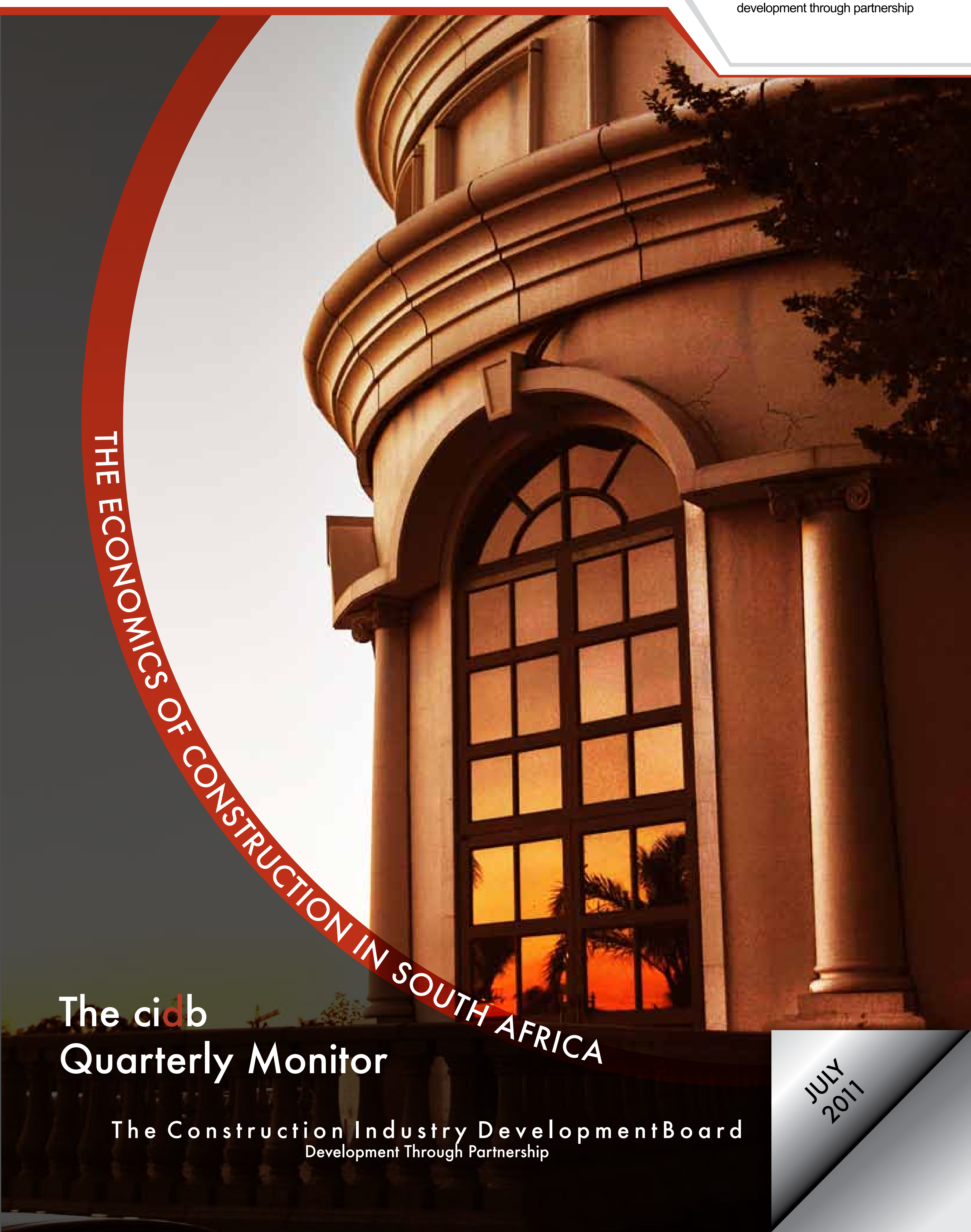


THE ECONOMICS OF CONSTRUCTION IN SOUTH AFRICA

The cidb Quarterly Monitor

JULY 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; JULY 2011

CIDB QUARTERLY MONITOR; JULY 2011

1. Introduction

The cidb *Quarterly Monitor*, which covers the 3rd quarter of 2010 to the 2nd 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) Contracts Awarded: Details of contracts awarded is obtained from the cidb *iTender Register of Projects* supported by the *Industry Insight Project Database*. (The support of *Industry Insight* in providing this information is gratefully acknowledged.) The cidb *iTender Register of Projects* has limited information, while the *Industry Insight Project Database* is more complete and representative.

iii) *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.

iv) 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]:

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

- 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.

v) *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 (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

Estimates of the distribution of public sector contracts awarded for South Africa as a whole in the four quarters under review (2010Q3 to 2011Q2) in Grades 2 to 9 is shown in the adjacent figure – with around 80% of public sector awards by value being in tender Grades 7 to 9 and around 20% of public sector awards by value 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).

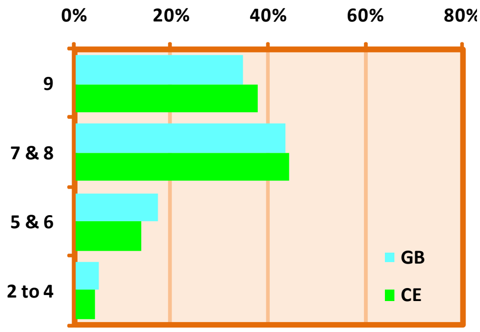
Estimates of the distribution of public sector contract awards by value between the provinces and between tender Grades is also shown in the adjacent figure.

Acknowledgements:

industry insight

Demand; Public Sector Awards (% Distribution by Value); 201003 to 201102

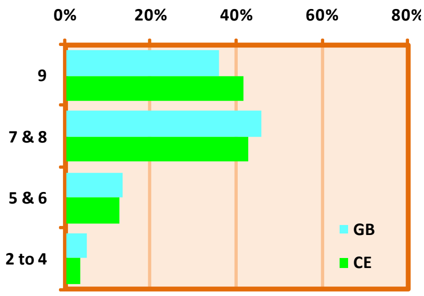
Grade	% Distribution
GB	
9	35%
7 & 8	43%
5 & 6	17%
2 to 4	5%
Total	**100%**
CE	
9	38%
7 & 8	44%
5 & 6	14%
2 to 4	4%
Total	**100%**



South Africa

Demand; Public Sector Awards (% Distribution by Value); 201003 to 201102

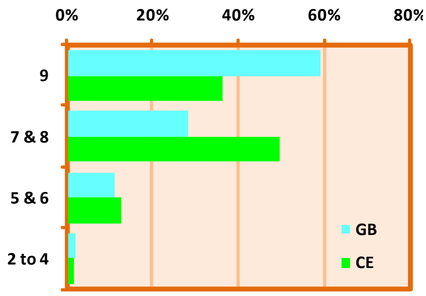
Grade	% Distribution
GB	
9	36%
7 & 8	46%
5 & 6	14%
2 to 4	5%
Total	**100%**
CE	
9	42%
7 & 8	43%
5 & 6	13%
2 to 4	3%
Total	**100%**



Eastern Cape

Demand; Public Sector Awards (% Distribution by Value); 201003 to 201102

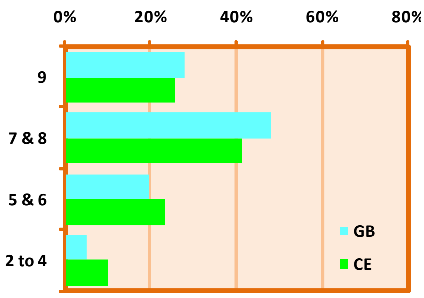
Grade	% Distribution
GB	
9	59%
7 & 8	28%
5 & 6	11%
2 to 4	2%
Total	**100%**
CE	
9	36%
7 & 8	50%
5 & 6	13%
2 to 4	2%
Total	**100%**



Gauteng

Demand; Public Sector Awards (% Distribution by Value); 201003 to 201102

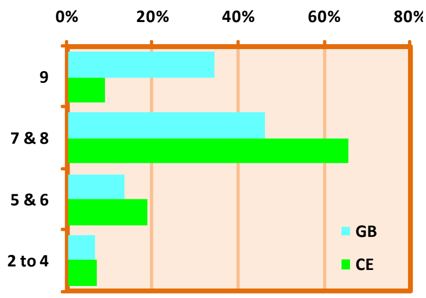
Grade	% Distribution
GB	
9	28%
7 & 8	48%
5 & 6	19%
2 to 4	5%
Total	**100%**
CE	
9	25%
7 & 8	41%
5 & 6	23%
2 to 4	10%
Total	**100%**



Kwa-Zulu Natal

Demand; Public Sector Awards (% Distribution by Value); 201003 to 201102

Grade	% Distribution
GB	
9	34%
7 & 8	46%
5 & 6	13%
2 to 4	6%
Total	**100%**
CE	
9	9%
7 & 8	66%
5 & 6	19%
2 to 4	7%
Total	**100%**



Western Cape

4. Maintenance Contracts Awarded; Public Sector

Estimates of the distribution of public sector maintenance contracts awarded by value (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:

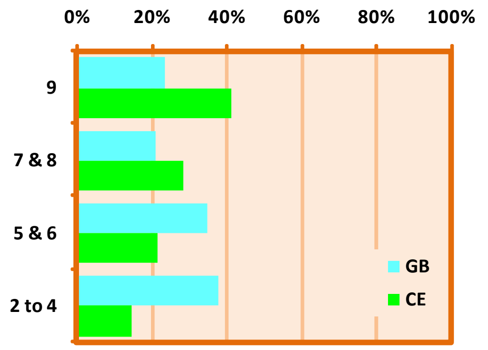
- around 40% of total General Building (GB) contracts by value in Grades 7 to 9 have been allocated to maintenance, refurbishment and renovation contracts.
  and
- around 70% of total Civil Engineering (CE) contracts by value in Grades 7 to 9 have been allocated to maintenance contracts in the period under review (largely road maintenance and refurbishment contracts) – which is significantly higher that that recorded that same period last year (2009Q3 to 2010Q2), namely around 20%.

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

Acknowledgements:

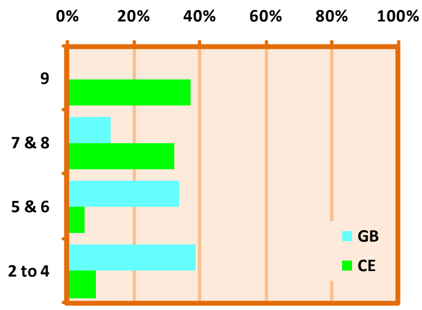
industry insight

Maintenance; Public Sector Awards (% of Value per Grade); 201003 to 201102	
Grade	**% Distribution**
GB	
9	23%
7 & 8	21%
5 & 6	35%
2 to 4	38%
Total	**25%**
CE	
9	41%
7 & 8	28%
5 & 6	22%
2 to 4	15%
Total	**32%**



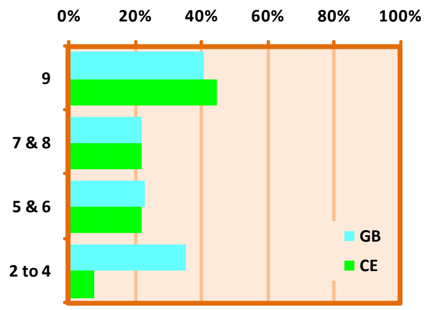
South Africa

Maintenance; Public Sector Awards (% of Value per Grade); 201003 to 201102	
Grade	**% Distribution**
GB	
9	0%
7 & 8	13%
5 & 6	34%
2 to 4	39%
Total	**13%**
CE	
9	37%
7 & 8	32%
5 & 6	5%
2 to 4	9%
Total	**30%**



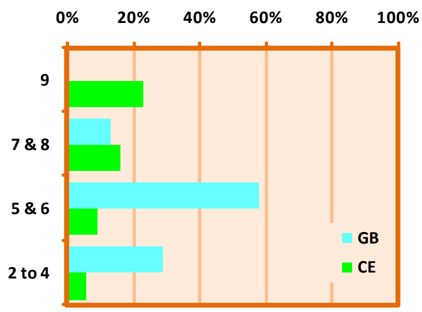
Eastern Cape

Maintenance; Public Sector Awards (% of Value per Grade); 201003 to 201102	
Grade	**% Distribution**
GB	
9	41%
7 & 8	22%
5 & 6	23%
2 to 4	35%
Total	**34%**
CE	
9	45%
7 & 8	22%
5 & 6	22%
2 to 4	8%
Total	**30%**



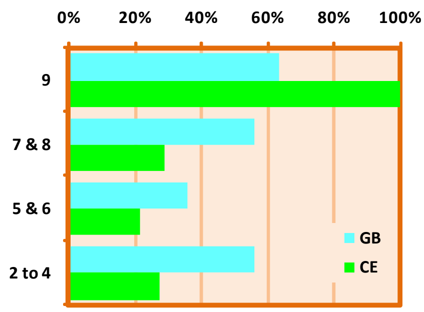
Gauteng

Maintenance; Public Sector Awards (% of Value per Grade); 201003 to 201102	
Grade	**% Distribution**
GB	
9	0%
7 & 8	13%
5 & 6	58%
2 to 4	29%
Total	**19%**
CE	
9	23%
7 & 8	16%
5 & 6	9%
2 to 4	6%
Total	**15%**



Kwa-Zulu Natal

Maintenance; Public Sector Awards (% of Value per Grade); 201003 to 201102	
Grade	**% Distribution**
GB	
9	64%
7 & 8	56%
5 & 6	36%
2 to 4	56%
Total	**56%**
CE	
9	100%
7 & 8	29%
5 & 6	21%
2 to 4	27%
Total	**34%**



Western Cape

5. Business Conditions; Public and Private Sectors

The cidb/BER SME *Business Confidence Index*, which measures business conditions in both the public and private sectors, is given in the adjacent figures.

The overall business confidence the General Building (GB) sector remained constant at a value of 29 in 2011Q2.

Fifty-six per cent of respondents to the 2011Q2 survey indicated that the growth in building activity underperformed their expectations. When compared with the previous survey quarter, building demand deteriorated. A net 82% of the respondents to the survey reported that insufficient demand for building work was constraining their business operations.

Even though tendering competition eased somewhat during 2011Q2, profit margins remained under pressure. A net 63% of survey respondents indicated that the growth in the profitability of their businesses worsened during the quarter. Half of the respondents reported that labour shedding continued in 2011Q2, yet 40% of respondents still report skilled labour shortages.

Although business conditions are likely to remain tough, a net 2% of respondents expect some improvement in 2011Q3.

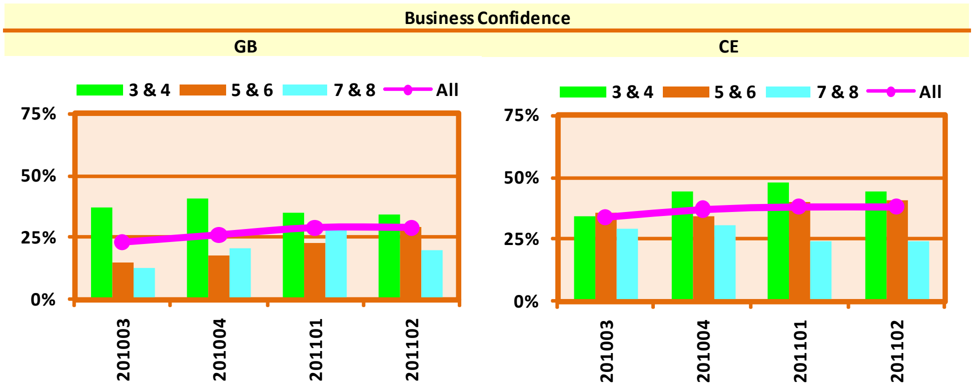
The business confidence of Grades 3 & 4 dropped marginally in 2011Q2. However, confidence levels of Grades 5 & 6 showed a noticeable improvement. The business confidence levels of Grades 7 & 8 deteriorated from 30 to 20 in 2011Q2. Regionally, business confidence showed a slight deterioration in the Western Cape, with an improvement evident in the Eastern Cape and in Gauteng. A sideways movement was observed in Kwazulu-Natal. Despite tough business conditions, almost half the respondents in Kwazulu-Natal reported serious labour shortages.

The overall business confidence index in the Civil Engineering Sector (CE) remained constant at 38 during 2011Q2. Business conditions during the survey quarter underperformed their expectations, but remained constant when compared to 2011Q1.

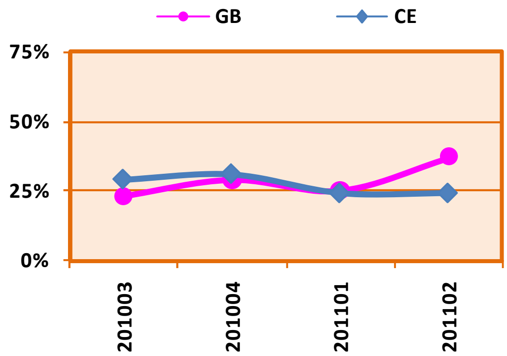
Survey respondents reported that the growth in construction activity worsened during the survey quarter and half of the respondents indicated that construction activity was below that of the same quarter a year ago. With downward pressure on profit margins, their profitability deteriorated during 2011Q2. Thirty-six per cent reported that job shedding continued. Despite weak construction demand, 42% of respondents reported skilled labour shortages.

An unchanged majority of 77% of the survey respondents indicated that the present weak state of construction demand was a constraint on their businesses. However, a net 3% of respondents felt that business conditions were likely to improve somewhat during 2011Q3.

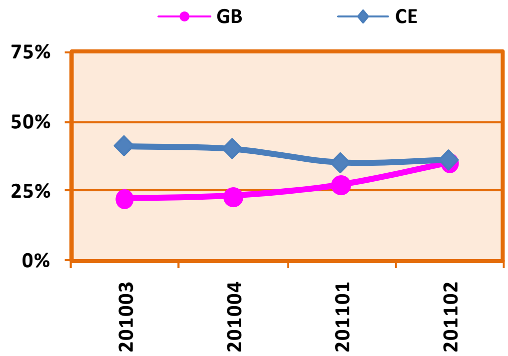
The business confidence of civil contractors in Grades 5 & 6 and 7 & 8 remained constant during 2011Q2. However, the confidence levels of Grades 3 & 4 dropped from 48 to 44 in 2011Q2. Viewed from a regional perspective, business confidence improved in the Western and Eastern Cape. Confidence levels deteriorated markedly in KwaZulu-Natal, but remained basically constant in Gauteng. Despite tough business conditions, serious skilled labour shortages were reported in all regions.



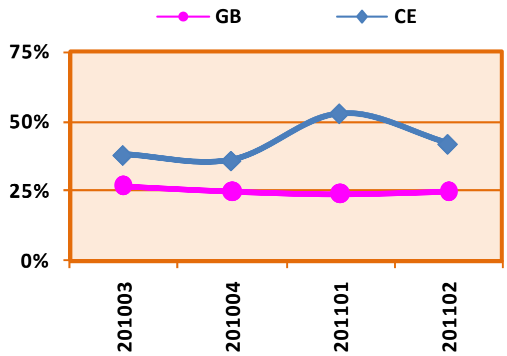
South Africa



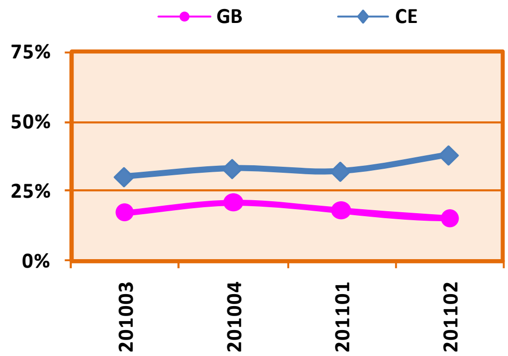
Eastern Cape



Gauteng



Kwa-Zulu Natal



Western Cape

6. Registrations; Grades 2 to 9

Details of the distribution of the total number of registrations in Grades 2 to 9 for South Africa are shown in the adjacent figures, together with the total number of registrations over the past three years.

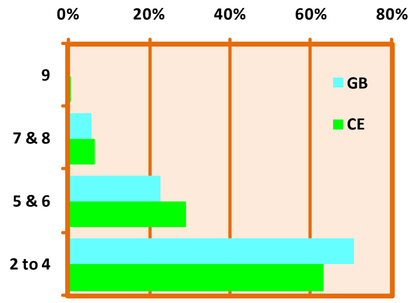
Overall, it is seen that the number of registrations in Grades 2 to 4 account for around 60% to 70% of the total registrations in Grades 2 to 9, whereas the number of registrations in Grades 7 to 9 account for around 8% of the total number of registrations.

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.

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.

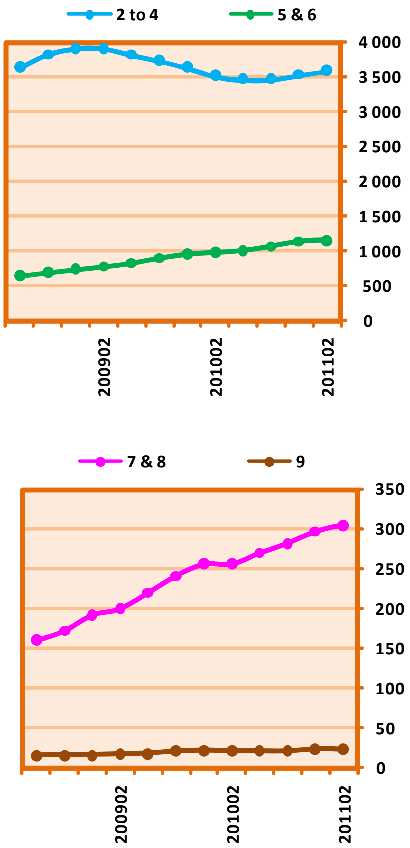
Supply; Registrations per Grade (% Grades 2 to 9); 201102

Grade	Number	% Distribution
	GB	
9	29	1%
7 & 8	305	6%
5 & 6	1 166	23%
2 to 4	3 587	71%
Total	**5 087**	**100%**
	CE	
9	45	1%
7 & 8	318	7%
5 & 6	1 358	29%
2 to 4	2 934	63%
Total	**4 655**	**100%**

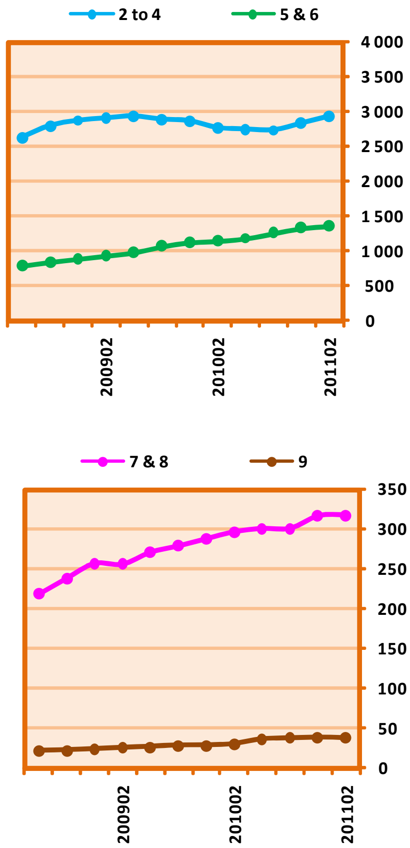


Supply; Number of Registrations; 200803 to 201102

GB

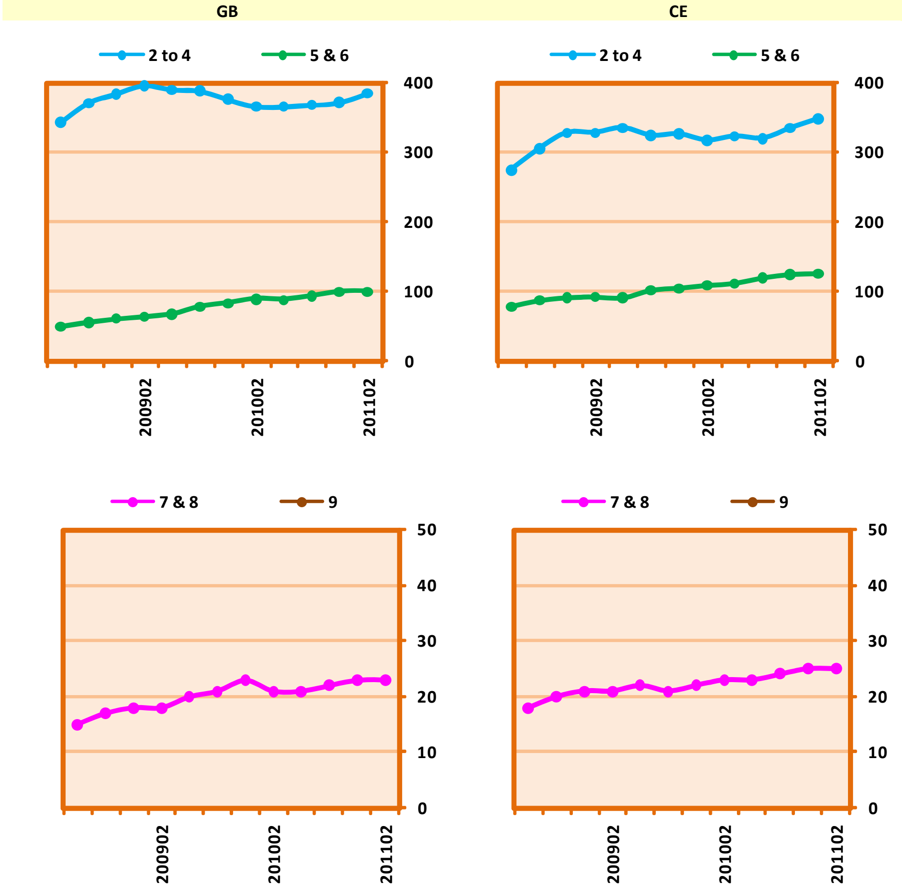


CE



South Africa

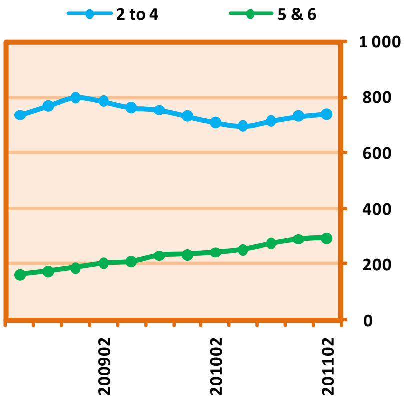
Supply; Number of Registrations; 200803 to 201102

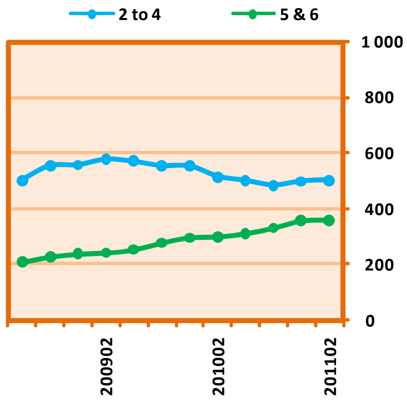


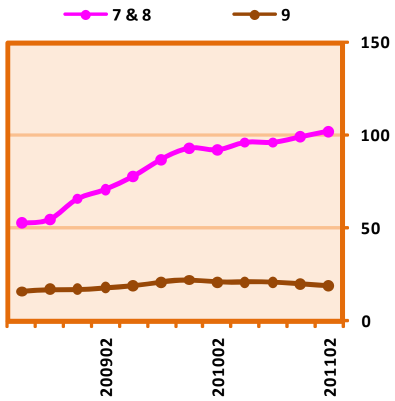
Eastern Cape

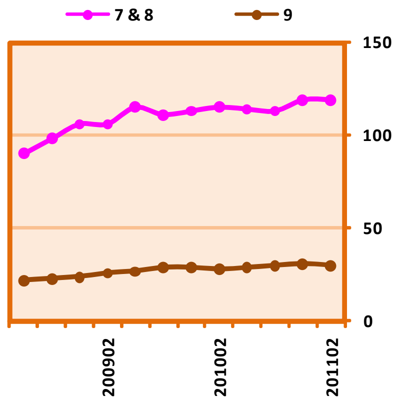
Supply; Number of Registrations; 200803 to 201102

GB	CE





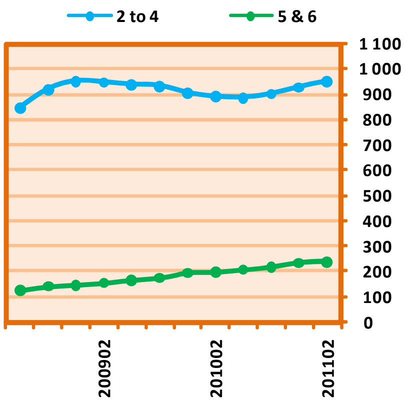


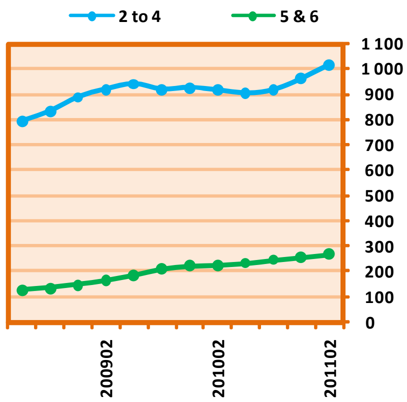


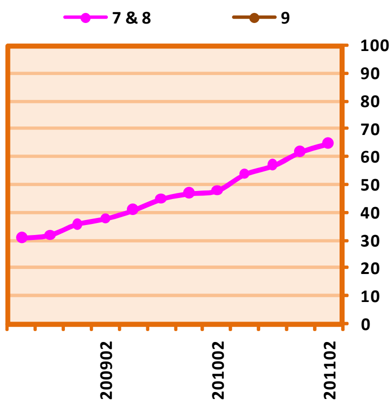
Gauteng

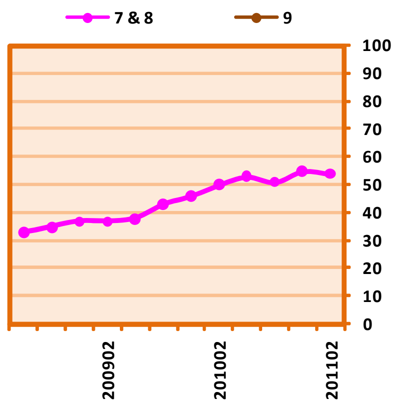
Supply; Number of Registrations; 200803 to 201102

GB	CE



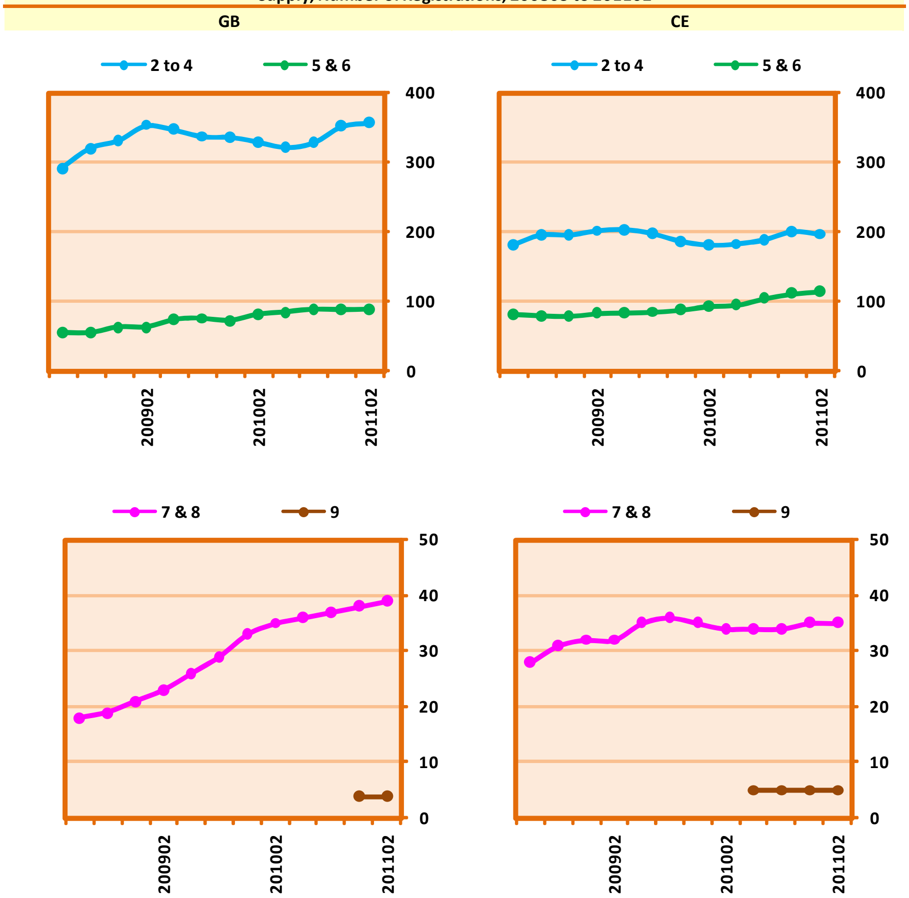






Kwa-Zulu Natal

Supply; Number of Registrations; 200803 to 201102

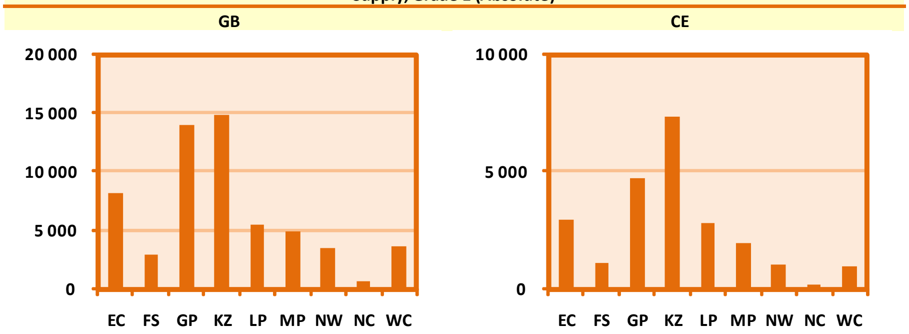


Western Cape

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)



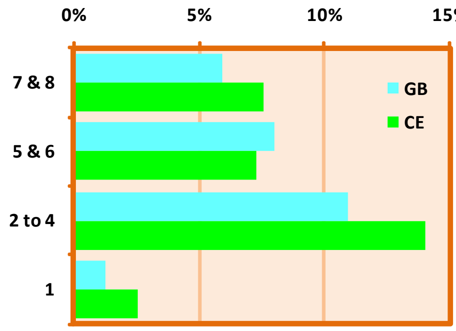
8. Contractor Development; Upgrades

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%.

On interest, 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.

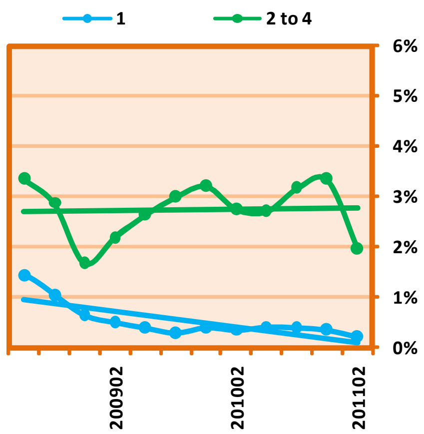
Upgrades; 201003 to 201102

From/To	2 to 4	5 & 6	7 & 8	9	Total	Registrations	%
GB							
7 & 8	0	0	17	1	18	305	6%
5 & 6	0	48	45	0	93	1 166	8%
2 to 4	224	162	7	0	393	3 587	11%
1	671	77	3	0	751	58 789	1%
Total	895	287	72	1	1 255	63 847	2%
CE							
7 & 8	0	0	19	5	24	318	8%
5 & 6	0	64	35	0	99	1 358	7%
2 to 4	227	178	6	0	411	2 934	14%
1	517	82	0	0	599	23 351	3%
Total	744	324	60	5	1 133	27 961	4%

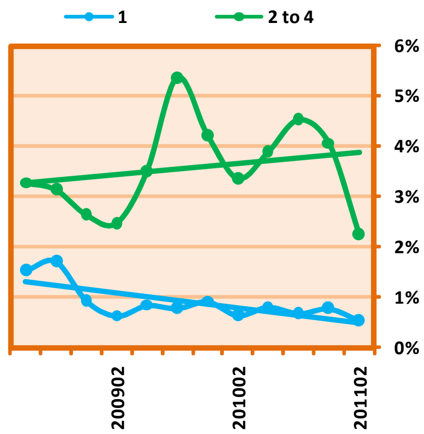


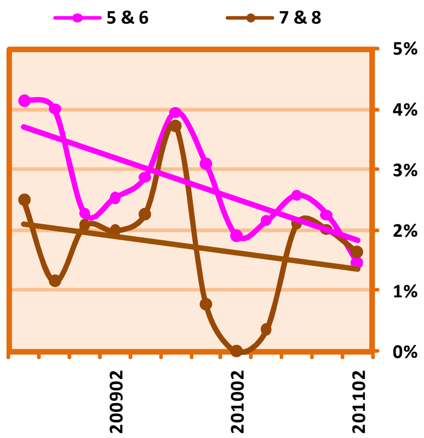
Upgrades per Quarter; 200803 to 201102

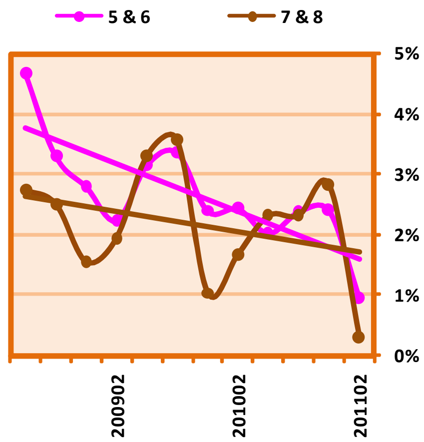
GB



CE







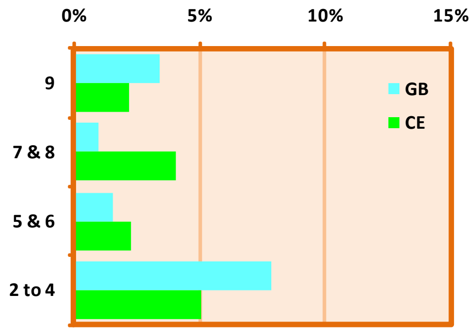
9. Contractor Development; Downgrades

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 (between 2% to 8%) is substantially lower than the number of downgrades over the same period a year ago (2009Q3 to 2011Q2) (around 4% to 13%).

Downgrades; 201003 to 201102							
From/To	1	2 to 4	5 & 6	7 & 8	Total	Registrations	%
GB							
9	0	0	0	1	1	29	3%
7 & 8	0	0	2	1	3	305	1%
5 & 6	0	11	7	0	18	1 166	2%
2 to 4	254	29	0	0	283	3 587	8%
Total	254	40	9	2	305	5 087	6%
CE							
9	0	0	0	1	1	45	2%
7 & 8	0	0	12	1	13	318	4%
5 & 6	1	18	12	0	31	1 358	2%
2 to 4	112	36	0	0	148	2 934	5%
Total	113	54	24	2	193	4 655	4%

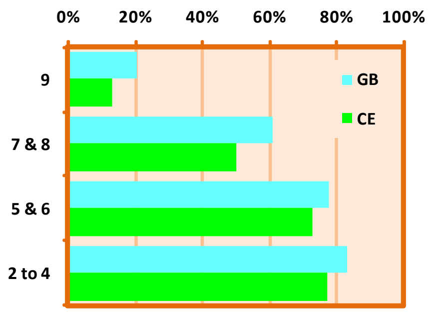


10. Equity; Black Ownership

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.

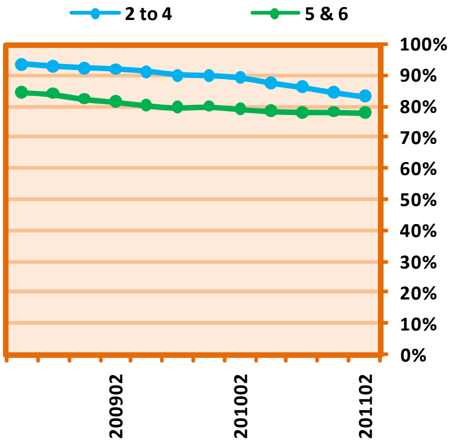
The history prifiles of black ownership for South Africa as a whole and for selected provinces is also shown in the following figures. Of concern is that, overall, black ownership representation has not increased significantly over the past three years, and in some case the reprseentation has in fact even decreased. This negative trend is most noticeabel in Grades 2 to 4.

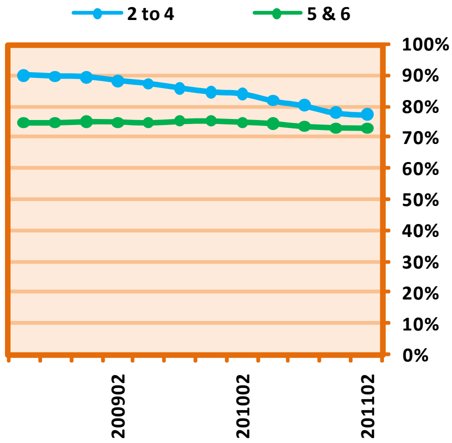
Supply; Black Ownership; 201102		
Grade	Number	Black (%)
	GB	
9	6	21%
7 & 8	186	61%
5 & 6	907	78%
2 to 4	2 990	83%
Total	**4 089**	**80%**
	CE	
9	6	13%
7 & 8	160	50%
5 & 6	992	73%
2 to 4	2 271	77%
Total	**3 429**	**74%**

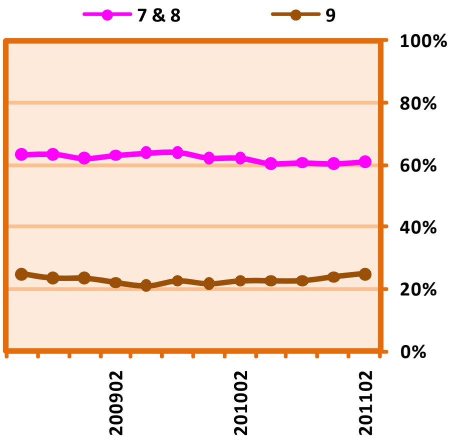


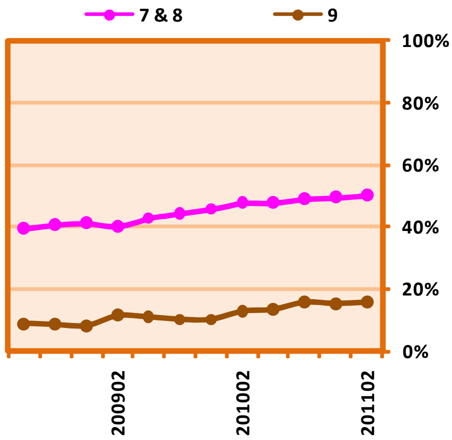
Supply; Black Ownership; 200803 to 201102

GB **CE**





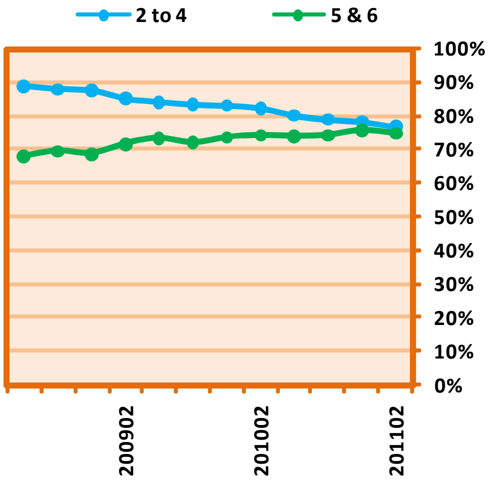


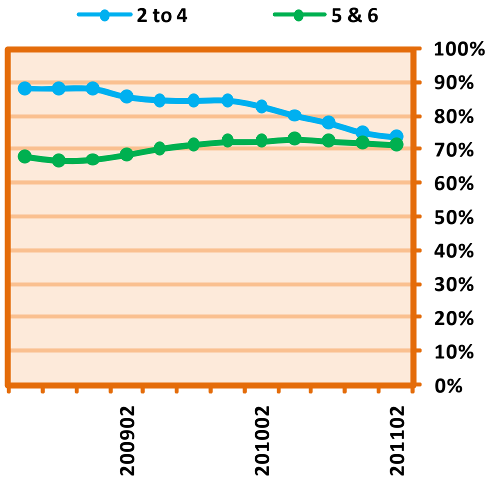


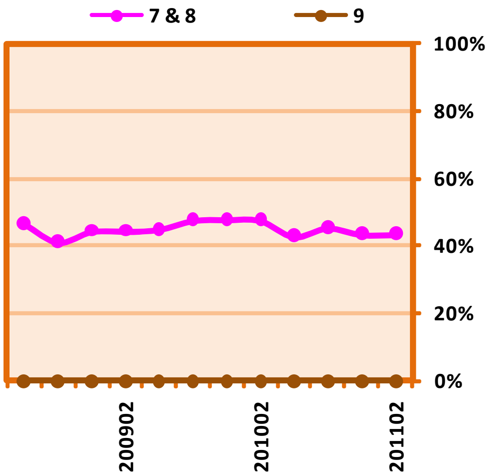
South Africa

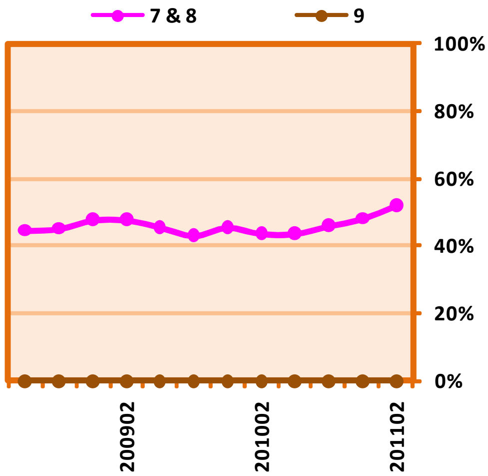
Supply; Black Ownership; 200803 to 201102

GB	CE





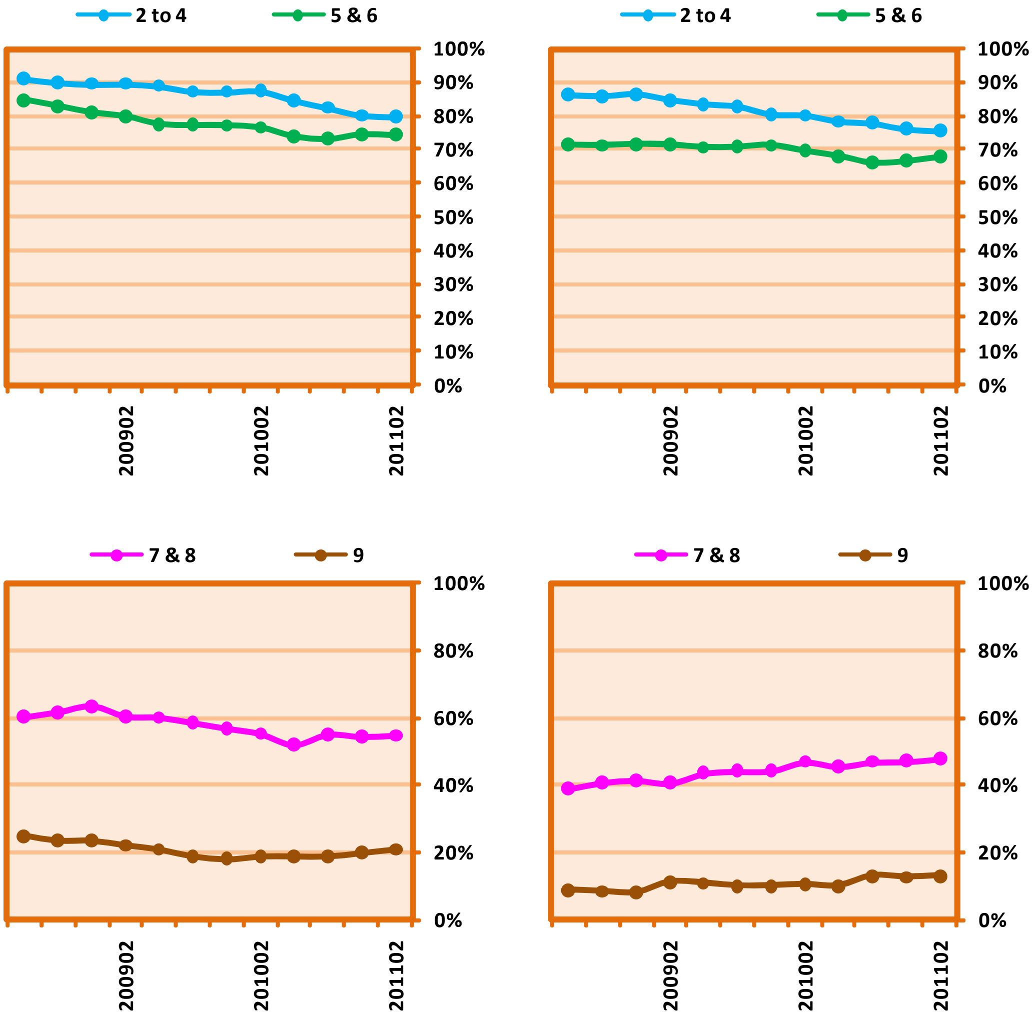




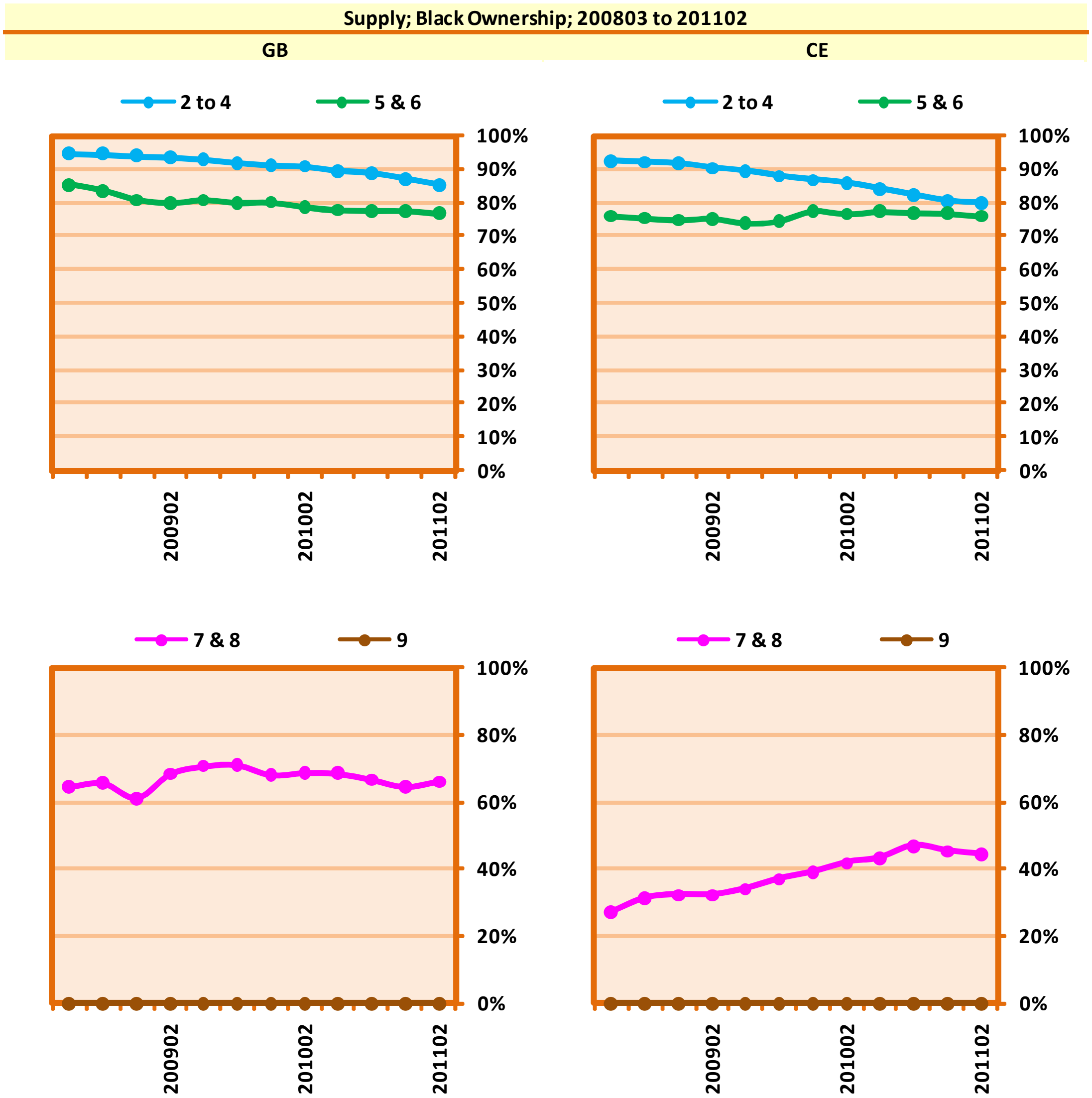
Eastren Cape

Supply; Black Ownership; 200803 to 201102

GB	CE



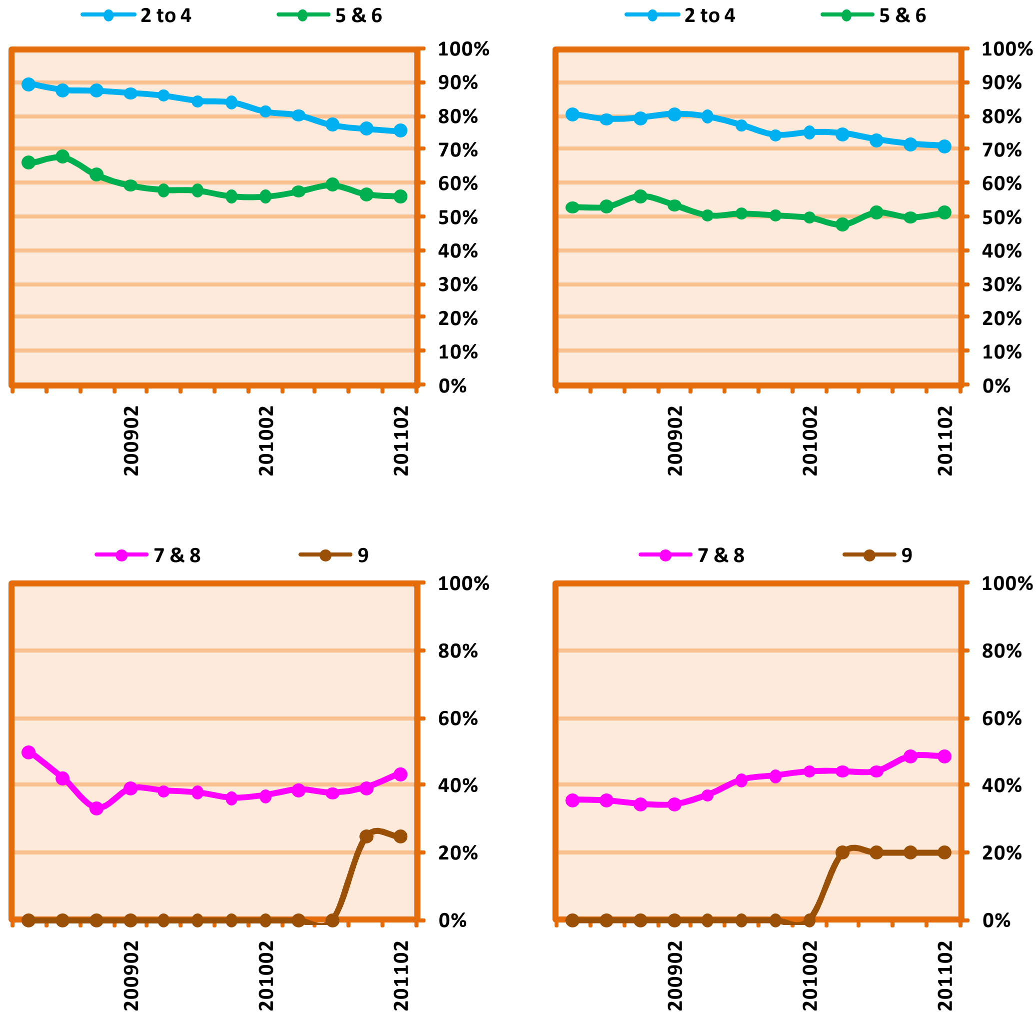
Gauteng



Kwa-Zulu-Natal

Supply; Black Ownership; 200803 to 201102

GB | CE



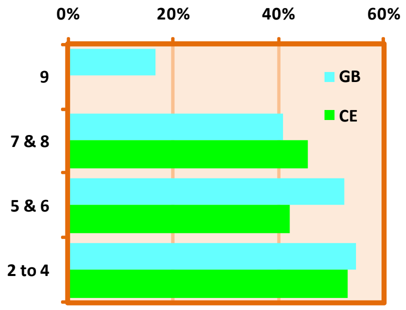
Western Cape

11. 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%.

Supply; Woman Ownership; 201102

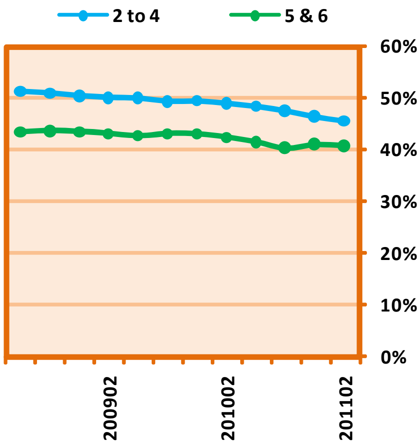
Grade	Number	Black (%)
	GB	
9	1	17%
7 & 8	76	41%
5 & 6	476	52%
2 to 4	1 636	55%
Total	**2 189**	**43%**
	CE	
9	0	0%
7 & 8	73	46%
5 & 6	419	42%
2 to 4	1 207	53%
Total	**1 699**	**36%**

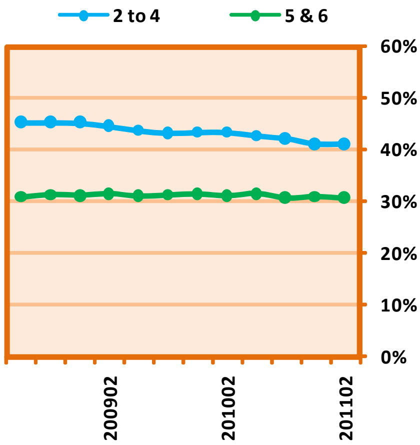


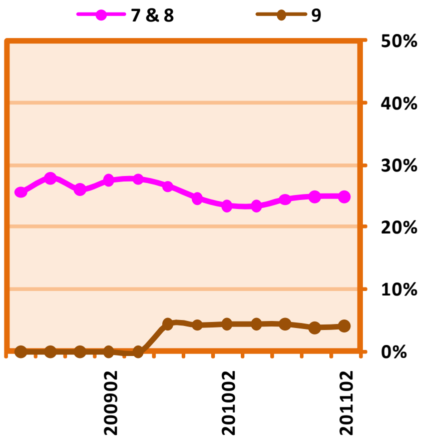
Supply; Women Ownership; 200803 to 201102

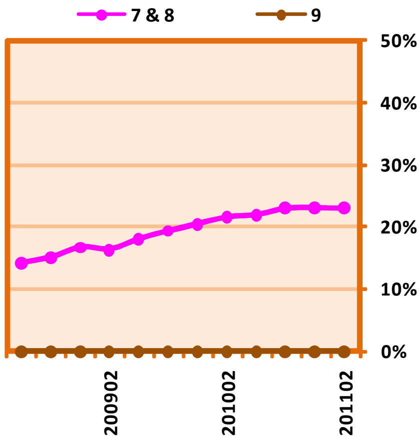
GB

CE









12. Equity; Contracts Awarded

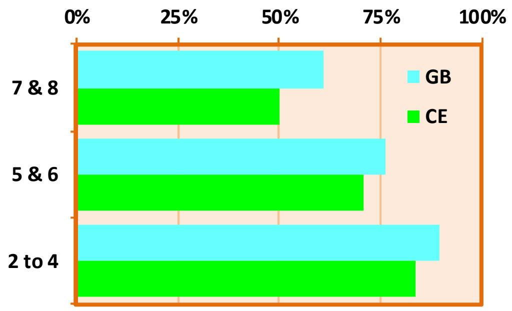
Estimates of the value of public sector contracts awarded to black owned companies during the four quarters under review are shown in the adjacent figure, from which it is seen that around 80% to 90% of the value of Grade 2 to 6 contract awards have been awarded to black owned contractors.

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.

erata: This data was changed on 8 September to correct an error.
We apologise for any inconvenience.

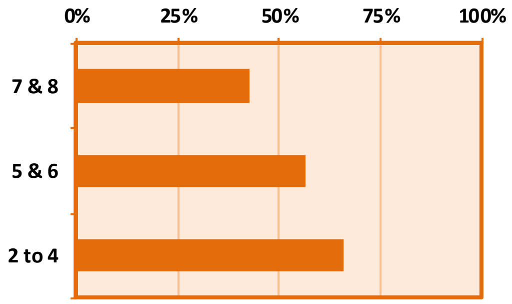
Contracts Awarded; Black Owned; 2011

Grade	%
GB	
7 & 8	61%
5 & 6	76%
2 to 4	90%
Total	**100%**
CE	
7 & 8	50%
5 & 6	71%
2 to 4	84%
Total	**100%**



Turnover; Black Owned; GB and/or CE

Grade	%
GB and/or CE	
7 & 8	43%
5 & 6	56%
2 to 4	66%
Total	**52%**



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