Sector Awards (% of Value per Grade); 200902 to 201001

Grade 9

GB

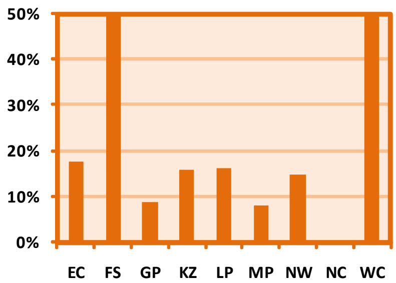


CE

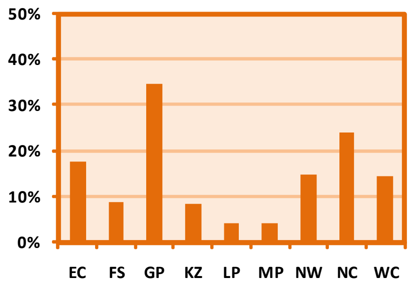


Grades 7 & 8

GB

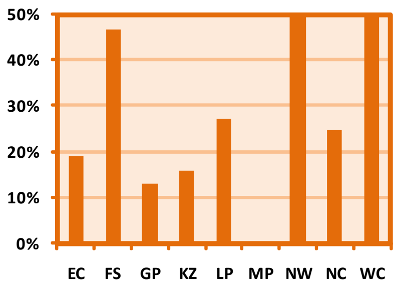


CE

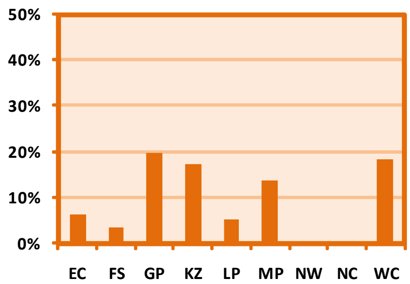


Grades 5 & 6

GB

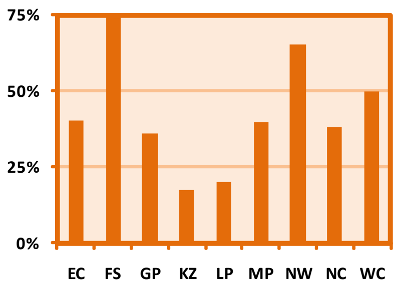


CE

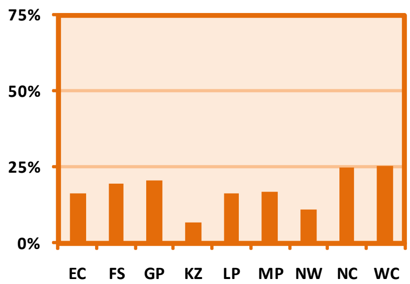


Grades 2 to 4

GB



CE



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 * seriously + 0,33 * slightly) scaled up to 100 to give a % index. The

Overall, business confidence in the General Building (GB) sector has remained somewhat constant over the last quarter – but at low confidence values. Business confidence in the Civil Engineering (CE) sector has continued to decline.

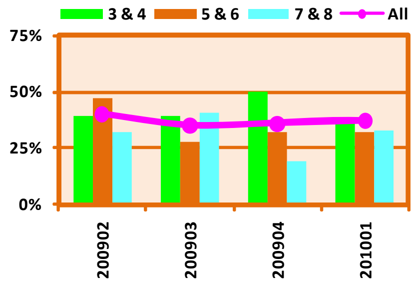
Insufficient demand for work has increased in the General Building and Civil Engineering sectors.

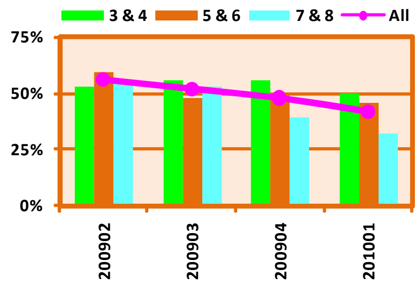
At a provincial level are largely consistent with those above. Specifically. over the current four quarters:

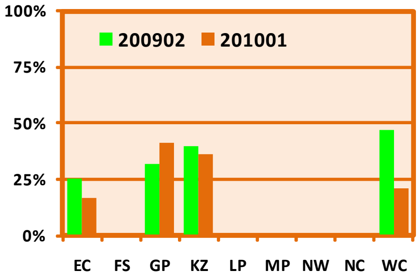
- ***Eastern Cape*** has shown an noticeable drop in business confidence for both General Building and Civil Engineering classes of works.
- ***Gauteng*** shows a slight increase in business confidence in General Building.
- ***Western Cape*** has shown a significant drop in business confidence in General Building and in Civil Engineering.

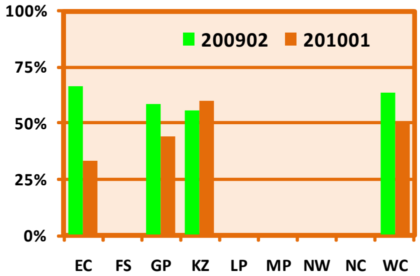
Business Confidence

GB | CE



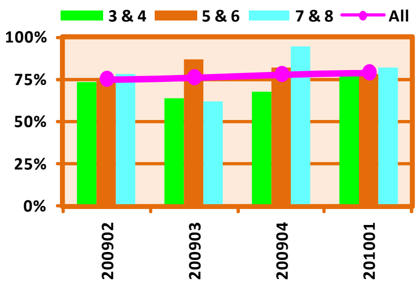


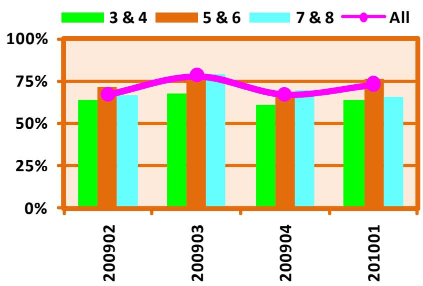


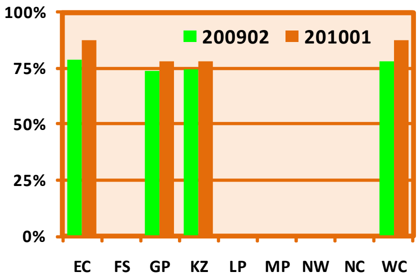


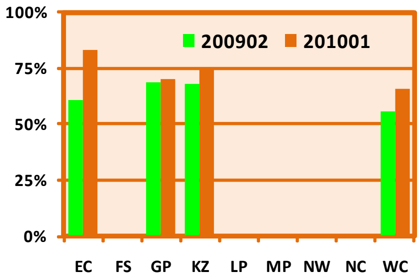
Insufficient Demand

GB | CE









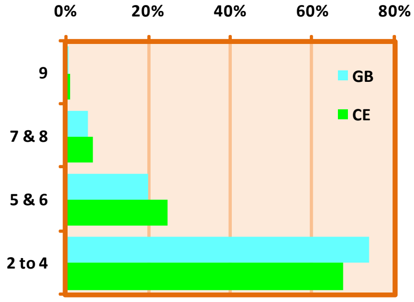
6. Registrations; Current Profile

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, whereas the number of registrations in Grades 7 & 8 account for around 5% 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 & 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 & 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); 201001

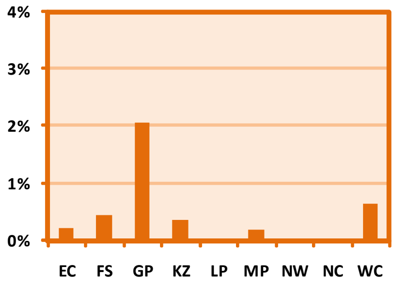
Grade	% Distribution
GB	
9	1%
7 & 8	5%
5 & 6	20%
2 to 4	74%
Total	**100%**
CE	
9	1%
7 & 8	7%
5 & 6	25%
2 to 4	67%
Total	**100%**



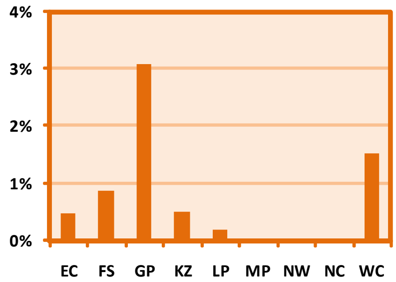
Supply; Registrations per Grade (% Grades 2 to 9); 201001

Grade 9

GB

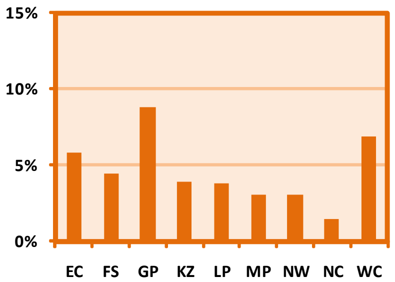


CE

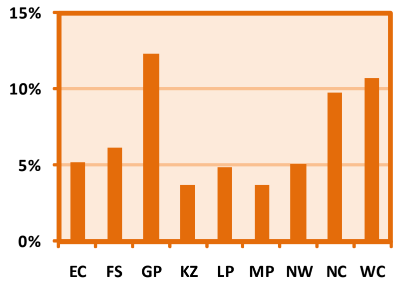


Grades 7 & 8

GB

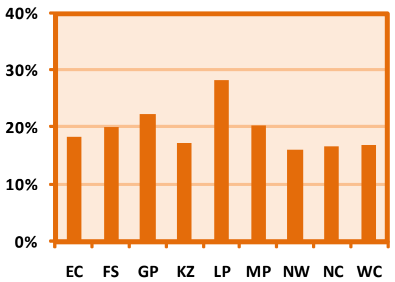


CE

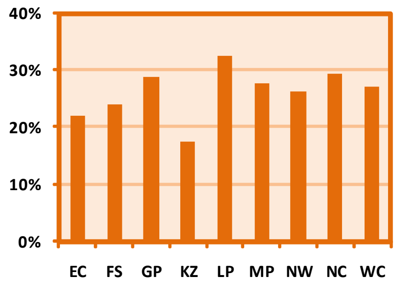


Grades 5 & 6

GB

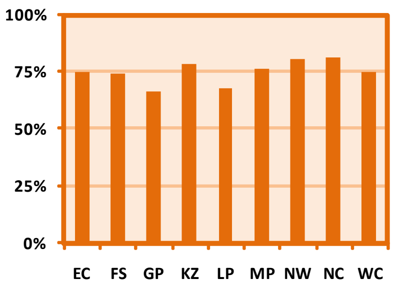


CE

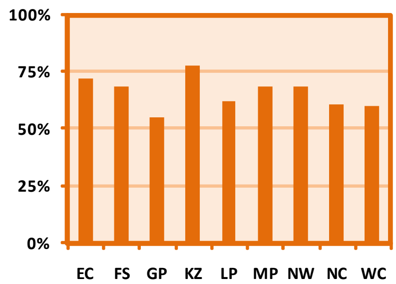


Grades 2 to 4

GB



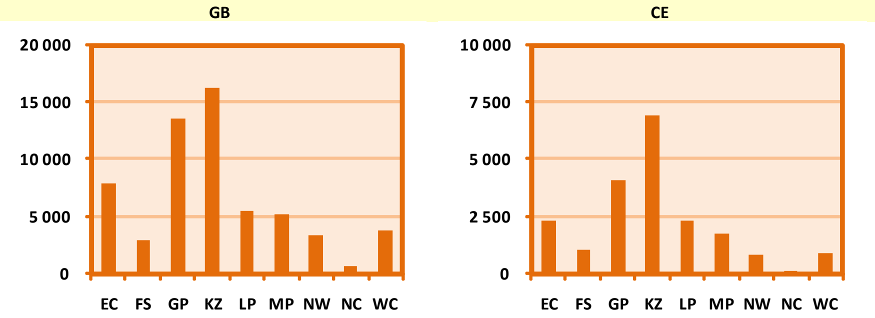
CE



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 appears to be disproportionally high – especially compared to the GDP or construction spend per province. Similarly, the number of registered Grade 1 General Building contractors in the Eastern Cape appears to be disproportionally high

Supply; Grade 1 (Absolute) 201001

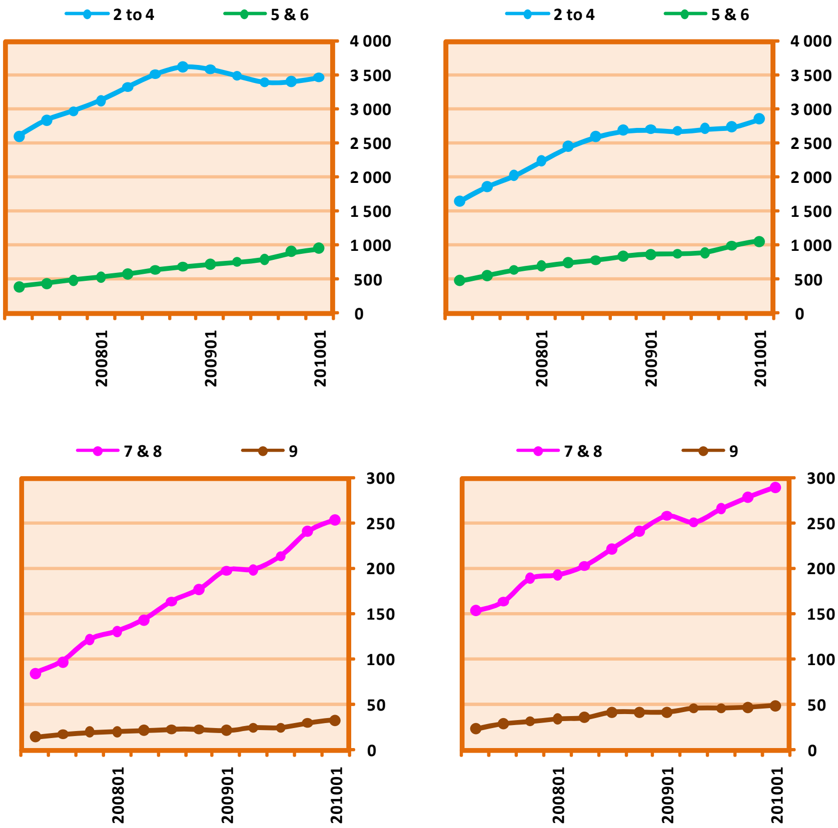


8. Registrations; History

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

Supply; Number of Registrations; 200702 to 201001

GB	CE



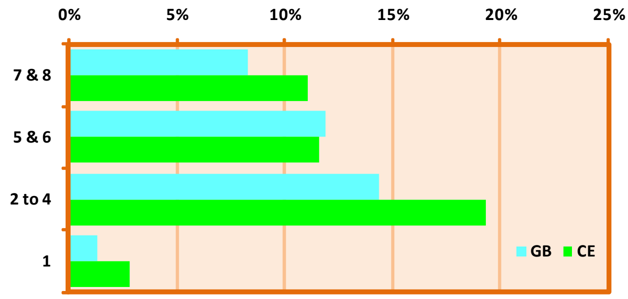
9. Contractor Development; Upgrades

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 remains in Grades 2 to 8 is seen to be around 10% per year – except for Grade 1 contractors which is significant lower at around 2% to 5%.

A comparison of the upgrades per quarter over the past three years suggests that:

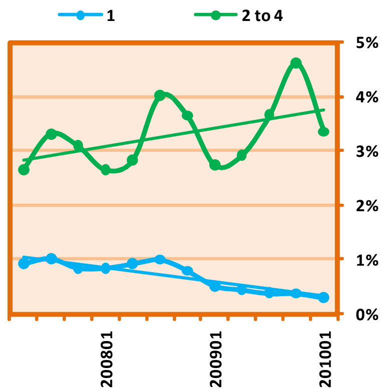
- the number of upgrades per year in Grades 2 to 4 in General Building (GB) and in Civil Engineering (CE) appears to be increasing;
- the number of upgrades per year in Grade 1 in General Building and in Civil Engineering appears to be decreasing;
- in General Building, the number of upgrades in Grades 5 & 6 appears to be decreasing, but increasing in Grades 7 & 8.

From/To	2 to 4	5 & 6	7 & 8	9	Total	Registrations	%
Upgrades; 200902 to 201001							
GB							
7 & 8	0	0	15	6	21	253	8%
5 & 6	0	56	57	1	114	955	12%
2 to 4	271	216	11	1	499	3 466	14%
1	745	69	1	0	815	59 498	1%
Total	1 016	341	84	8	1 449	64 172	2%
CE							
7 & 8	0	0	24	8	32	288	11%
5 & 6	0	73	50	0	123	1 057	12%
2 to 4	283	257	11	0	551	2 858	19%
1	513	71	0	0	584	20 455	3%
Total	796	401	85	8	1 290	24 658	5%

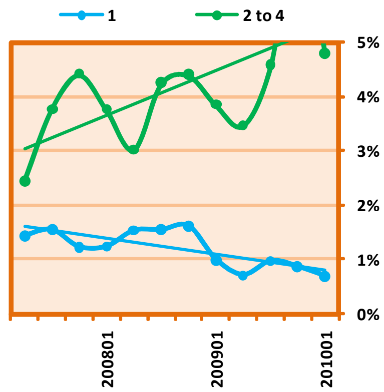


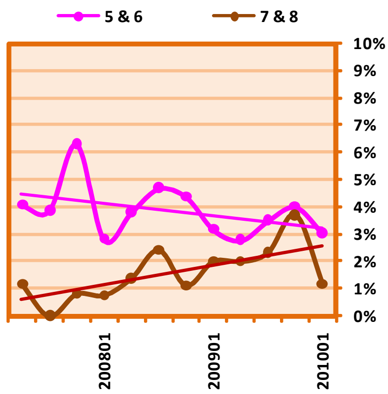
Upgrades per Quarter; 200702 to 201001

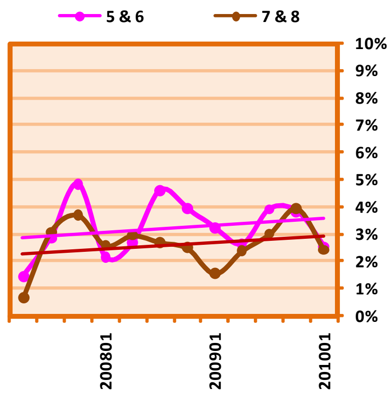
GB



CE







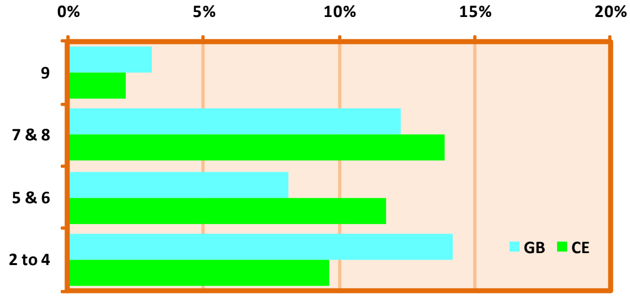
10. Contractor Development; Downgrades

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 he number of downgrades is around 10% per year. The highest rate of occurrence of downgrades is in Civil Engineering (CE) in Grades 7 & 8.

In comparison between the number of upgrades given previously and the number of downgrades per year it is seen that:

- in Grades 7 & 8, the number of downgrades exceeds the number of upgrades; and
- in Grades 2 to 4, the number of upgrades significantly exceeds the number of downgrades in Civil Engineering (CE).

Downgrades; 200902 to 201001							
From/To	1	2 to 4	5 & 6	7 & 8	Total	Registrations	%
				GB			
9	0	0	0	1	1	32	3%
7 & 8	0	5	25	1	31	253	12%
5 & 6	3	54	21	0	78	955	8%
2 to 4	333	158	0	0	491	3 466	14%
Total	161	115	0	0	601	4 706	13%
				CE			
9	0	0	0	1	1	46	2%
7 & 8	0	7	24	9	40	288	14%
5 & 6	11	96	17	0	124	1 057	12%
2 to 4	161	115	0	0	276	2 858	10%
Total	333	158	0	0	441	4 249	10%



11. Equity; Black Ownership

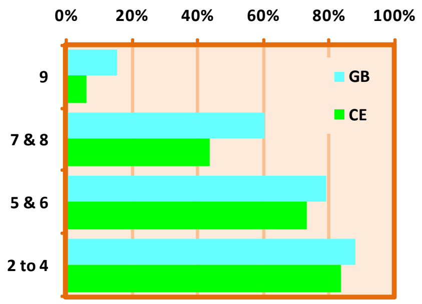
From the adjacent figure it can be seen that around 80% of cidb registered Grade 2 to 4 General Building (GB) and Civil Engineering (CE) contractors are black owned (defined as more than 50% ownership control). Furthermore, around 70% to 80% of all Grade 5 & 6 General Building and Civil Engineering contractors are black owned, while around 60% of all Grade 7 & 8 General Building contractors are black owned. Black ownership of Civil Engineering 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 & 6 are relatively consistent across the provinces, although the black ownership in Grades 5 & 6 is noticeably lower in the Western Cape.

Of significance, are the black owned Grade 9 General Building and Civil Engineering contractors registered in Gauteng, KwaZulu Natal and in Mpumalanga.

Supply; Black Ownership; 201001

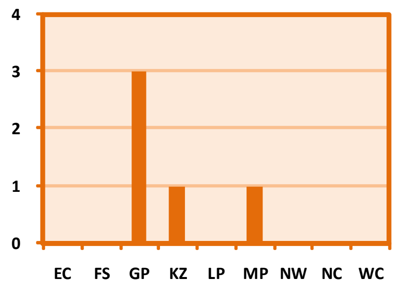
Grade	Total	Black	Black (%)
GB			
9	32	5	16%
7 & 8	253	153	60%
5 & 6	955	759	79%
2 to 4	3 466	3 053	88%
Total	**4 706**	**3 970**	**84%**
CE			
9	46	3	7%
7 & 8	288	126	44%
5 & 6	1 057	777	74%
2 to 4	2 858	2 394	84%
Total	**4 249**	**3 300**	**78%**



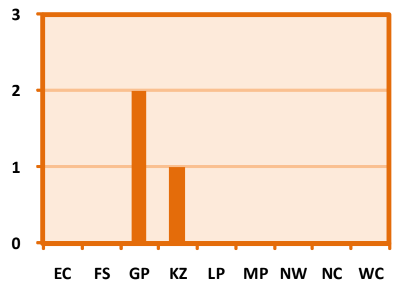
Supply; Black Ownership; 201001

Grade 9 (Absolute)

GB

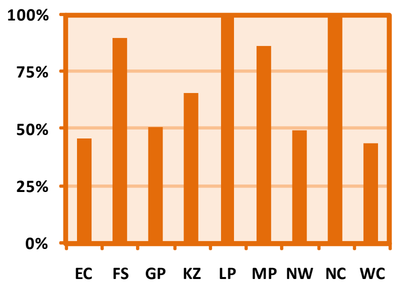


CE

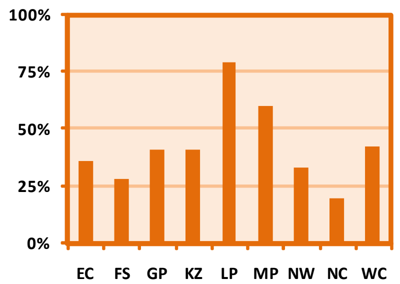


Grades 7 & 8 (% of Grade)

GB

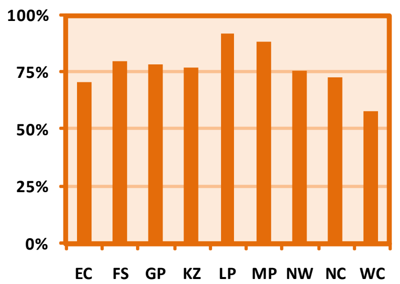


CE

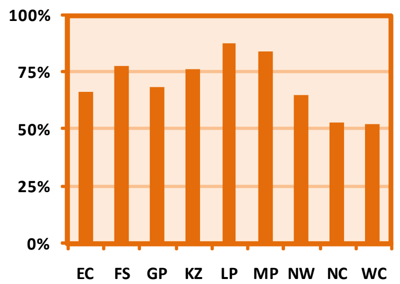


Grades 5 & 6 (% of Grade)

GB

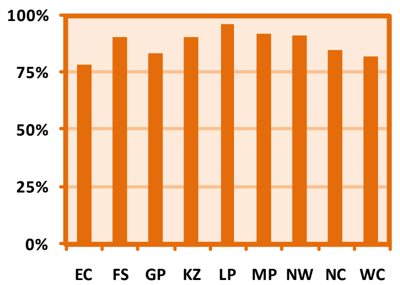


CE

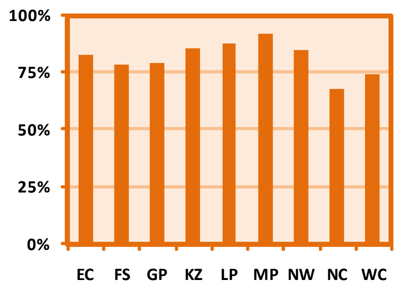


Grades 2 to 4 (% of Grade)

GB



CE



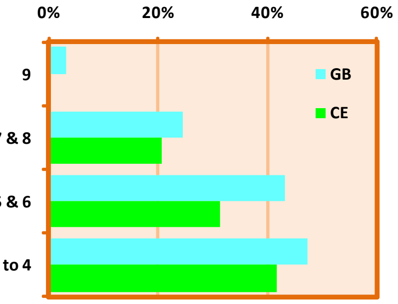
12. Equity; Women Ownership

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 & 6 and above, women ownership is typically less than 30% in Civil Engineering, when in General Building it is around 30 to 40%.

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

Supply; Woman Ownership; 201001

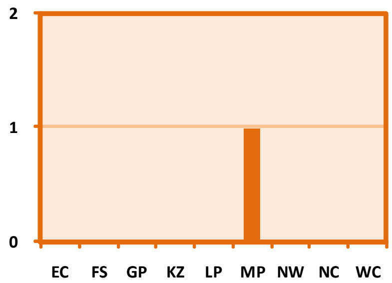
Grade	Total	Women	Women (%)
GB			
9	32	1	3%
7 & 8	253	62	25%
5 & 6	955	411	43%
2 to 4	3 466	1 634	47%
Total	**4 706**	**2 108**	**45%**
CE			
9	46	0	0%
7 & 8	288	60	21%
5 & 6	1 057	331	31%
2 to 4	2 858	1 195	42%
Total	**4 249**	**1 586**	**37%**



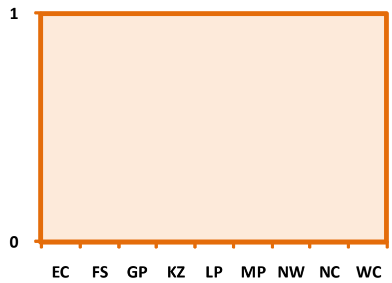
Supply; Woman Ownership; 201001

Grade 9 (Absolute)

GB

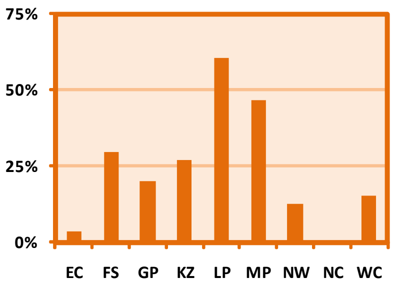


CE

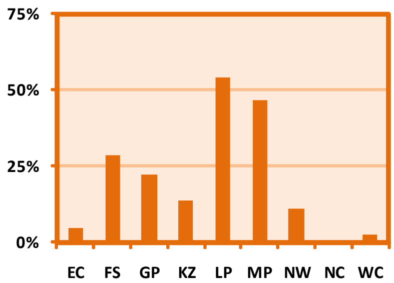


Grades 7 & 8 (% of Grade)

GB

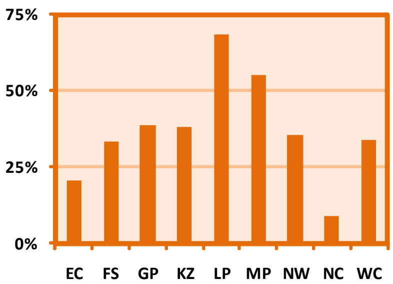


CE

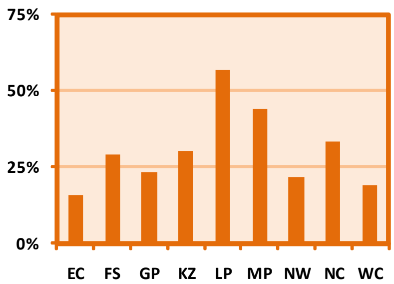


Grades 5 & 6 (% of Grade)

GB

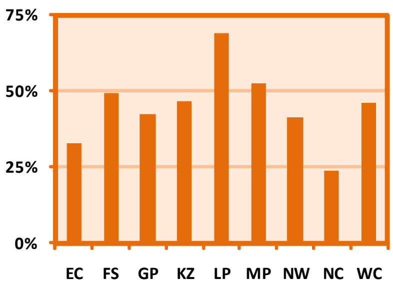


CE

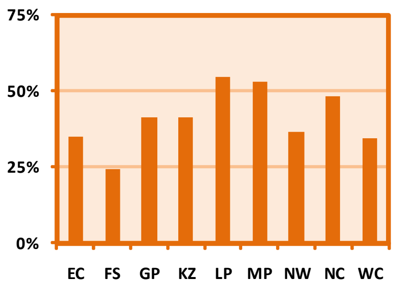


Grades 2 to 4 (% of Grade)

GB



CE



13. Equity; Contracts Awarded

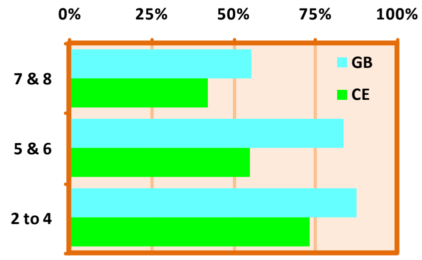
Estimates of the value of **public sector** contracts awarded to black owned companies during the four quarters under review are shown in the adjacent figure, from which it is seen that around 75% to 80% of the value of Grade 2 to 4 tenders have been awarded to black owned contractors. In tender Grades 7 & 8, the value awarded to black owned contractors is lower – namely around 50%.

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 80% of the total turnover of Grade 2 to 4 contractors – and decreasing to around 40% 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.

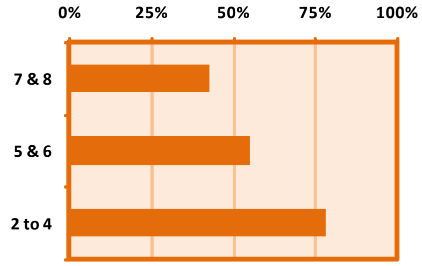
Contracts Awarded; Black Owned; 200902 to 201001

Grade	%
GB	
7 & 8	56%
5 & 6	84%
2 to 4	88%
Total	**69%**
CE	
7 & 8	42%
5 & 6	55%
2 to 4	73%
Total	**52%**



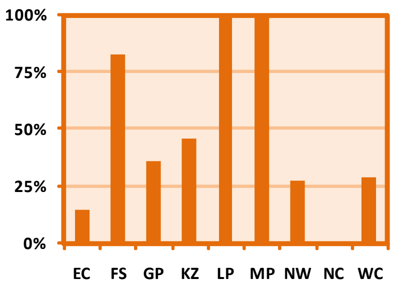
Turnover; Black Owned; GB and/or CE

Grade	%
GB and/or CE	
7 & 8	43%
5 & 6	55%
2 to 4	79%
Total	**52%**

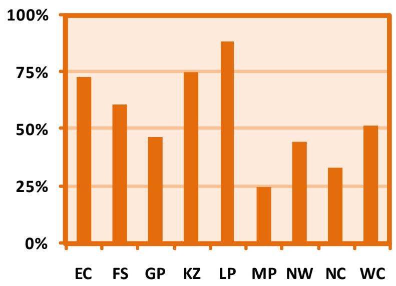


Turnover; Black Owned; GB and/or CE

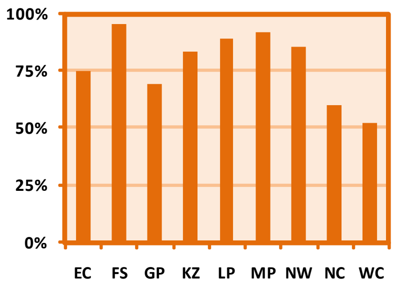
7 & 8



5 & 6



2 to 4



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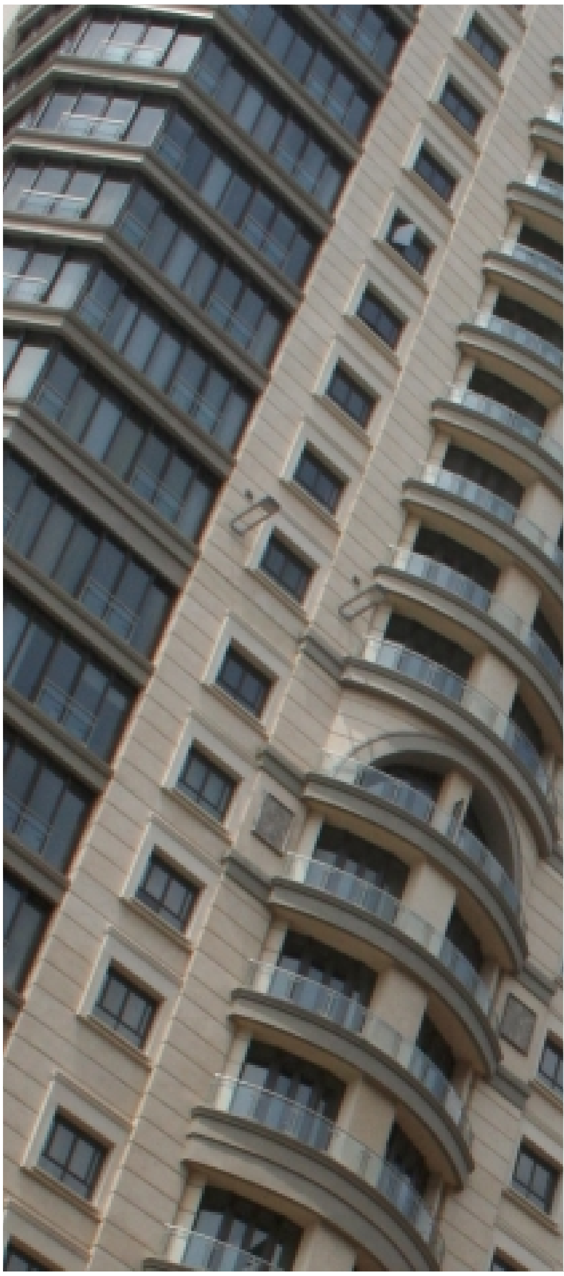

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