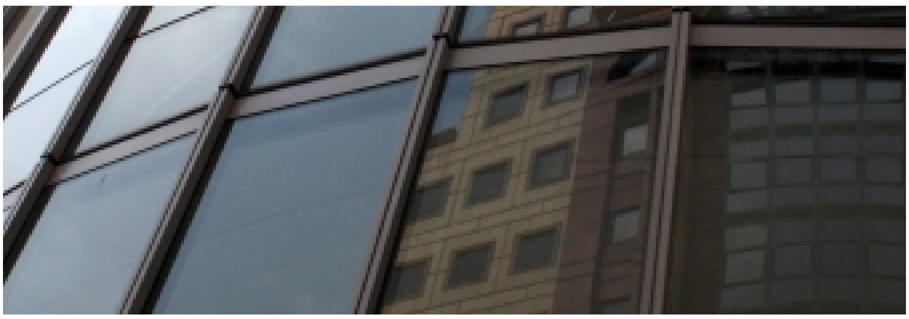
# The cidb Quarterly Monitor: July 2010

cidb
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 ; JULY 2010

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## 1. Introduction

The cidb *Quarterly Monitor*, which covers the 3rd quarter of 2009 to the 2nd quarter of 2010, provides an overview of the state of contractor development in South Africa, and focuses on public sector supply 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 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 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 a national and international level;
- Grades 7 and 8; typically contractors that operate 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.

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

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

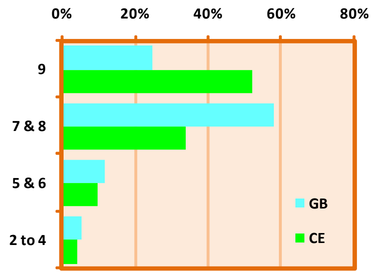
The distribution of public sector contracts awarded for South Africa as a whole in Grades 2 to 9 is also shown in the adjacent figure. The trends observed in the distribution of public sector contracts awarded per tender Grade is similar to that observed last year except for Grade 9 in General Building (GB), which is significantly less than that observed last year for the same period under review (namely 43% for the period 2008Q3 to 2009Q2 campaired with 25% for 2009Q3 to 2010Q2).

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

- the Northern Cape appears to be the only province without contracts being awarded in Grades 7 to 9 in General Building (GB) during the period under review;
- only Gauteng, KwaZulu-Natal and the Western Cape had awarded contracts to Grade 9 contractors in General Building (GB) for the period under review.

Demand; Public Sector Awards (% Distribution by Value); 200903 to 201002

| Grade | % Distribution |
|---|---|
| **GB** | |
| 9 | 25% |
| 7 & 8 | 58% |
| 5 & 6 | 12% |
| 2 to 4 | 6% |
| **Total** | **100%** |
| **CE** | |
| 9 | 52% |
| 7 & 8 | 34% |
| 5 & 6 | 10% |
| 2 to 4 | 4% |
| **Total** | **100%** |

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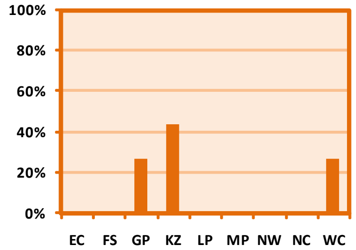
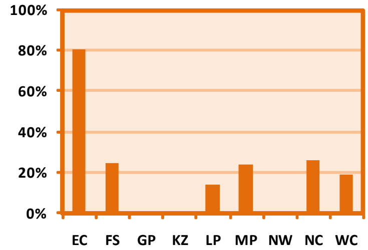
Demand; Public Sector Awards (% Distribution by Value); 200903 to 201002

Grade 9

GB

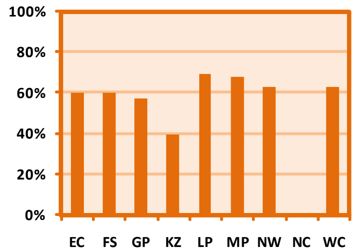



CE

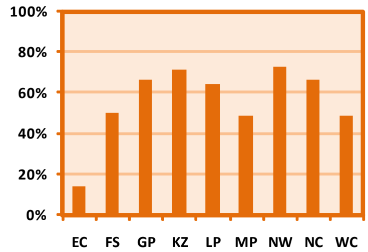



Grades 7 & 8

GB

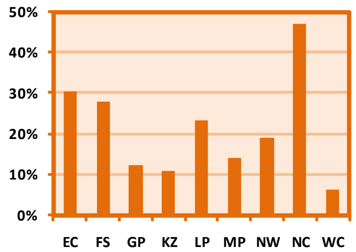



CE

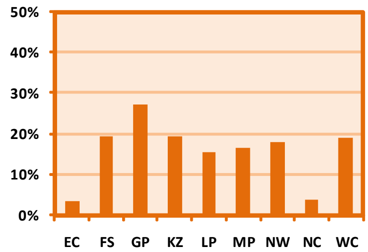



Grades 5 & 6

GB

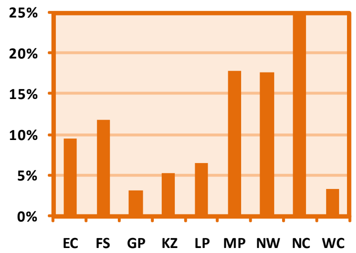



CE

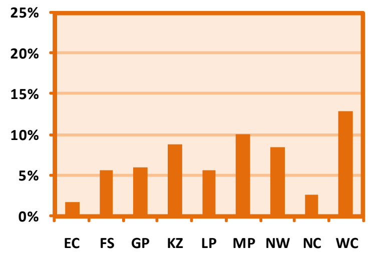



Grades 2 to 4

GB




CE



## 4. Maintenance Contracts Awarded; Public Sector

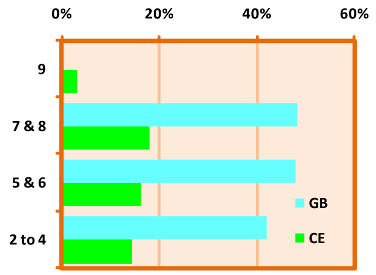
The distribution of public sector maintenance contracts awarded (including refurbishment, renovations, etc.) in South Africa as a percentage of the total contracts awarded in the Grades 2 to 9 is shown in the adjacent figure. From the adjacent figure it can be see that:

- in General Building (GB), maintenance contracts awarded in Grades 2 to 8 accounts to more than 40% of the contracts awarded in these Grades, which shows a significant increase compaired to the same period last year; and
- in Civil Engineering (CE), maintenance contracts awarded accounts for around 15% to 20% of the total contracts awarded in Grades 2 to 8, which is similar to that for the same period last year.

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

**Maintenance; Public Sector Awards (% of Value per Grade); 200903 to 201002**

| Grade | % Distribution |
|---|---|
| **GB** | |
| 9 | 0% |
| 7 & 8 | 48% |
| 5 & 6 | 48% |
| 2 to 4 | 42% |
| **Total** | **36%** |
| **CE** | |
| 9 | 3% |
| 7 & 8 | 18% |
| 5 & 6 | 16% |
| 2 to 4 | 15% |
| **Total** | **10%** |

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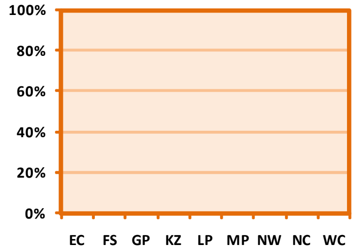
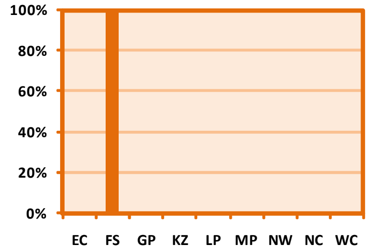
**Maintenance; Public Sector Awards (% of Value per Grade); 200903 to 201002**

**Grade 9**

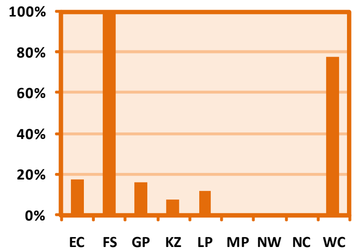
| GB | CE |
|---|---|

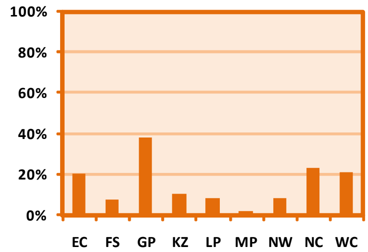



**Grades 7 & 8**

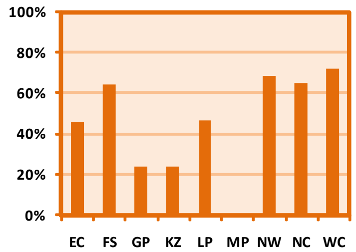
| GB | CE |
|---|---|

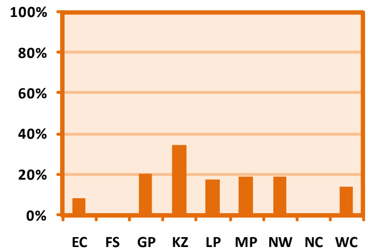



**Grades 5 & 6**

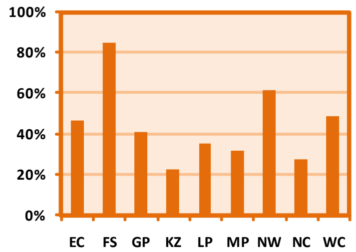
| GB | CE |
|---|---|

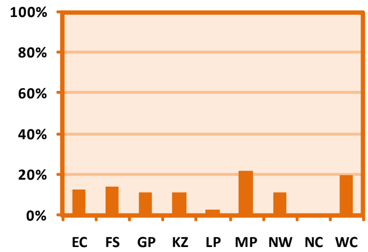



**Grades 2 to 4**

| 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.

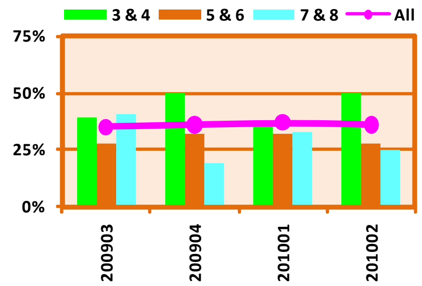
Insufficient demand for work has increased in the General Building (GB) and Civil Engineering (CE) sectors.

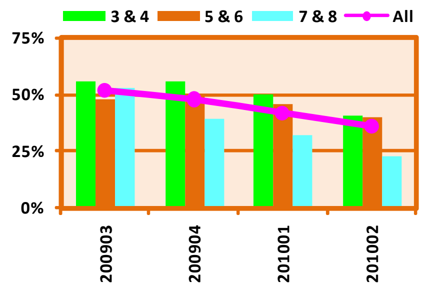
At a provincial level the trends are largely consistent with those above. Specifically, over the current four quarters:

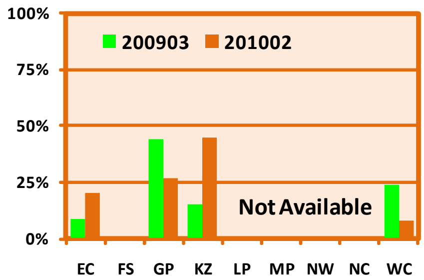
- Eastern Cape has shown a slight increase in business confidence for General Building (GB) class of works;
- Gauteng shows a significant decrease in business confidence in General Building (GB);
- KwaZulu-Natal has shown a significant increase in business confidence in General Building (GB); and
- Western Cape has shown a decrease in business confidence in both General Building (GB) and in Civil Engineering (CE).

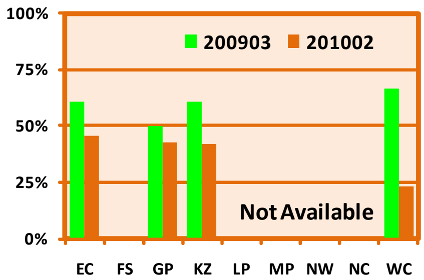
## Business Confidence

GB | CE



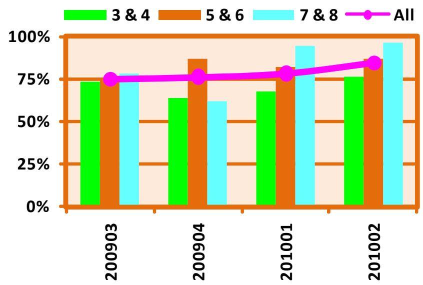



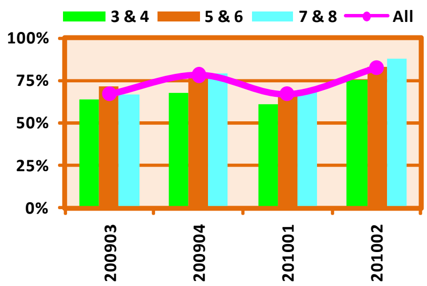



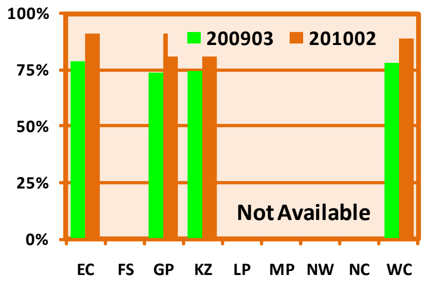



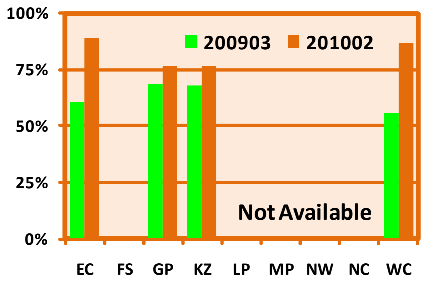

## Insufficient Demand

GB | CE



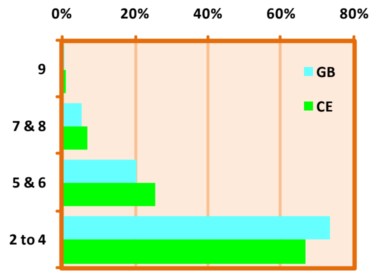
## 6. Registrations; Current Profile

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 in Grades 2 to 9, whereas the number of registrations in Grades 7 to 9 account for less than 10% 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 – 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); 201002

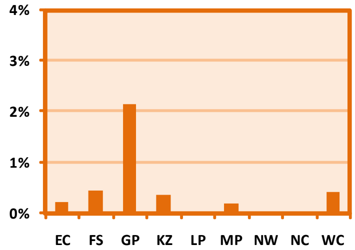
| Grade | % Distribution |
|---|---|
| **GB** | |
| 9 | 1% |
| 7 & 8 | 5% |
| 5 & 6 | 21% |
| 2 to 4 | 73% |
| **Total** | **100%** |
| **CE** | |
| 9 | 1% |
| 7 & 8 | 7% |
| 5 & 6 | 26% |
| 2 to 4 | 66% |
| **Total** | **100%** |



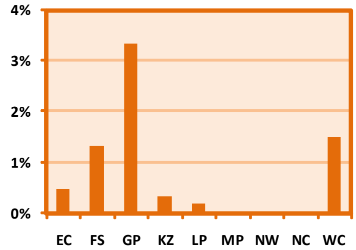

Supply; Registrations per Grade (% Grades 2 to 9); 201002

Grade 9

GB

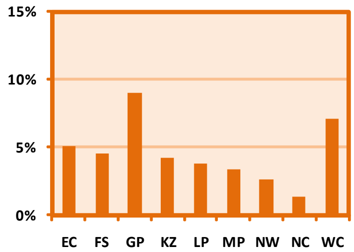



CE

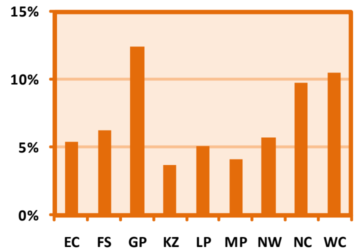



Grades 7 & 8

GB

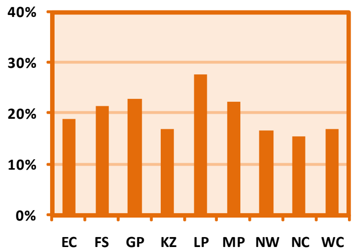



CE

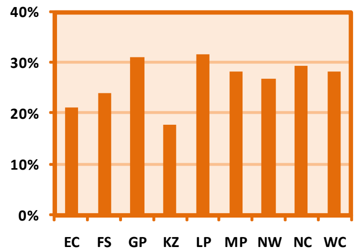



Grades 5 & 6

GB

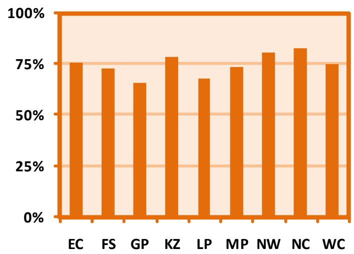



CE

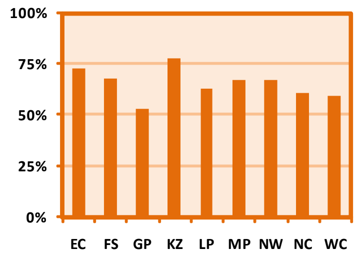



Grades 2 to 4

GB



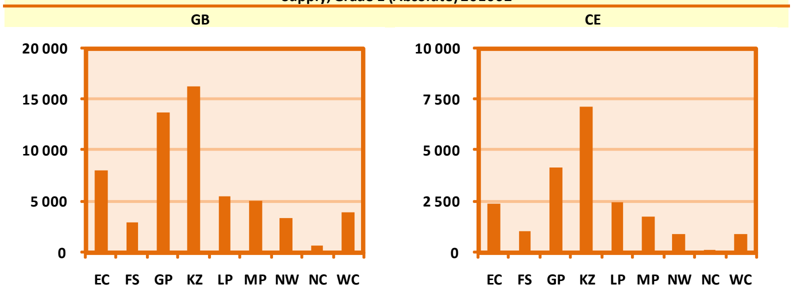

CE



## 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.

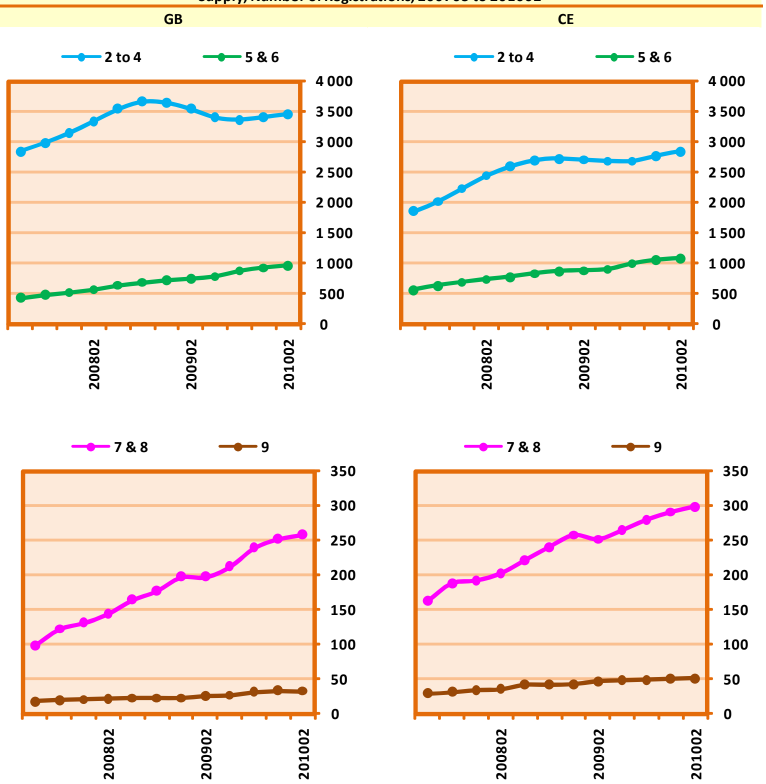
Supply; Grade 1 (Absolute) 201002



## 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 (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; 200703 to 201002**

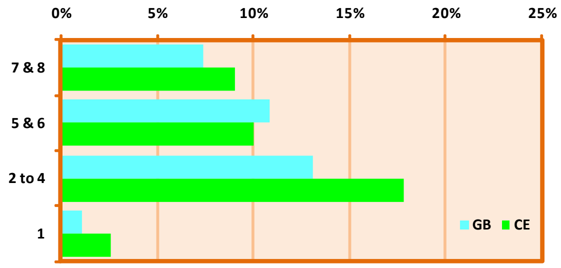


## 9. Contractor Development; Upgrades

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%.

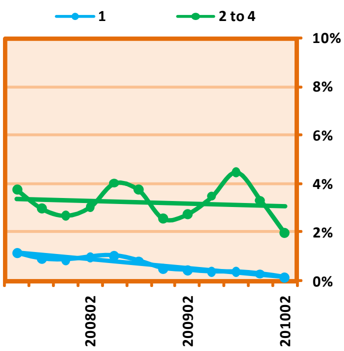
A comparison of the upgrades per quarter over the past three years suggests that the number of upgrades per year in Grades 2 to 4 in General Building (GB) and in Civil Engineering (CE) has dropped substantially in the second quarter of 2010 – but this consistent with the previous cycles observed. Similar trends have also been observed on Grades 5 to 8.

| Upgrades; 200903 to 201002 | | | | | | | |
|---|---|---|---|---|---|---|---|
| From/To | 2 to 4 | 5 & 6 | 7 & 8 | 9 | Total | Registrations | % |
| | | | GB | | | | |
| 7 & 8 | 0 | 0 | 13 | 6 | 19 | 257 | 7% |
| 5 & 6 | 0 | 51 | 54 | 1 | 106 | 976 | 11% |
| 2 to 4 | 244 | 198 | 10 | 1 | 453 | 3 458 | 13% |
| 1 | 618 | 67 | 1 | 0 | 686 | 59 785 | 1% |
| Total | 862 | 316 | 78 | 8 | 1 264 | 64 476 | 2% |
| | | | CE | | | | |
| 7 & 8 | 0 | 0 | 18 | 9 | 27 | 297 | 9% |
| 5 & 6 | 0 | 57 | 53 | 0 | 110 | 1 095 | 10% |
| 2 to 4 | 266 | 233 | 9 | 0 | 508 | 2 852 | 18% |
| 1 | 474 | 72 | 0 | 0 | 546 | 20 948 | 3% |
| Total | 740 | 362 | 80 | 9 | 1 191 | 25 192 | 5% |

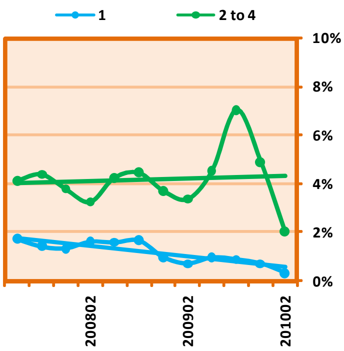


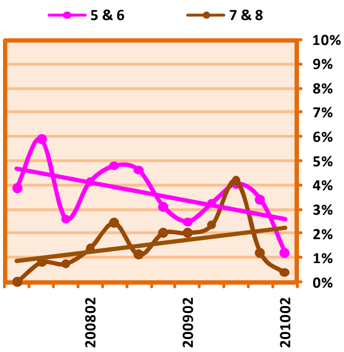

Upgrades per Quarter; 200703 to 201002

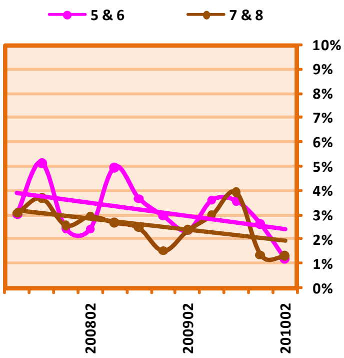
GB




CE



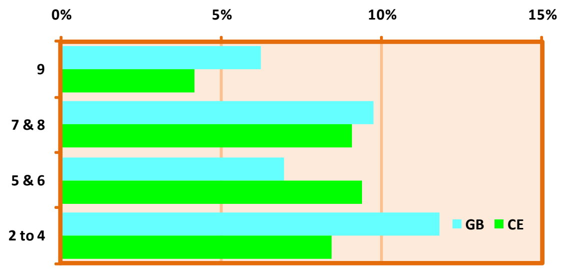
## 10. Contractor Development; Downgrades

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 around 10% per year.

In comparison between the number of upgrades given in the previous quarterly monitor and the number of downgrades per year it is seen that:

- in Grades 7 and 8, the number of downgrades exceeds the number of upgrades;
- in Grades 5 and 6 the number of downgrades has declined from the previous quarter's results from 12% to 9% in Civil Engeering (CE); and
- in Grades 2 to 4, the number of upgrades significantly exceeds the number of downgrades in Civil Engineering (CE).

| Downgrades; 200903 to 201002 | | | | | | | |
|---|---|---|---|---|---|---|---|
| From/To | 1 | 2 to 4 | 5 & 6 | 7 & 8 | Total | Registrations | % |
| GB | | | | | | | |
| 9 | 0 | 0 | 0 | 2 | 2 | 32 | 6% |
| 7 & 8 | 0 | 5 | 19 | 1 | 25 | 257 | 10% |
| 5 & 6 | 7 | 47 | 14 | 0 | 68 | 976 | 7% |
| 2 to 4 | 304 | 137 | 0 | 0 | 441 | 3 458 | 13% |
| Total | 140 | 101 | 0 | 0 | 538 | 4 723 | 11% |
| CE | | | | | | | |
| 9 | 0 | 0 | 0 | 2 | 2 | 48 | 4% |
| 7 & 8 | 0 | 6 | 18 | 3 | 27 | 297 | 9% |
| 5 & 6 | 10 | 82 | 11 | 0 | 103 | 1 095 | 9% |
| 2 to 4 | 140 | 101 | 0 | 0 | 241 | 2 852 | 8% |
| Total | 304 | 137 | 0 | 0 | 373 | 4 292 | 9% |



## 11. Equity; Black Ownership

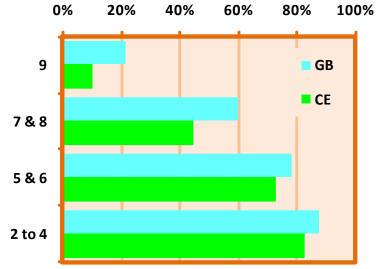
From the adjacent figure it can be seen that around 80% of cidb registered Grade 2 to 4 General Building (GB) and Civil Engineering (CE) contractors are black owned (defined as more than 50% ownership control). Furthermore, around 70% to 80% of all Grade 5 and 6 General Building and Civil Engineering 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 and 6 are relatively consistent across the provinces, although the black ownership in Grades 5 and 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, Free State and in Mpumalanga. Specifically, there has been an additional three registerered black owned Grade 9 contractors in Gauteng and one Grade 9 in the Free State in the second quarter of 2010.

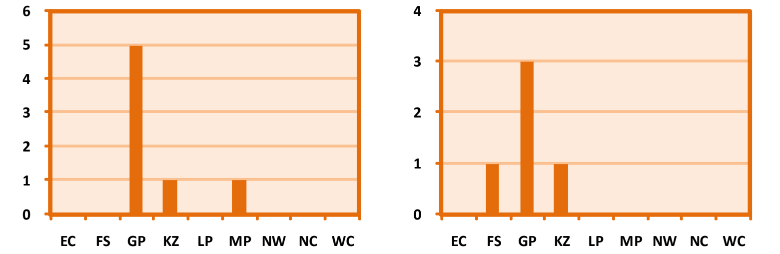
## Supply; Black Ownership; 201002

| Grade | Total | Black | Black (%) |
|---|---|---|---|
| **GB** | | | |
| 9 | 32 | 7 | 22% |
| 7 & 8 | 257 | 154 | 60% |
| 5 & 6 | 976 | 765 | 78% |
| 2 to 4 | 3 458 | 3 037 | 88% |
| **Total** | **4 723** | **3 963** | **84%** |
| **CE** | | | |
| 9 | 48 | 5 | 10% |
| 7 & 8 | 297 | 133 | 45% |
| 5 & 6 | 1 095 | 800 | 73% |
| 2 to 4 | 2 852 | 2 358 | 83% |
| **Total** | **4 292** | **3 296** | **77%** |

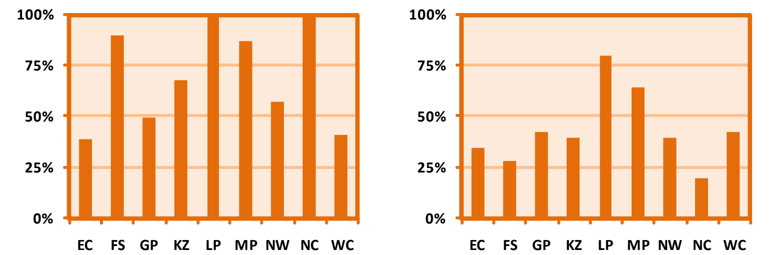



## Supply; Black Ownership; 201002

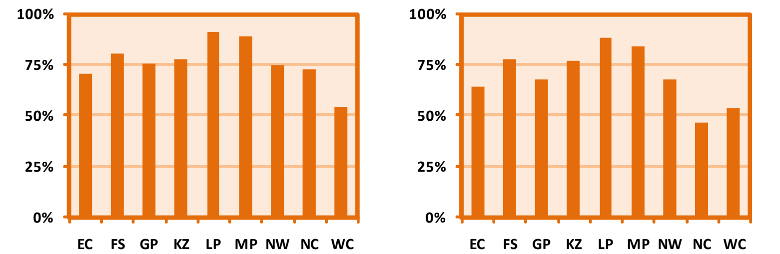
### Grade 9 (Absolute)



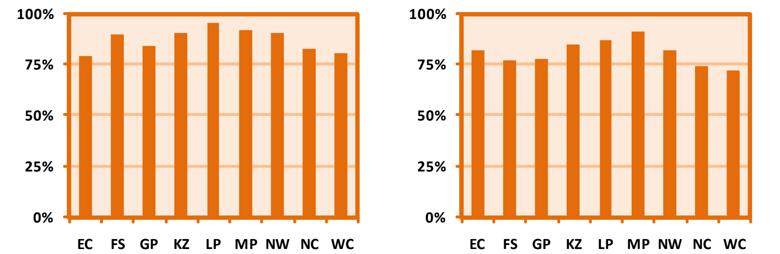

### Grades 7 & 8 (% of Grade)




### Grades 5 & 6 (% of Grade)




### Grades 2 to 4 (% of Grade)



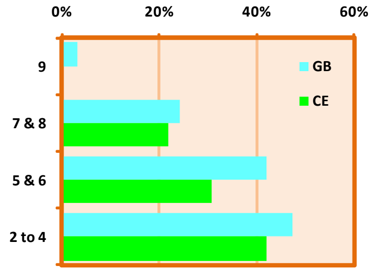
## 12. Equity; Women Ownership

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, 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; 201002**

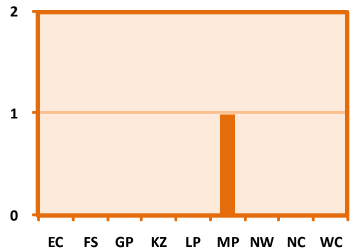
| Grade | Total | Women | Women (%) |
|---|---|---|---|
| **GB** | | | |
| 9 | 32 | 1 | 3% |
| 7 & 8 | 257 | 62 | 24% |
| 5 & 6 | 976 | 410 | 42% |
| 2 to 4 | 3 458 | 1 639 | 47% |
| **Total** | **4 723** | **2 112** | **45%** |
| **CE** | | | |
| 9 | 48 | 0 | 0% |
| 7 & 8 | 297 | 65 | 22% |
| 5 & 6 | 1 095 | 338 | 31% |
| 2 to 4 | 2 852 | 1 198 | 42% |
| **Total** | **4 292** | **1 601** | **37%** |



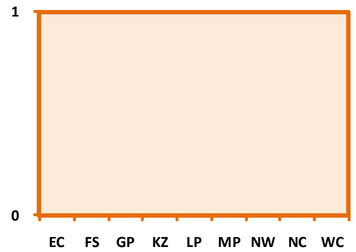

**Supply; Woman Ownership; 201002**

**Grade 9 (Absolute)**

GB

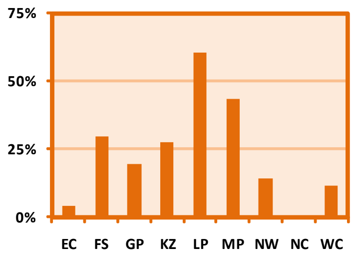



CE

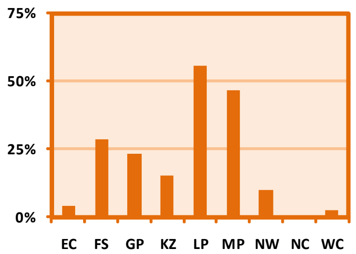



**Grades 7 & 8 (% of Grade)**

GB

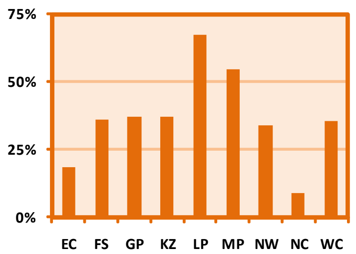



CE

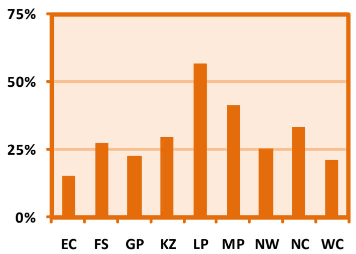



**Grades 5 & 6 (% of Grade)**

GB

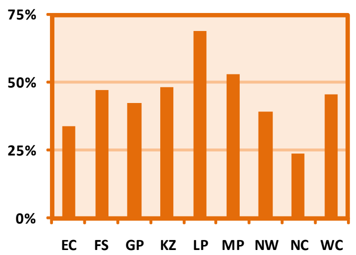



CE

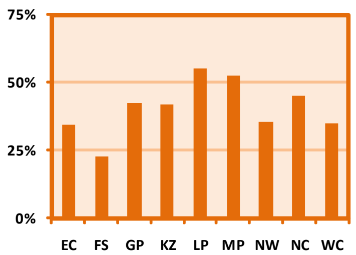



**Grades 2 to 4 (% of Grade)**

GB




CE



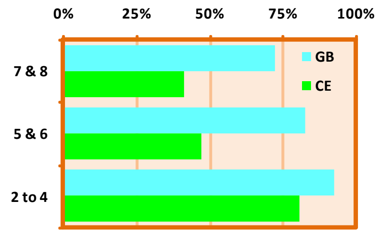
## 13. Equity; Contracts Awarded

An estimate of the value of the public and private sector contracts awarded to black owned companies is 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 and 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.

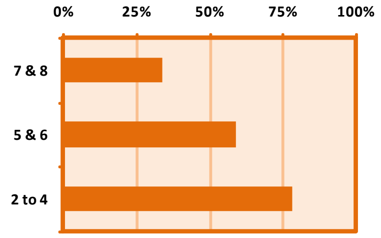
## Contracts Awarded; Black Owned; 200903 to 201002

| Grade | % |
|---|---|
| **GB** | |
| 7 & 8 | 72% |
| 5 & 6 | 83% |
| 2 to 4 | 93% |
| **Total** | **79%** |
| **CE** | |
| 7 & 8 | 41% |
| 5 & 6 | 47% |
| 2 to 4 | 81% |
| Total | **53%** |



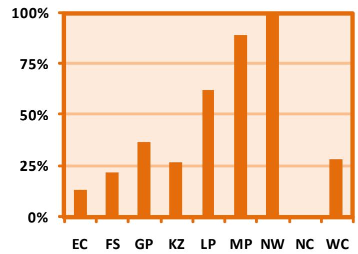

## Turnover; Black Owned; GB and/or CE

| Grade | % |
|---|---|
| **GB and/or CE** | |
| 7 & 8 | 34% |
| 5 & 6 | 59% |
| 2 to 4 | 78% |
| **Total** | **47%** |

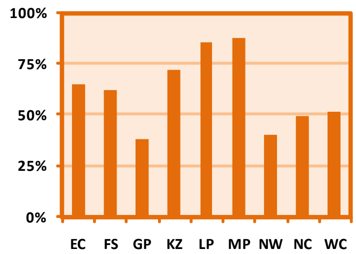



## Turnover; Black Owned; GB and/or CE

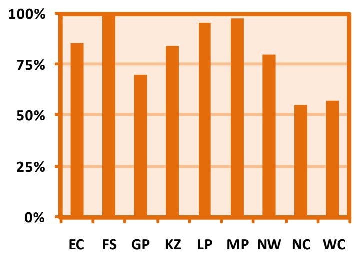
7 & 8




5 & 6




2 to 4



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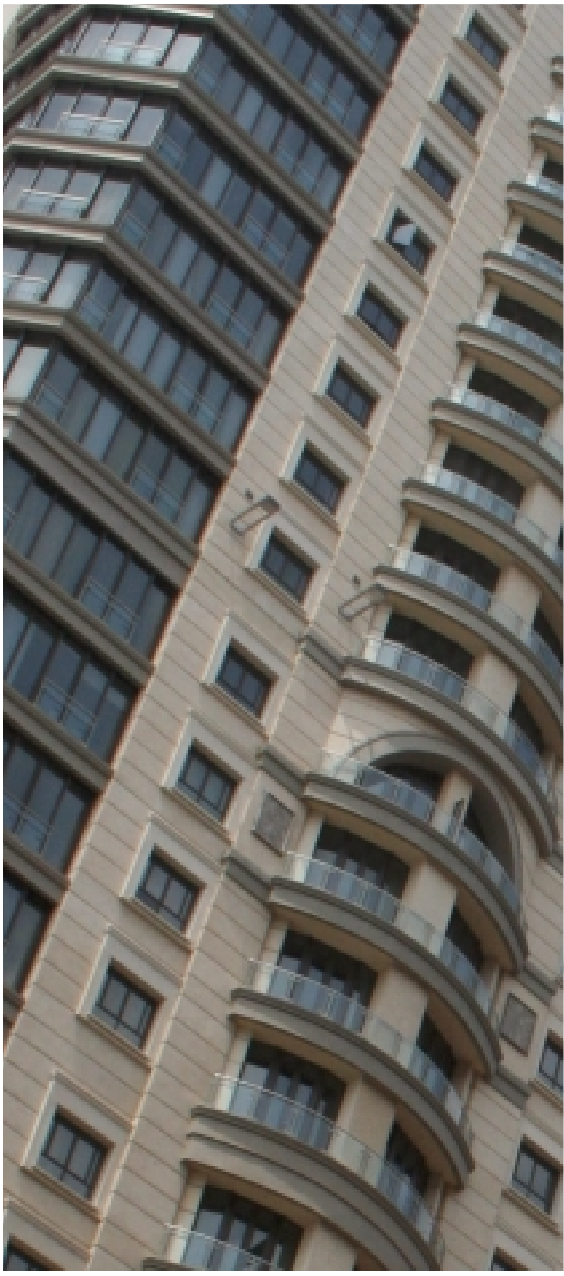

Design & Layout - Phakisa Communications