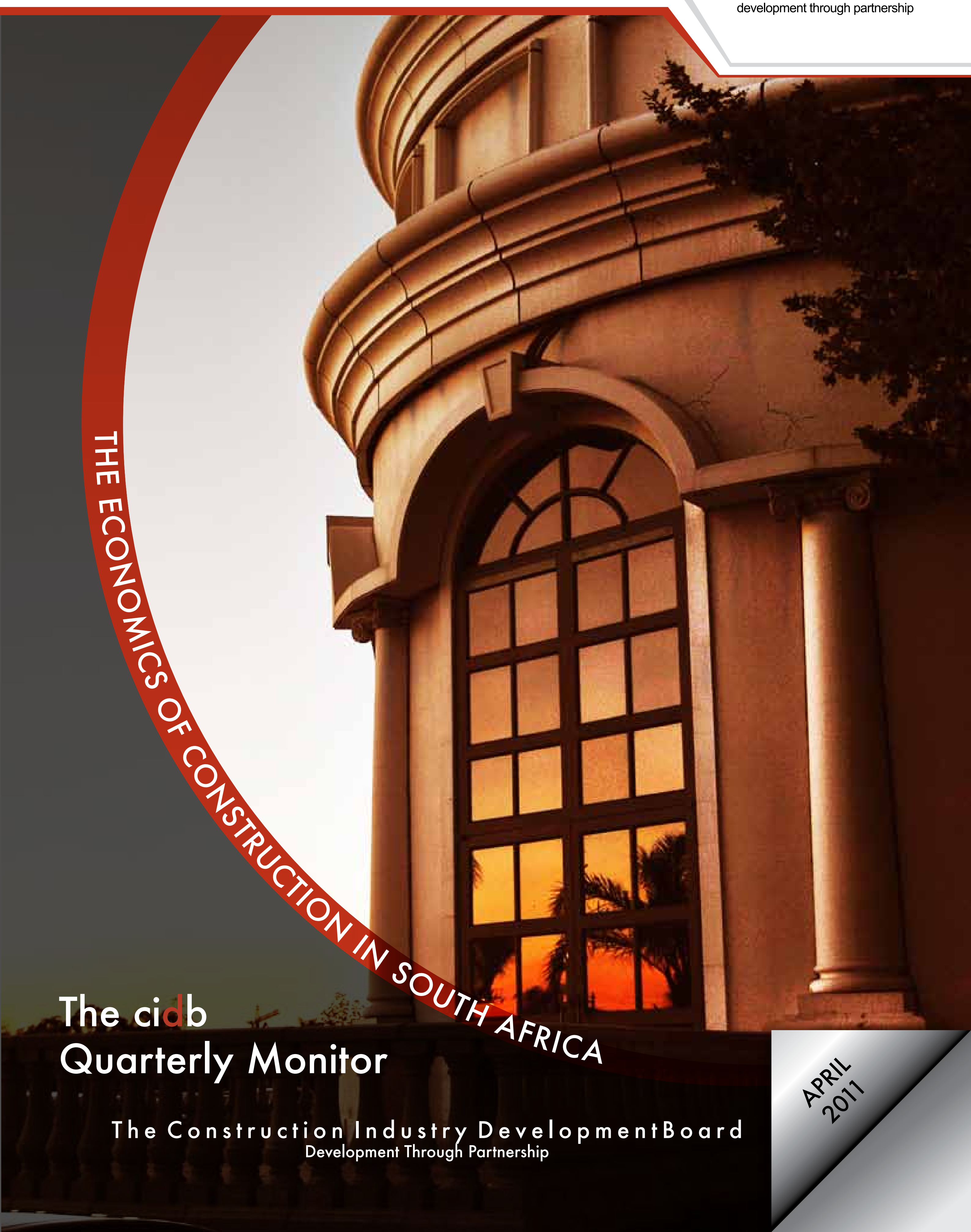
development through partnership



THE ECONOMICS OF CONSTRUCTION IN SOUTH AFRICA

The cidb Quarterly Monitor

APRIL 2011

The Construction Industry DevelopmentBoard
Development Through Partnership

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

CIDB QUARTERLY MONITOR; APRIL 2011

CIDB Quarterly Monitor; April 2011

1. Introduction

The cidb *Quarterly Monitor*, which covers the 2nd quarter of 2010 to the 1st quarter of 2011, 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. The *Quarterly Monitor* 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 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) *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 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.

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

3 cidb (2011). 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

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 (or wholy owned subsideries of publically listed companies) 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

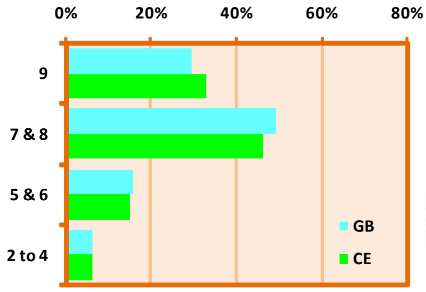
The distribution of public sector contracts awarded for South Africa as a whole in the previous four quarters (2010Q2 to 2011Q1) in Grades 2 to 9 is shown in the adjacent figure – with around 80% of public sector awards being in tender Grades 7 to 9 and around 20% of public sector awards being in tender Grades 2 to 6. (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.)

As compaired to to the distribution of projects for the same four quarters under review one year ago (2009Q2 to 2010Q1), the distribution of public sector awards shows a noticeable shift to smaller projects in both General Building (GB) and Civil Engineering class of works (CE), namely Grades 2 to 6 tender awards currently amounting to around 20% of total awards compaired to 15% previously.

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); 201002 to 201101

Grade	% Distribution
GB	
9	29%
7 & 8	49%
5 & 6	16%
2 to 4	6%
Total	**100%**
CE	
9	33%
7 & 8	46%
5 & 6	15%
2 to 4	6%
Total	**100%**



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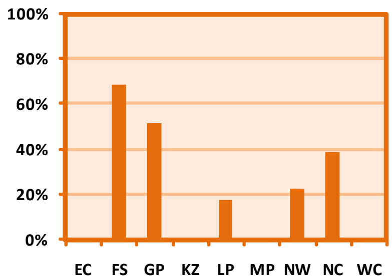
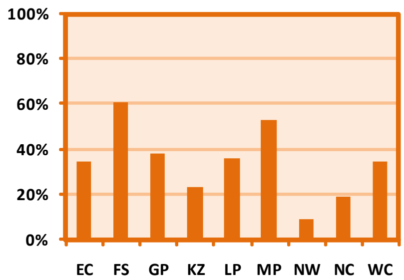
Demand; Public Sector Awards (% Distribution by Value); 201002 to 201101

Grade 9

GB

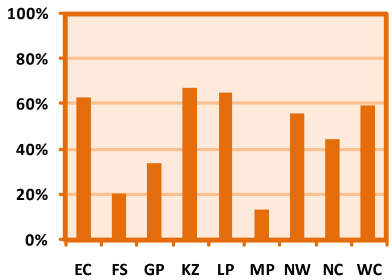


CE



Grades 7 & 8

GB



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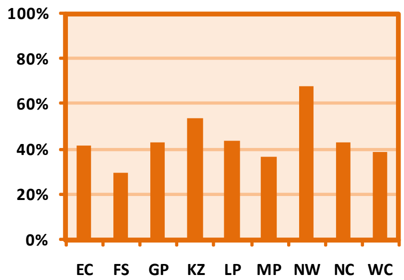
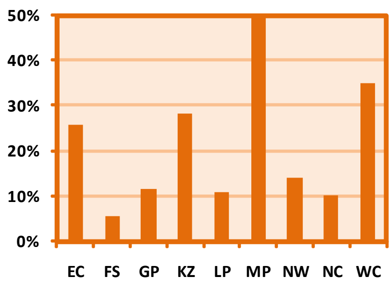
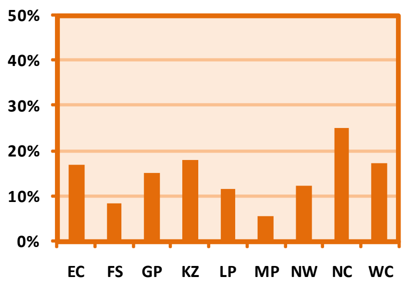


Grades 5 & 6

GB

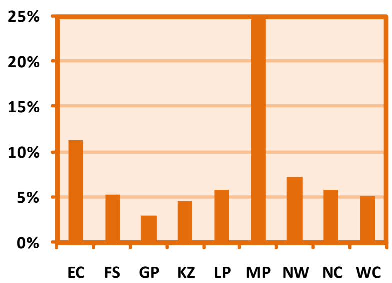


CE



Grades 2 to 4

GB



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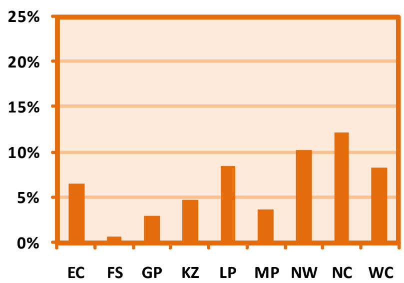


4. Maintenance Contracts Awarded; Public Sector

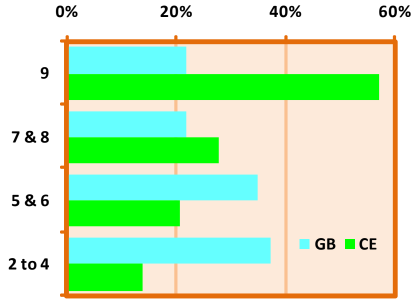
The distribution of public sector maintenance contracts awarded (including refurbishment, renovations, etc.) in South Africa as a percentage of the total contracts awarded in the Grades 2 to 9 is shown in the adjacent figure. From the adjacent figure it can be seen that, for the period under review:

- around 20% of total General Building (GB) contracts in Grades 7 to 9 have been allocated to maintenance, refurbishment and renovation contracts, and around 35% in Grades 2 to 6; and
- around 60% of total Civil Engineering (CE) contracts in Grades 9 have been allocated to maintenance contracts in the period under review (largely road maintenance and refurbishment contracts) – which is significantly higher that that recorded that same period last year (2009Q2 to 2010Q1), namely 3%.

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); 201002 to 201101

Grade	% Distribution
GB	
9	22%
7 & 8	22%
5 & 6	35%
2 to 4	37%
Total	**25%**
CE	
9	57%
7 & 8	28%
5 & 6	21%
2 to 4	14%
Total	**35%**

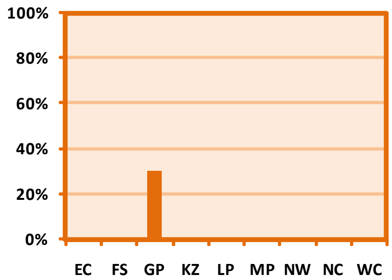


Acknowledgements

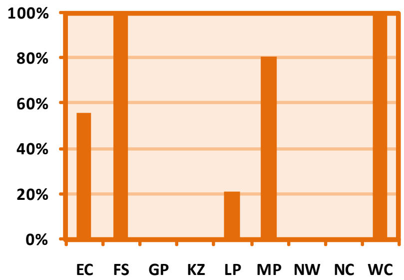
Maintenance; Public Sector Awards (% of Value per Grade); 201002 to 201101

Grade 9

GB

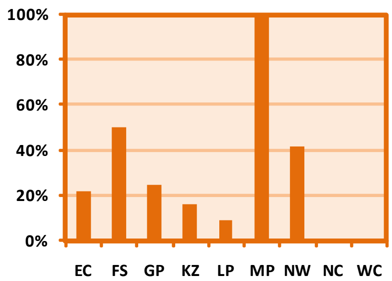


CE

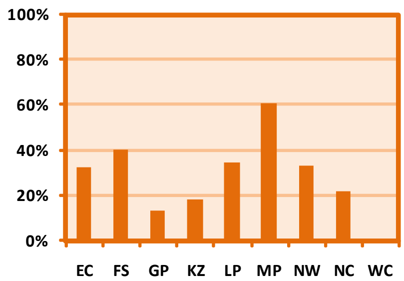


Grades 7 & 8

GB

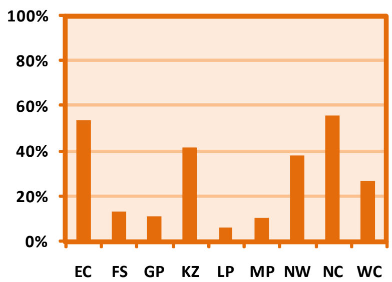


CE

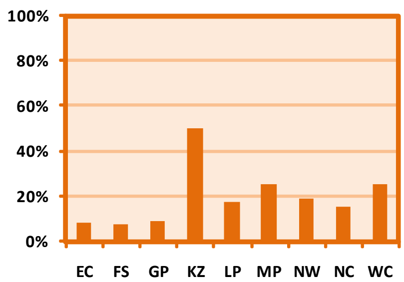


Grades 5 & 6

GB

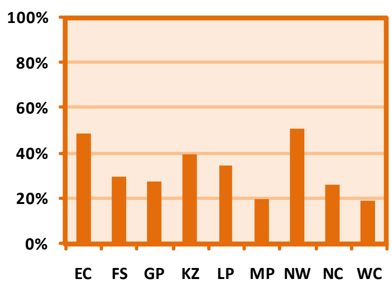


CE

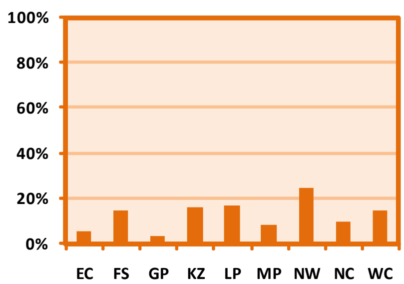


Grades 2 to 4

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.

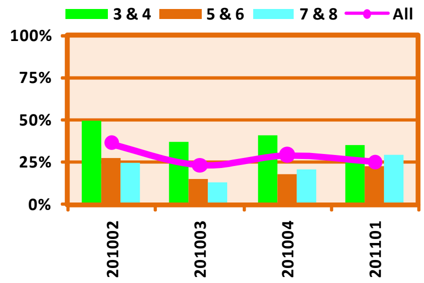
Overall, business confidence in the General Building (GB) sector remains low in the first quarter of 2011, although there is a noticeable trend that business confidence of Grade 7 & 8 General Building contractors has improved. Business confidence in the Civil Engineering (CE) sector has continued to decline. Of interest is that business confidence in the Civil Engineering (CE) sector in KwaZulu-Natal has shown a noticeable upswing in the last four quarters.

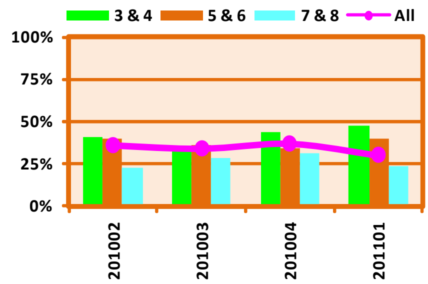
Insufficient demand for work has improved slightly in General Building (GB), and around 75% of all respondents reporting that insufficient demand for work is a constraint to business operations. In the Civil Engineering Sector (CE), insufficient demand for work continues to deteriorate.

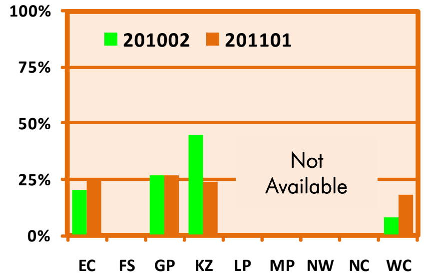
At a provincial level the trends are largely consistent with those above.

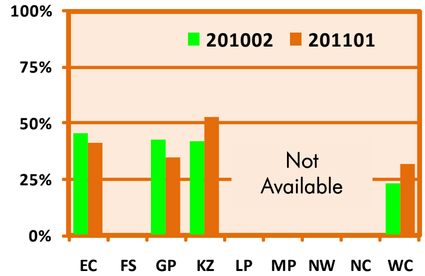
Business Confidence

GB | CE



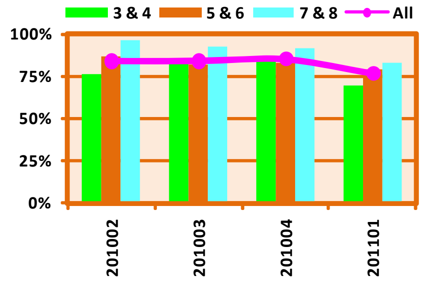


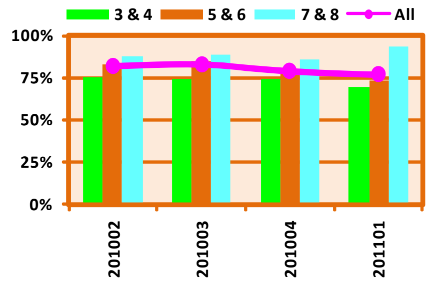


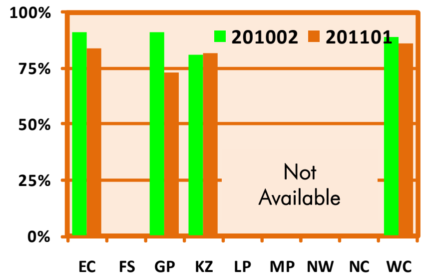


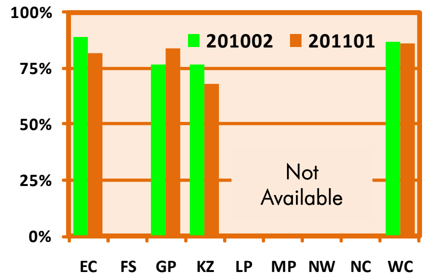
Insufficient Demand

GB | CE









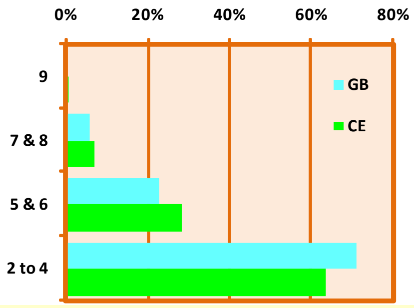
6. Registrations; Current Profile

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 registrations in Grades 2 to 9, whereas the number of registrations in Grades 7 to 9 account for around 8% of the total number of registrations.

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 – although the distribution of contractors in KwaZulu Natal appears to be skewed towards the lower grades as compaired to Gauteng and the Western Cape.

Supply; Registrations per Grade (% Grades 2 to 9); 201101

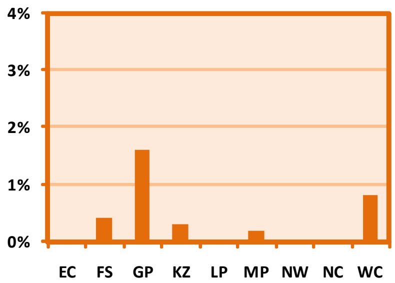
Grade	% Distribution
GB	
9	1%
7 & 8	6%
5 & 6	23%
2 to 4	71%
Total	**100%**
CE	
9	1%
7 & 8	7%
5 & 6	29%
2 to 4	64%
Total	**100%**



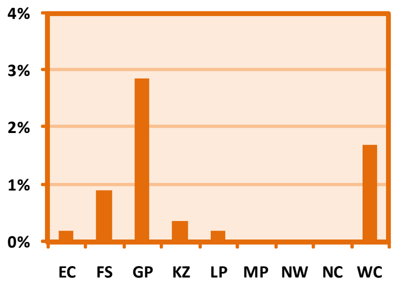
Supply; Registrations per Grade (% Grades 2 to 9); 201101

Grade 9

GB

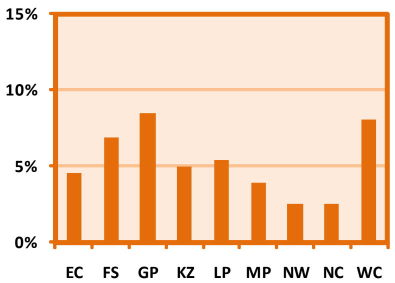


CE

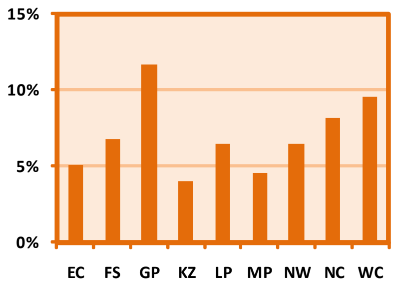


Grades 7 & 8

GB

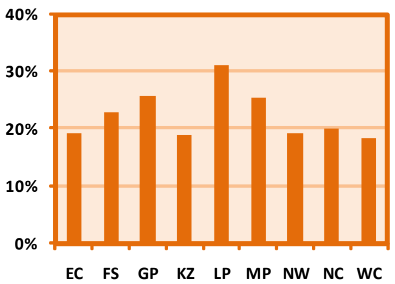


CE

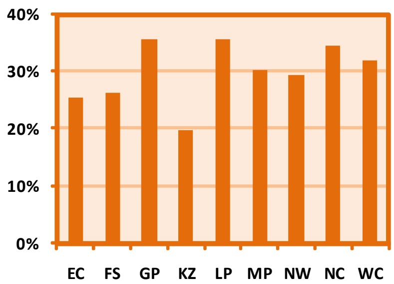


Grades 5 & 6

GB

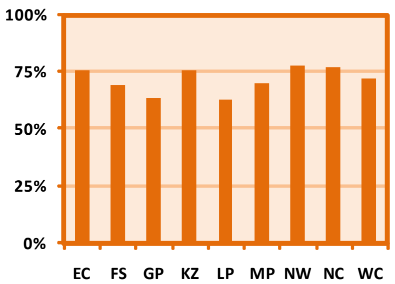


CE



Grades 2 to 4

GB



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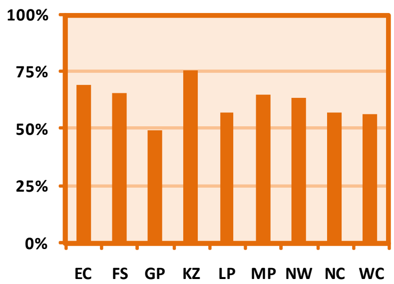
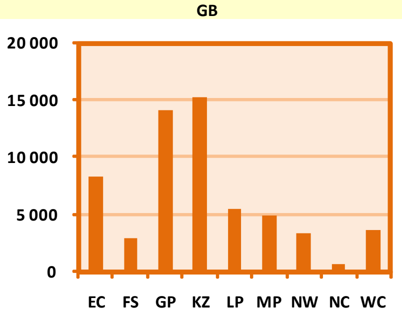
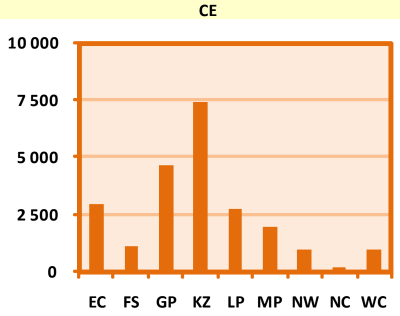


7. Registrations; Grade 1

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 disproportionally high – especially compared to the GDP or construction spend per province.

Supply; Grade 1 (Absolute) 201101





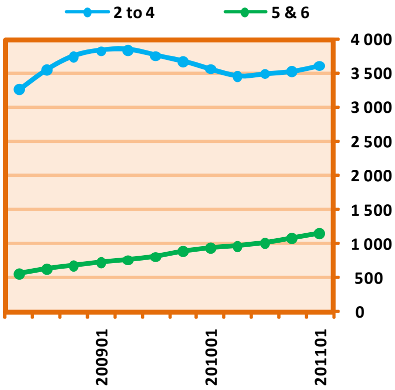
8. Registrations; History

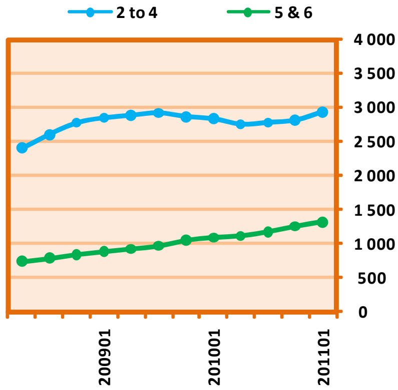
Details of the total number of registrations in the General Building (GB) and Civil Engineering (CE) classes of works for the past three years in South Africa are given in the adjacent figure. It is seen that there has been a slight increase in the number of registrations in Grades 2 to 4 in General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

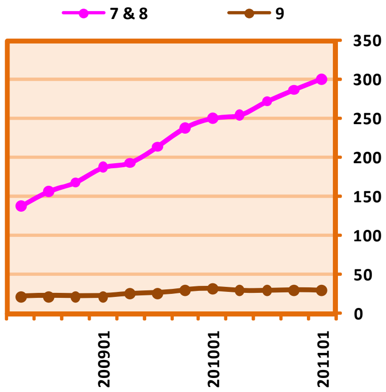
Of interest, the number of registrations do not yet appear to show any response to the more difficult business conditions.

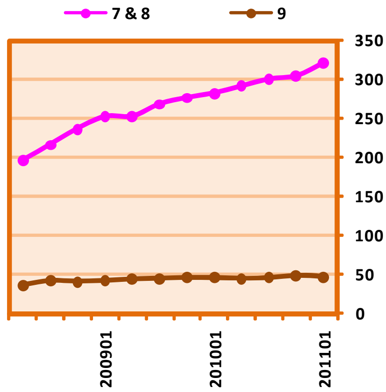
Supply; Number of Registrations; 200802 to 201101

GB	CE









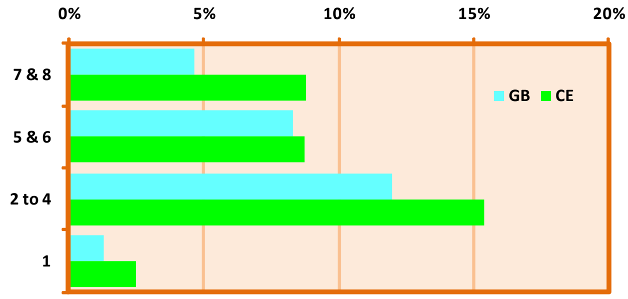
9. Contractor Development; Upgrades

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 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%.

Of interest is that the overall rate of upgrades in General Building (GB) and Civil Engineering (CE) appears to be decreasing over the past three years (possibly reflecting the diffcult economic conditions), except for the rate of upgrades in Grades 2 to 4.

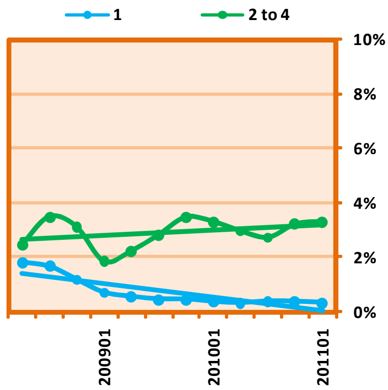
Upgrades; 201002 to 201101

From/To	2 to 4	5 & 6	7 & 8	9	Total	Registrations	%
GB							
7 & 8	0	0	13	1	14	300	5%
5 & 6	0	51	45	0	96	1 157	8%
2 to 4	241	186	6	0	433	3 610	12%
1	704	79	3	0	786	59 284	1%
Total	945	316	67	1	1 329	64 351	2%
CE							
7 & 8	0	0	21	7	28	319	9%
5 & 6	0	67	48	0	115	1 318	9%
2 to 4	239	204	9	0	452	2 942	15%
1	502	84	0	0	586	23 101	3%
Total	741	355	78	7	1 181	27 680	4%

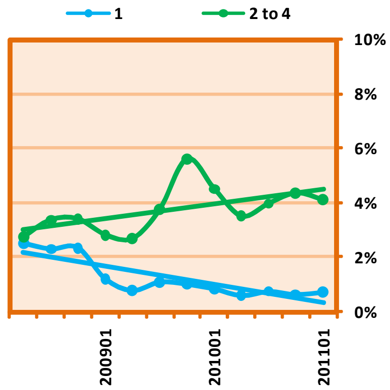


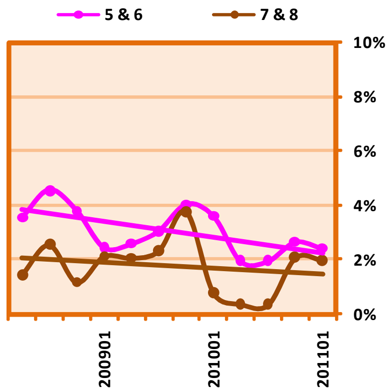
Upgrades per Quarter; 200802 to 201101

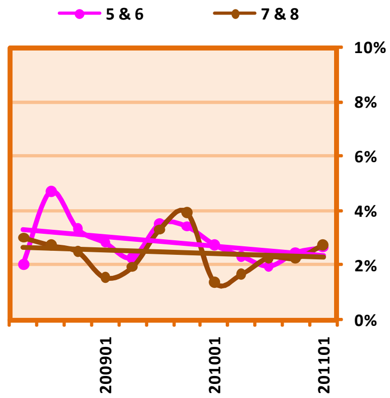
GB



CE







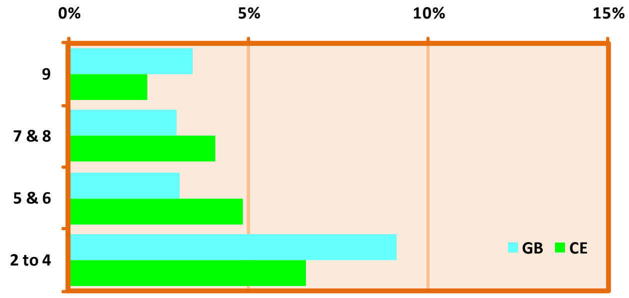
10. Contractor Development; Downgrades

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 the number of downgrades is between 5% to 10% per year.

Of interest, it can be noted that:

- in Grades 2 to 8, the number of upgrades is substantially larger than the number of downgrades (Section 9); and
- the number of downgrades (around 3% to 10%) is substantially lower than the number of downgrades over the same period a year ago (2009Q2 to 2010Q1) (around 3% to 14%).

Downgrades; 201002 to 201101							
From/To	1	2 to 4	5 & 6	7 & 8	Total	Registrations	%
			GB				
9	0	0	0	1	1	29	3%
7 & 8	0	1	7	1	9	300	3%
5 & 6	1	27	8	0	36	1 157	3%
2 to 4	269	60	0	0	329	3 610	9%
Total	130	64	0	0	375	5 096	7%
			CE				
9	0	0	0	1	1	45	2%
7 & 8	0	1	11	1	13	319	4%
5 & 6	7	41	16	0	64	1 318	5%
2 to 4	130	64	0	0	194	2 942	7%
Total	269	60	0	0	273	4 624	6%



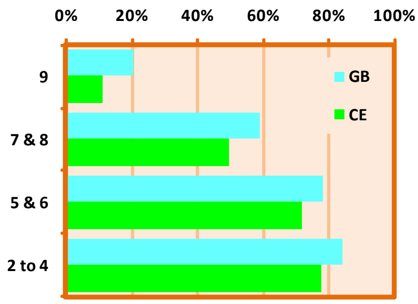
11. Equity; Black Ownership

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; 201101

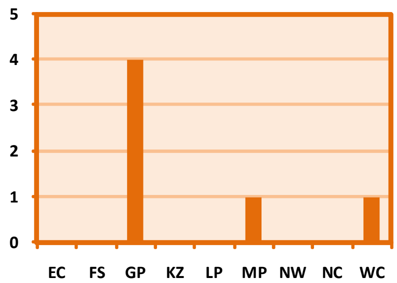
Grade	Total	Black	Black (%)
	GB		
9	29	6	21%
7 & 8	300	177	59%
5 & 6	1 157	904	78%
2 to 4	3 610	3 045	84%
Total	**5 096**	**4 132**	**81%**
	CE		
9	45	5	11%
7 & 8	319	159	50%
5 & 6	1 318	951	72%
2 to 4	2 942	2 293	78%
Total	**4 624**	**3 408**	**74%**



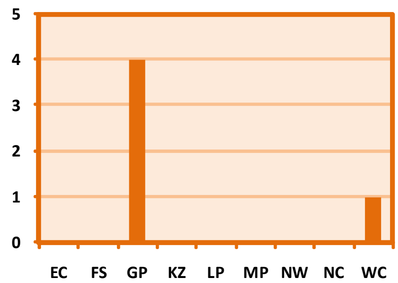
Supply; Black Ownership; 201101

Grade 9 (Absolute)

GB

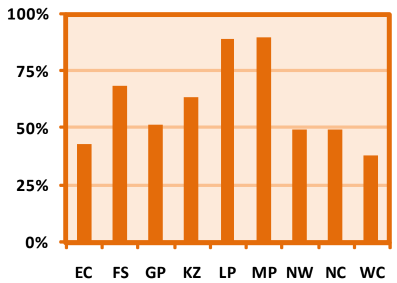


CE

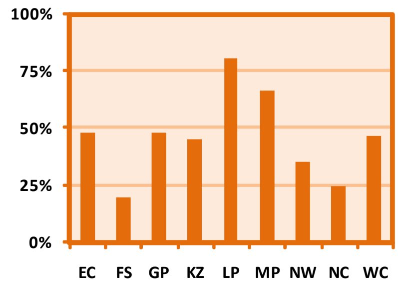


Grades 7 & 8 (% of Grade)

GB

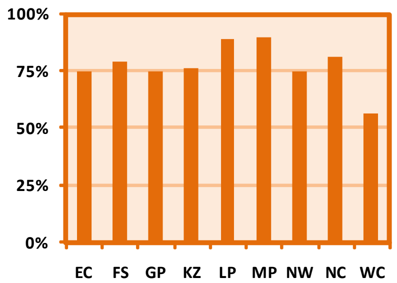


CE

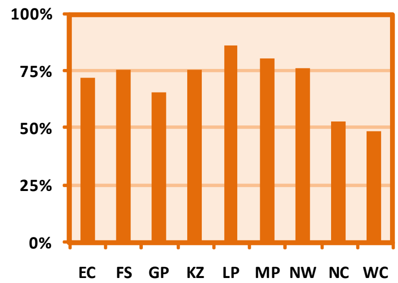


Grades 5 & 6 (% of Grade)

GB

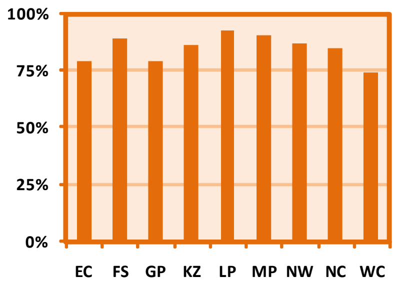


CE

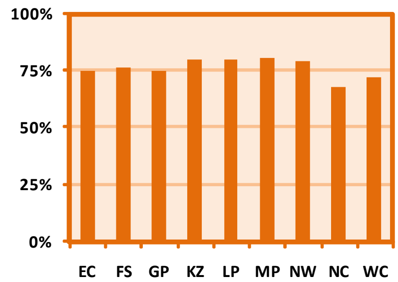


Grades 2 to 4 (% of Grade)

GB



CE



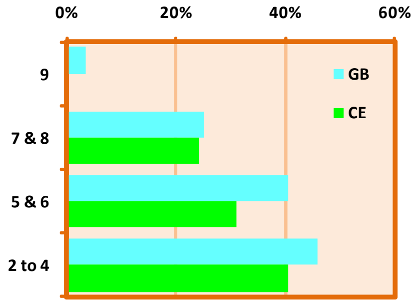
12. Equity; Women Ownership

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 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.

Supply; Woman Ownership; 201101

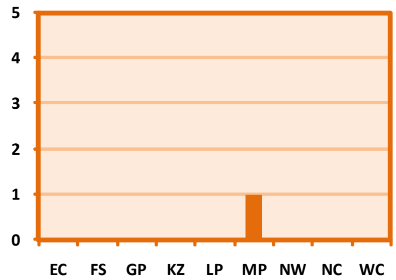
Grade	Total	Women	Women (%)
GB			
9	29	1	3%
7 & 8	300	75	25%
5 & 6	1 157	469	41%
2 to 4	3 610	1 654	46%
Total	**5 096**	**2 199**	**43%**
CE			
9	45	0	0%
7 & 8	319	77	24%
5 & 6	1 318	408	31%
2 to 4	2 942	1 190	40%
Total	**4 624**	**1 675**	**36%**



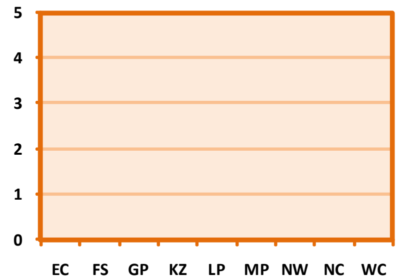
Supply; Woman Ownership; 201101

Grade 9 (Absolute)

GB

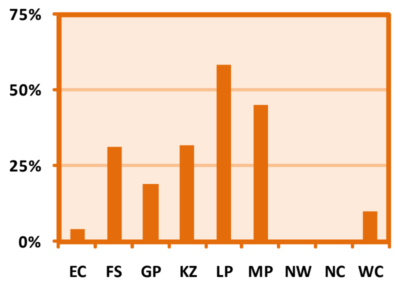


CE

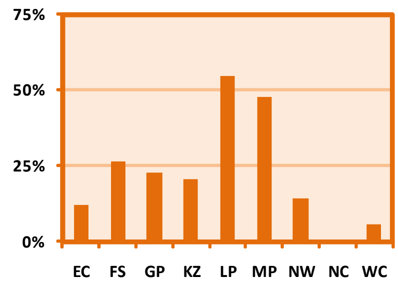


Grades 7 & 8 (% of Grade)

GB

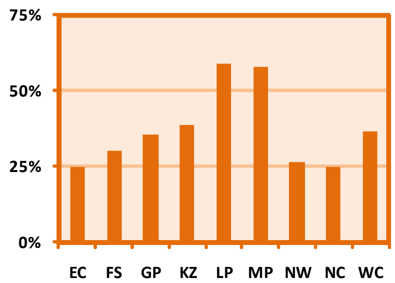


CE

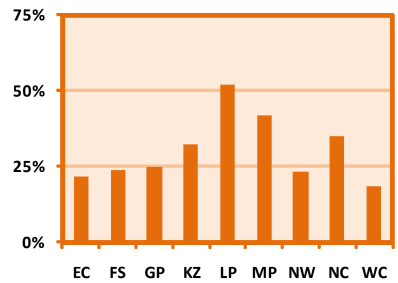


Grades 5 & 6 (% of Grade)

GB

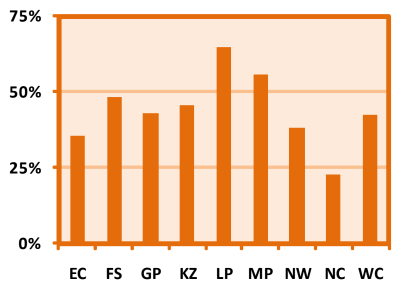


CE

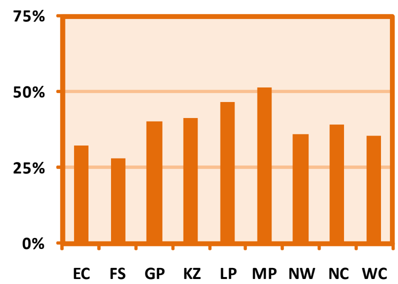


Grades 2 to 4 (% of Grade)

GB



CE



13. Equity; Contracts Awarded

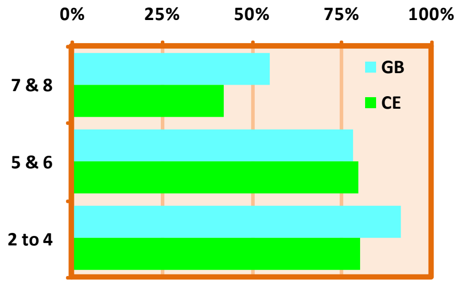
Estimates of the value of public sector contracts awarded to black owned companies during the four quarters under review are shown in the adjacent figure, from which it is seen that around 80% to 90% of the value of Grade 2 to 6 contract awards have been awarded to black owned contractors. In tender 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.

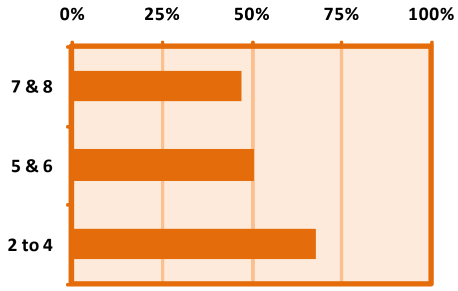
Contracts Awarded; Black Owned; 201002 to 201101

Grade	%
GB	
7 & 8	55%
5 & 6	78%
2 to 4	92%
Total	**67%**
CE	
7 & 8	42%
5 & 6	80%
2 to 4	80%
Total	**56%**



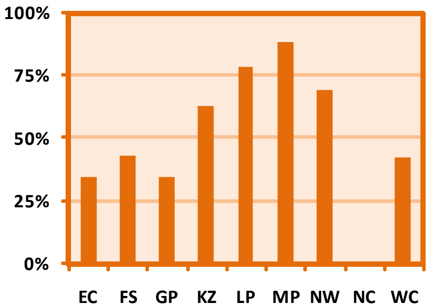
Turnover; Black Owned; GB and/or CE

Grade	%
GB and/or CE	
7 & 8	47%
5 & 6	51%
2 to 4	68%
Total	**51%**

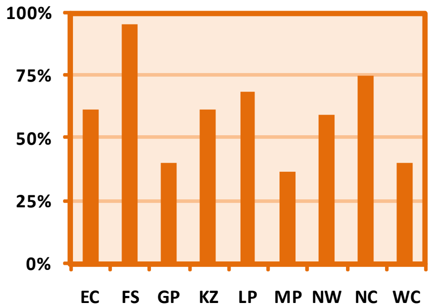


Turnover; Black Owned; GB and/or CE

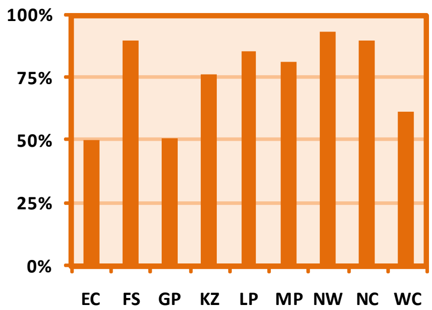
7 & 8



5 & 6



2 to 4



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