



THE ECONOMICS OF CONSTRUCTION IN SOUTH AFRICA

The **cidb**  
Quarterly Monitor

The Construction Industry Development Board  
Development Through Partnership

OCTOBER  
2011

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



## CIDB QUARTERLY MONITOR; OCTOBER 2011

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# CIDB QUARTERLY MONITOR; OCTOBER 2011

## 1. Introduction

The *cidb Quarterly Monitor*, which covers the 4<sup>th</sup> quarter of 2010 to the 3<sup>rd</sup> 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)*<sup>1</sup>. The *Quarterly Monitor* must however only be seen as a guide to assist in developing targeted intervention strategies<sup>2</sup>, and the *Quarterly Monitor* should be seen as a tool for interrogating existing intervention strategies.

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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](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](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*<sup>3</sup>, 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<sup>4</sup>:

3 *cidb* (2011). *cidb SME Business Conditions Survey*. Construction Industry Development Board, [http://www.cidb.org.za/knowledge/publications/industry\\_reports](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](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 wholly owned subsidiaries 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

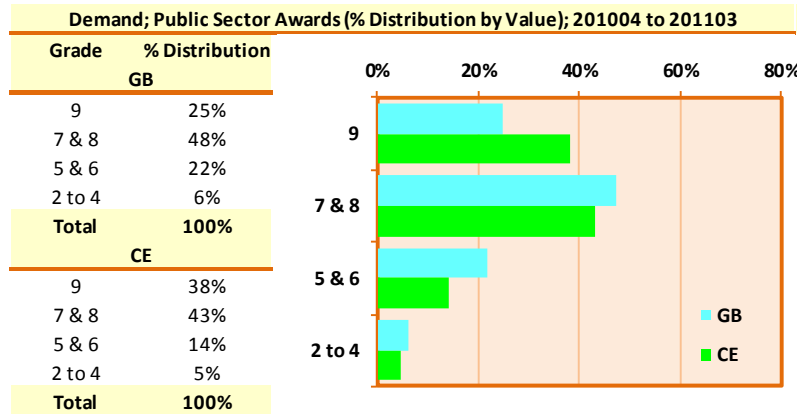
Estimates of the distribution of public sector contracts awarded for South Africa as a whole in the four quarters under review (2010Q4 to 2011Q3) in Grades 2 to 9 is shown in the adjacent figure – with around 70% of public sector awards by value being in tender Grades 7 to 9 in General Building (GB) and around 80% in Civil Engineering (CE). (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.

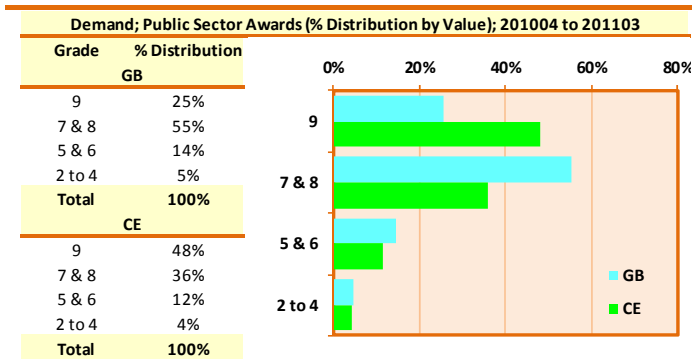
*erata: This data was added on 8 November due to the late arrival of the source data.*

Acknowledgements:

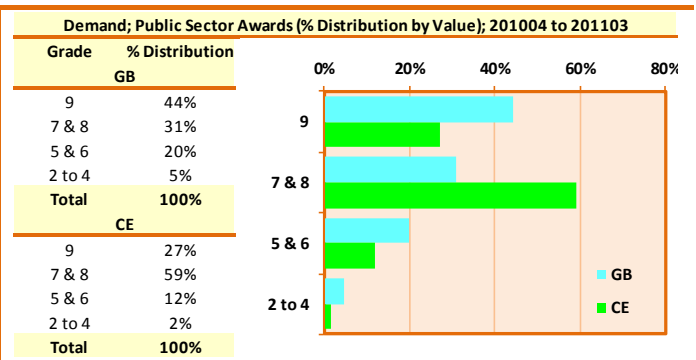




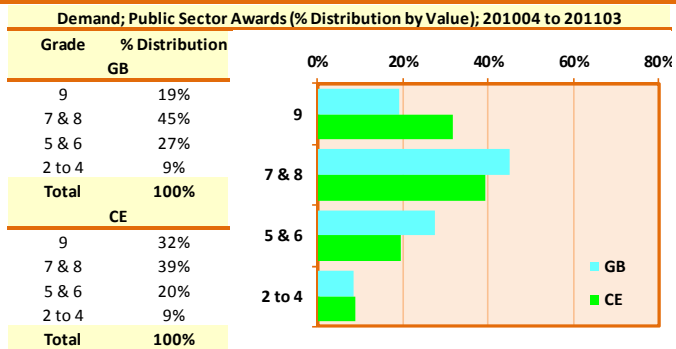
South Africa



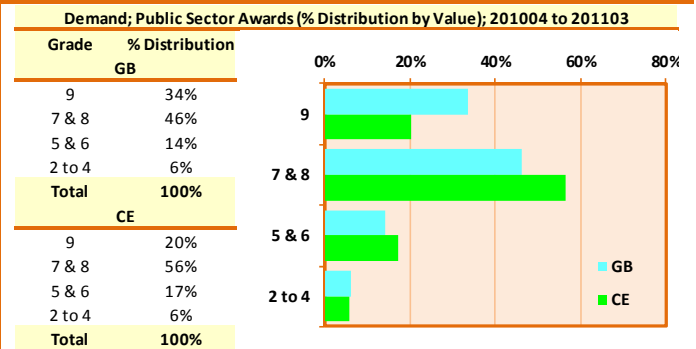
Eastern Cape



Gauteng



Kwa-Zulu Natal



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:

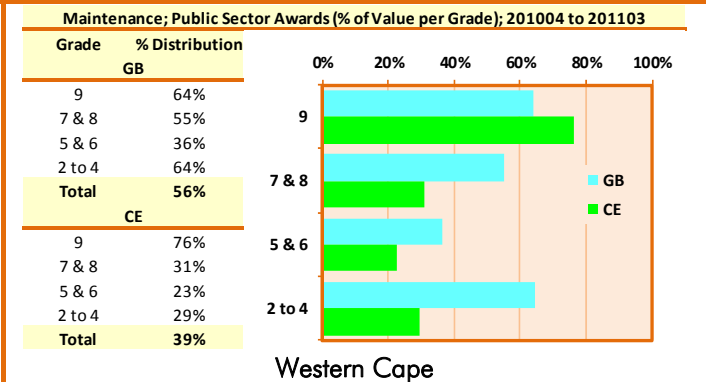
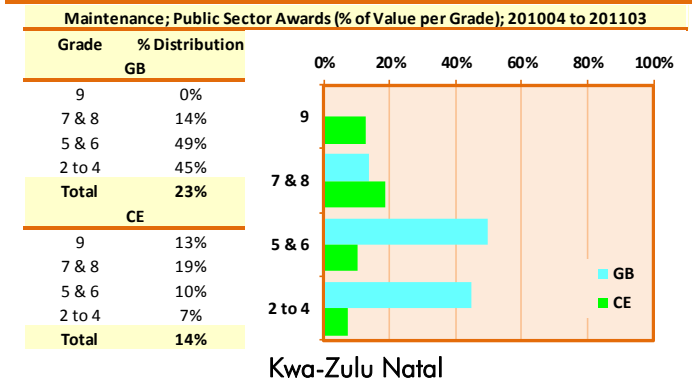
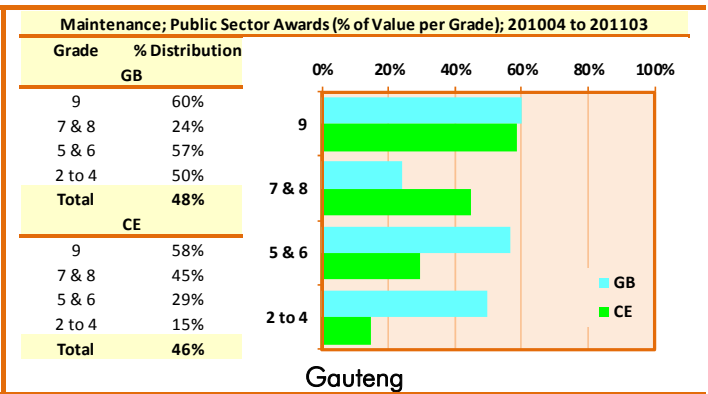
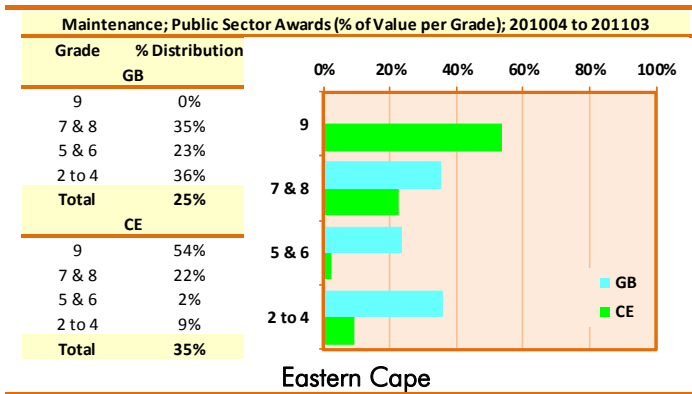
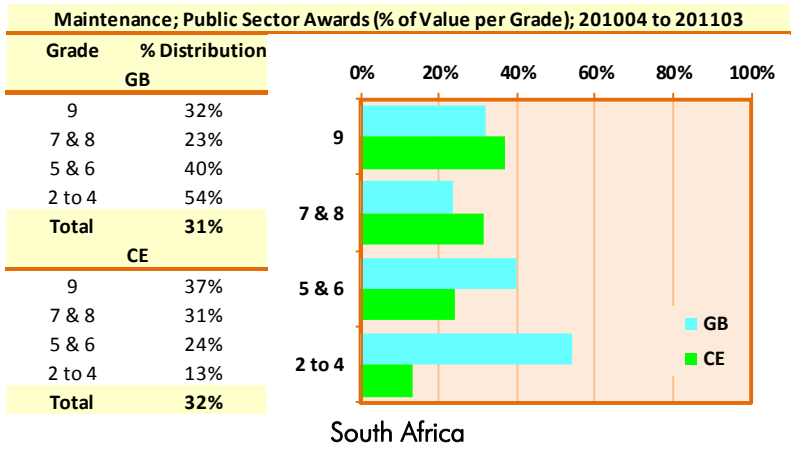
- the value of maintenance contract awards has increased significantly in Grade 9 contractors from 0% to 32% in General Building (GB) and from 8% to 37% in Civil Engineering (CE) when compared to the same period last year (2009Q4 to 2010Q3); and
- around 70% of total Civil Engineering (CE) contracts by value in Grades 7 to 9 have been allocated to maintenance contracts in the period under review (largely road maintenance and refurbishment contracts).

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.

*erata: This data was added on 8 November due to the late arrival of the source data.*

Acknowledgements:





## 5. Business Conditions; Public and Private Sectors

**General Building:** The overall business confidence of General Building (GB) contractors declined marginally from an index number of 29 in 2011Q2 to a value 28 in 2011Q3. When compared to the previous quarter, respondents to the survey reported that growth in building activity improved in 2011Q3. Overall business conditions remained constant during the survey period.

Competition in tendering remained keen in 2011Q3, indicating that it was difficult to obtain new work. Consequently, profit margins remained under pressure during the survey period. Respondents indicated that their business operations remained constrained by the poor supply of building material and skilled labour shortages were experienced by 45% of respondents.

79% of the survey respondents reported that insufficient demand for building work was constraining their business operations. In light of this, respondents anticipate business conditions to remain tough in 2011Q4.

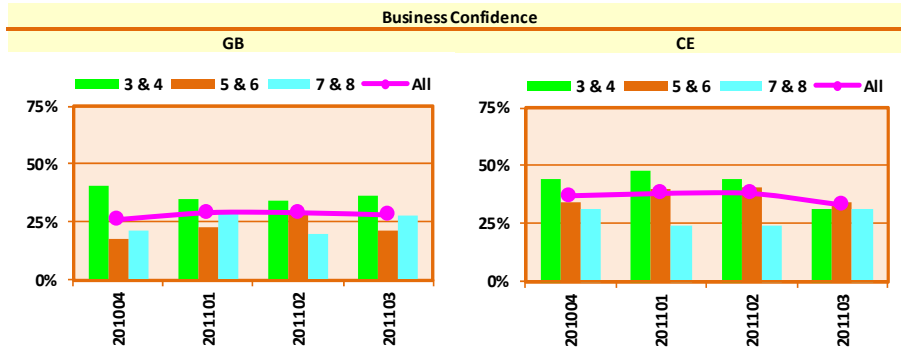
The business confidence of Grades 3 & 4 increased slightly in 2011Q3. Confidence levels of Grades 5 & 6 declined from an index value of 29 in 2011Q2 to a level of 21 in 2011Q3. The business confidence levels of Grades 7 & 8 jumped from 20 to 28 in 2011Q3. Regionally, business confidence increased significantly in the Western Cape. An improved level of business confidence was also reported in KwaZulu-Natal. However, a sharp decline in business confidence was reported in Gauteng and confidence levels also fell in the Eastern Cape.

**Civil Engineering:** The overall business confidence of Civil Engineering (CE) contractors declined from an index value of 38 in 2011Q2 to a level of 33 in 2011Q3. Nonetheless, growth in building activity picked up in 2011Q3, when compared to the previous survey quarter. The pace of job shedding moderated during the survey quarter. When tendering for new construction work, 44% of the respondents encountered stiff tendering competition, down from 53% reported in the previous quarter. Consequently, pressure on profit margins eased in 2011Q3.

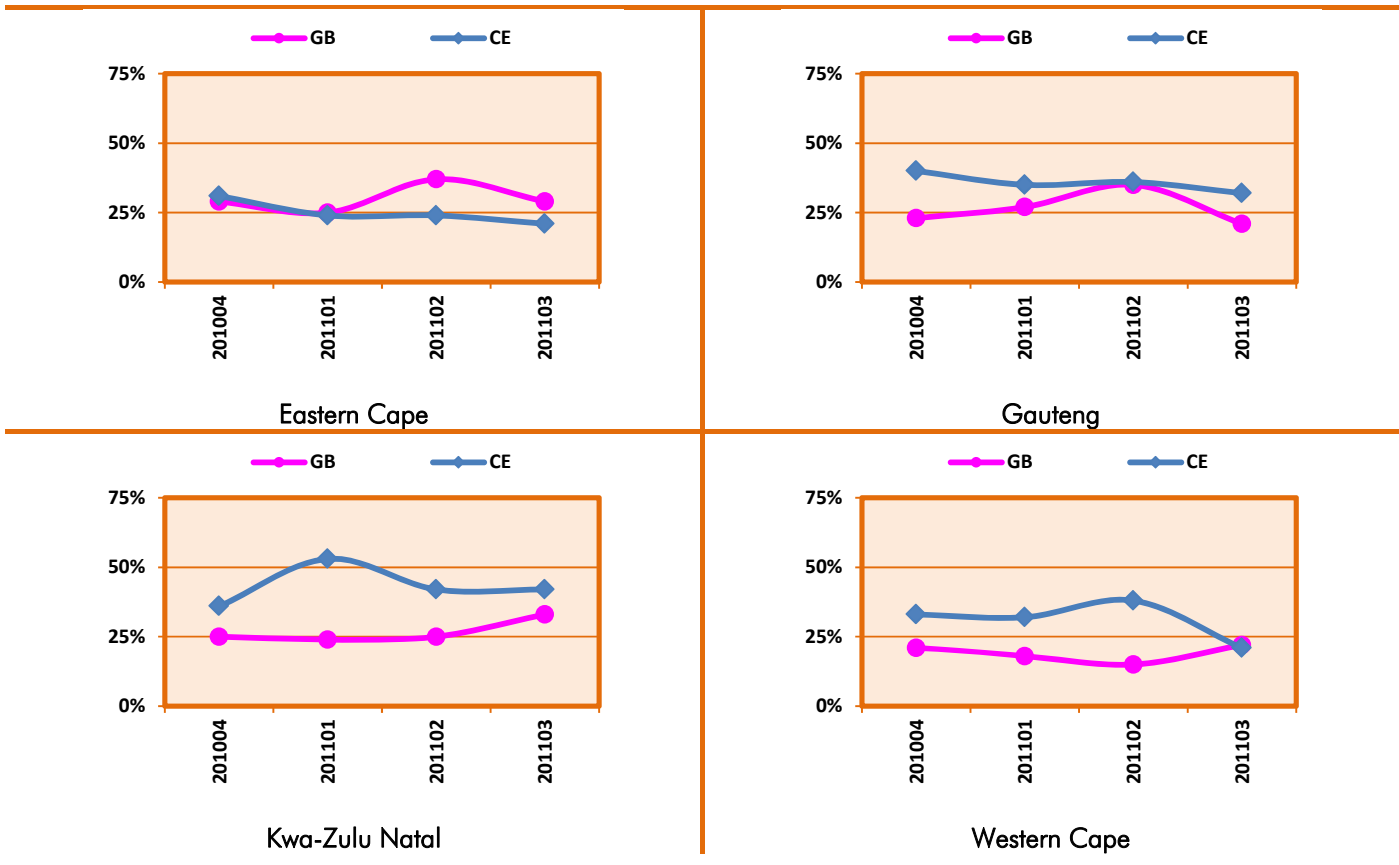
Business operations are still constrained by the inadequate supply of skilled labour. 72% of the survey respondents reported that weak demand for building work hampered the success of their operations.

Expectations are that business conditions will show some improvement during 2011Q4, despite the low demand for construction work.

The business confidence for Civil Engineering (CE) contractors in Grades 3 & 4 declined markedly during the survey quarter. When compared to an index value of 44 in 2011Q2, business confidence declined by 13 index points in 2011Q3 to a value of 31. Business confidence for Civil Engineering (CE) contractors in grades 5 & 6 fell from an index value of 41 to a level of 34 in 2011Q3. However, the overall business confidence of Civil Engineering (CE) contractors in Grades 7 & 8 improved during the survey quarter. Regionally, the Eastern Cape registered the biggest decline in business confidence, falling by 27 index points to a value of 21 in 2011Q3. The Western Cape also registered a sizeable decline in business confidence, while the level of business confidence fell marginally in Gauteng. In KwaZulu-Natal, business confidence stabilized in 2011Q3.



### South Africa



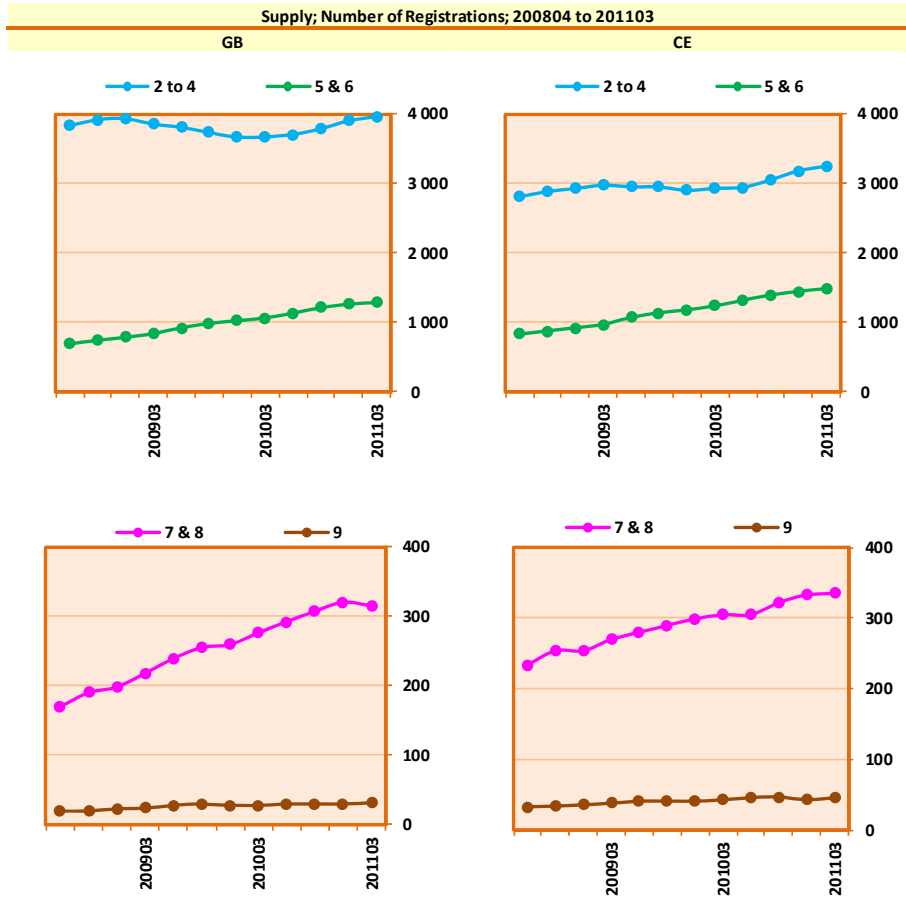
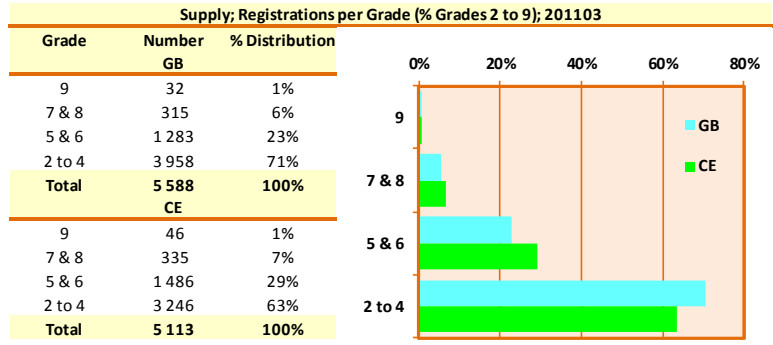
## 6. Registrations; Grades 2 to 9

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

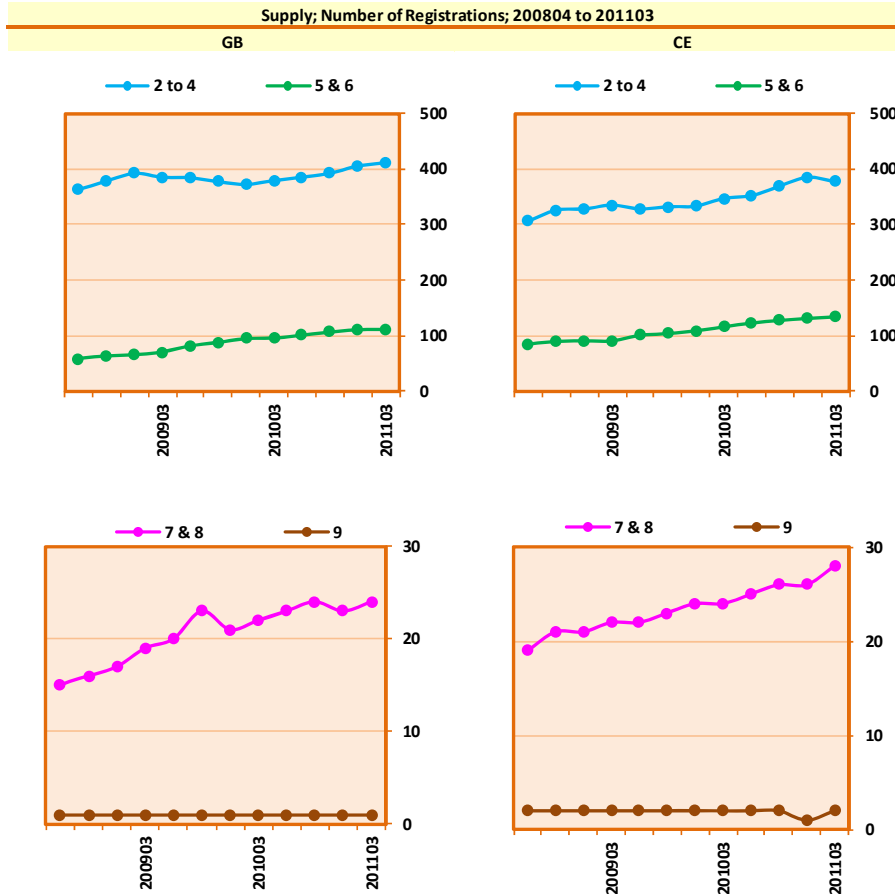
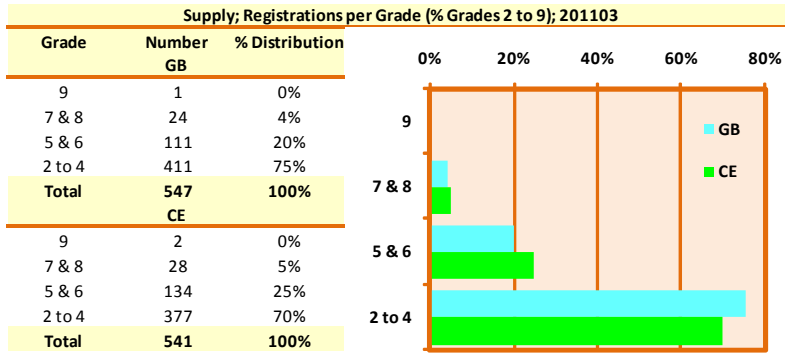
Overall, it is seen that the number of registrations in Grades 2 to 4 account for around 60% to 70% of the total registrations in Grades 2 to 9, whereas the number of registrations in Grades 7 to 9 account for around 8% of the total number of registrations.

The distribution of the total number of registrations in Grades 2 to 9 per province is shown on the following pages. 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 figures that the distribution in profile in registrations is reasonably consistent between provinces.

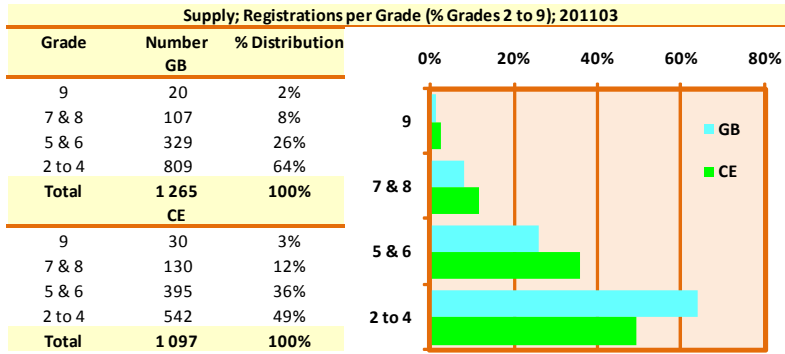
It is seen that there has been a slight increase in the number of registrations in Grades 2 to 4 in General Building (GB) and in Civil Engineering (CE) in the last quarter under review. Furthermore, there has been a consistent increase in the number of registrations in Grades 5 and 6 and above. Of concern however is that the number of Grade 7 & 8 GB contractors, and to a lesser extent Grade 7 & 8 CE contractors, shows a noticeable decrease in the last quarter (2011Q3). Other than this, the number of registrations do not yet appear to show any response to the more difficult business conditions.



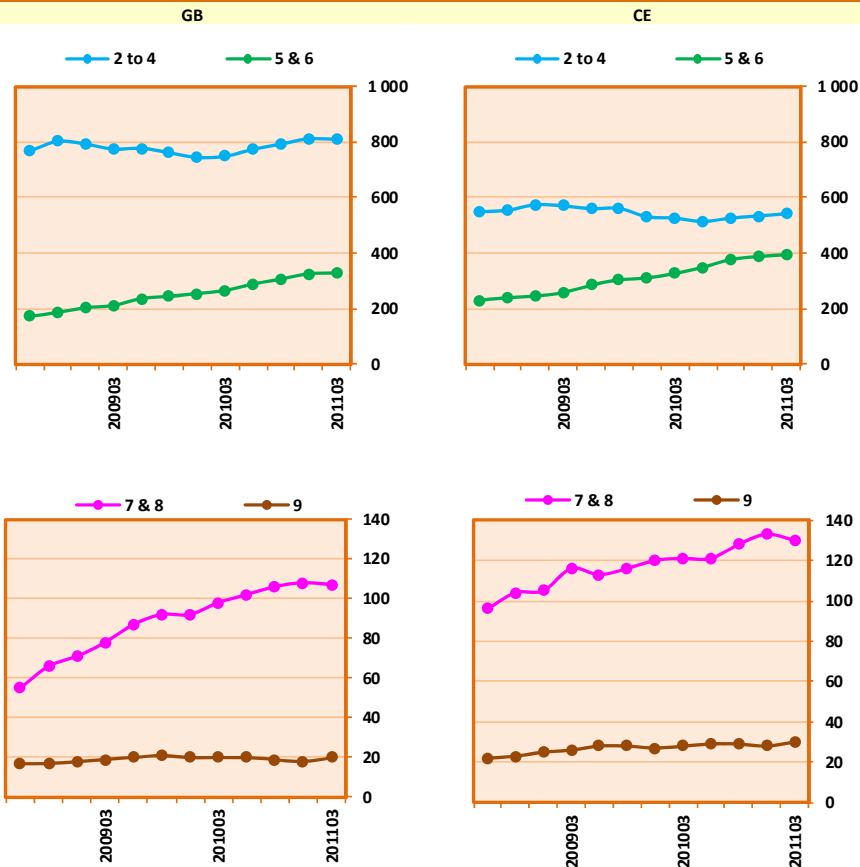
South Africa



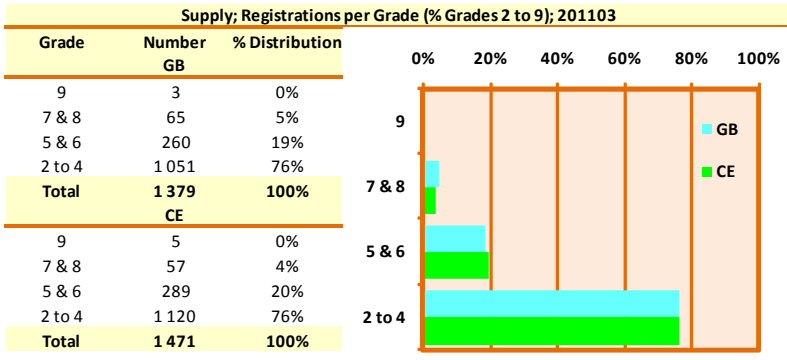
Eastern Cape



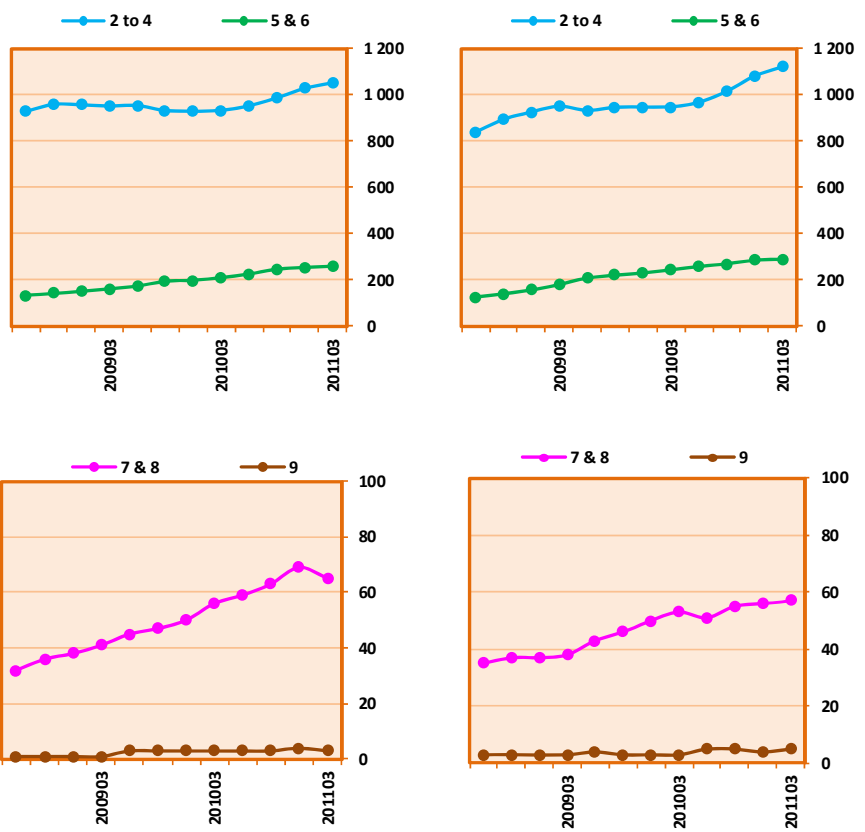
**Supply; Number of Registrations; 200804 to 201103**



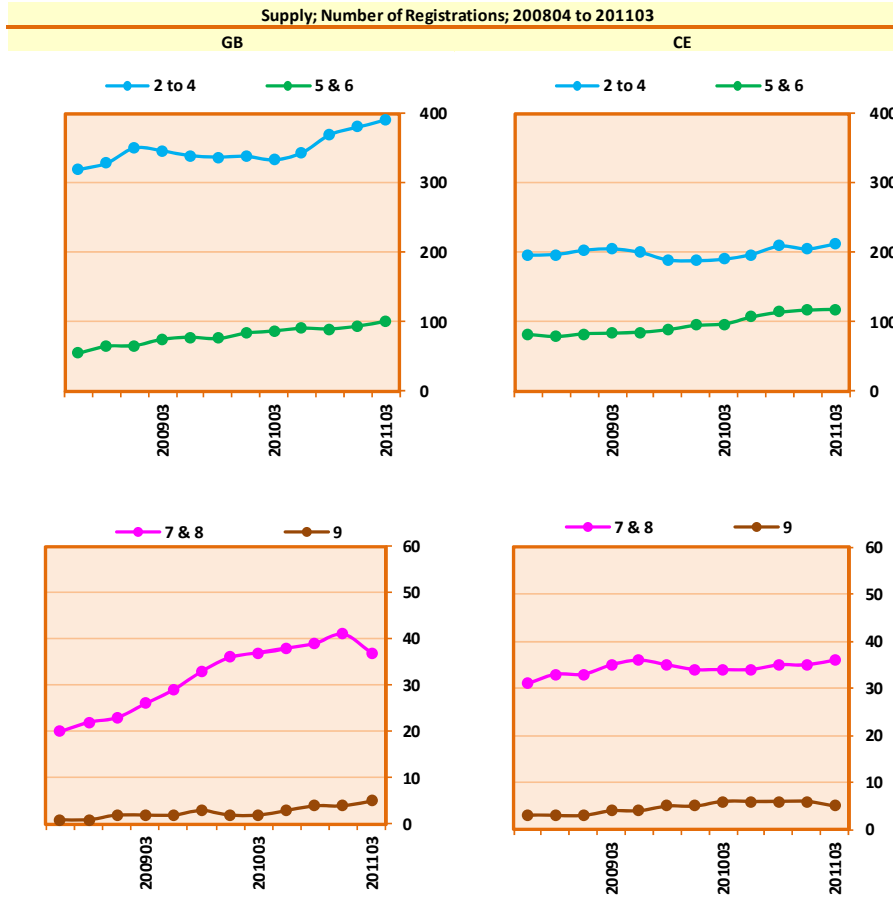
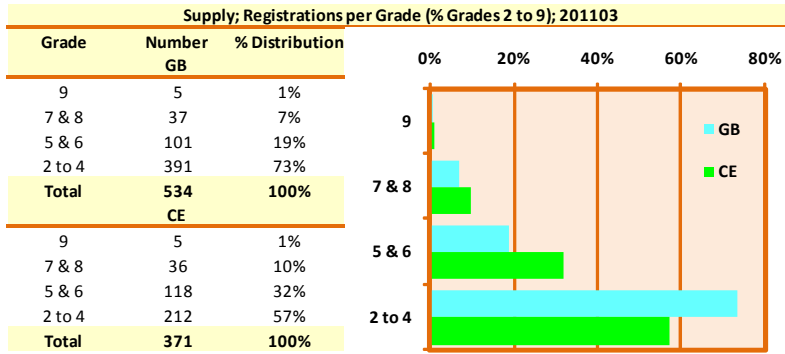
Gauteng



**Supply; Number of Registrations; 200804 to 201103**



Kwa-Zulu Natal

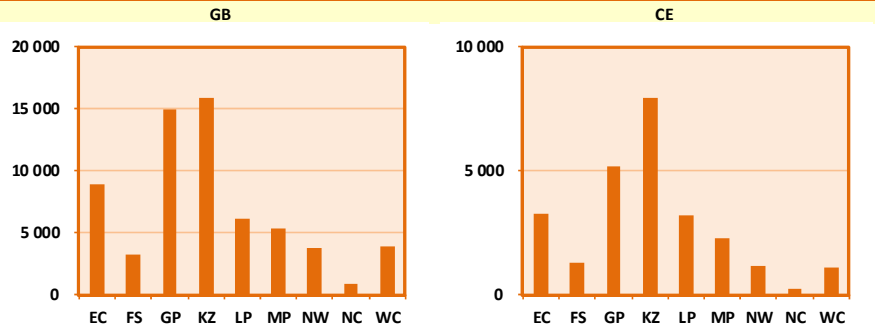


Western Cape

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

Supply; Grade 1 (Absolute)

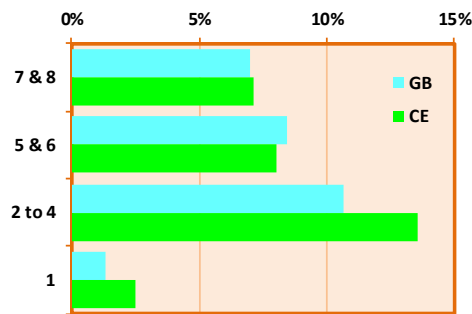


## 8. Contractor Development; Upgrades

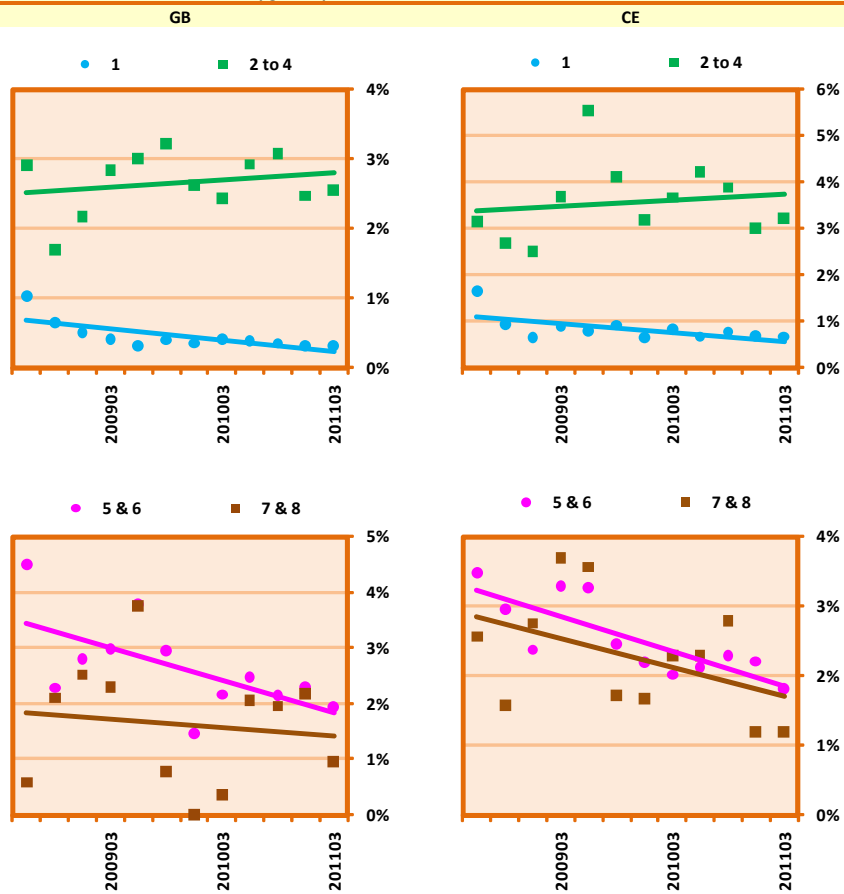
Details of the upgrading of contractors in General Building (GB) and in Civil Engineering (CE) within the past four quarters are shown in the adjacent table. The average rate of contractor upgrades in Grades 2 to 8 is seen to be around 5% to 15% per year – while for Grade 1 contractors the rate of upgrading 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 difficult economic conditions), except for the rate of upgrades in Grades 2 to 4.

Upgrades; 201004 to 201103							
From/To	2 to 4	5 & 6	7 & 8	9	Total	Registrations	%
GB							
7 & 8	0	0	19	3	22	315	7%
5 & 6	0	63	45	0	108	1 283	8%
2 to 4	241	174	6	0	421	3 958	11%
1	714	96	0	0	813	62 763	1%
Total	955	333	70	3	1 364	68 319	2%
CE							
7 & 8	0	0	18	6	24	335	7%
5 & 6	0	75	44	0	119	1 486	8%
2 to 4	244	193	4	0	441	3 246	14%
1	544	99	0	0	646	25 593	3%
Total	788	367	66	6	1 230	30 660	4%



Upgrades per Quarter; 200804 to 201103



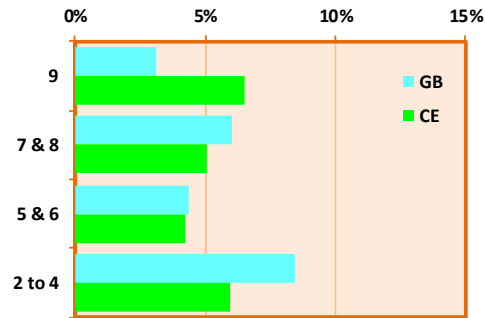
## 9. Contractor Development; Downgrades

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 7%) is substantially lower than the number of downgrades over the same period a year ago (2009Q4 to 2010Q3) (around 4% to 11%).

Downgrades; 201004 to 201103							
From/To	1	2 to 4	5 & 6	7 & 8	Total	Registrations	%
GB							
9	0	0	0	1	1	32	3%
7 & 8	0	3	15	1	19	315	6%
5 & 6	11	32	13	0	56	1 283	4%
2 to 4	265	70	0	0	335	3 958	8%
<b>Total</b>	<b>276</b>	<b>105</b>	<b>28</b>	<b>2</b>	<b>411</b>	<b>5 588</b>	<b>7%</b>
CE							
9	0	0	0	3	3	46	7%
7 & 8	1	0	14	2	17	335	5%
5 & 6	5	41	17	0	63	1 486	4%
2 to 4	137	56	0	0	193	3 246	6%
<b>Total</b>	<b>143</b>	<b>97</b>	<b>31</b>	<b>5</b>	<b>276</b>	<b>5 113</b>	<b>5%</b>

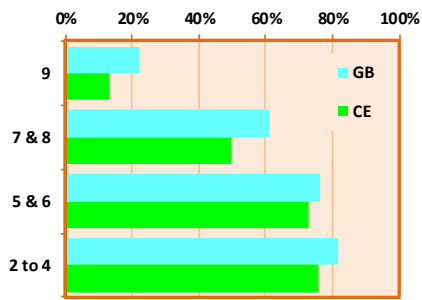


## 10. Equity; Black Ownership

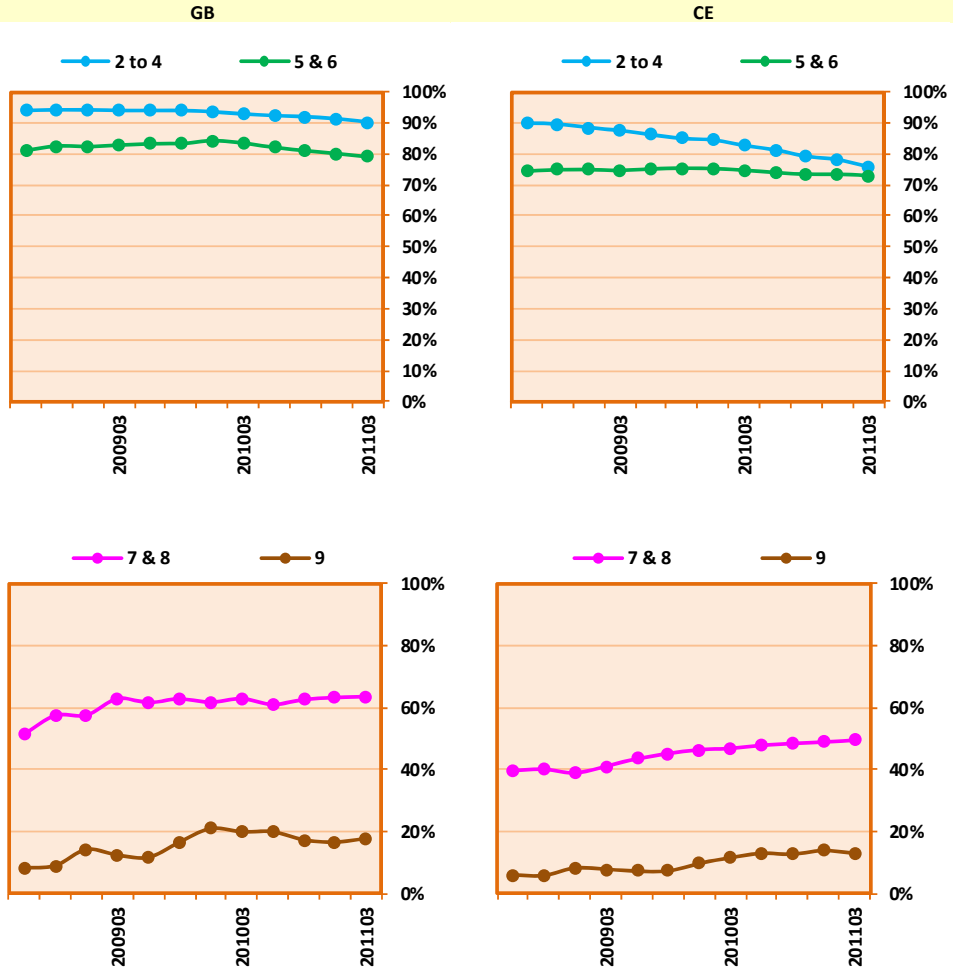
From the adjacent figure it can be seen that around 80% of cidb registered Grade 2 to 4 General Building (GB) and Civil Engineering (CE) contractors are black owned (defined as ownership control of 50% or more). Furthermore, around 70% to 80% of all Grade 5 and 6 General Building (GB) and Civil Engineering (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 profiles 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 representation has in fact even decreased. This negative trend is most noticeable in Grades 2 to 4.

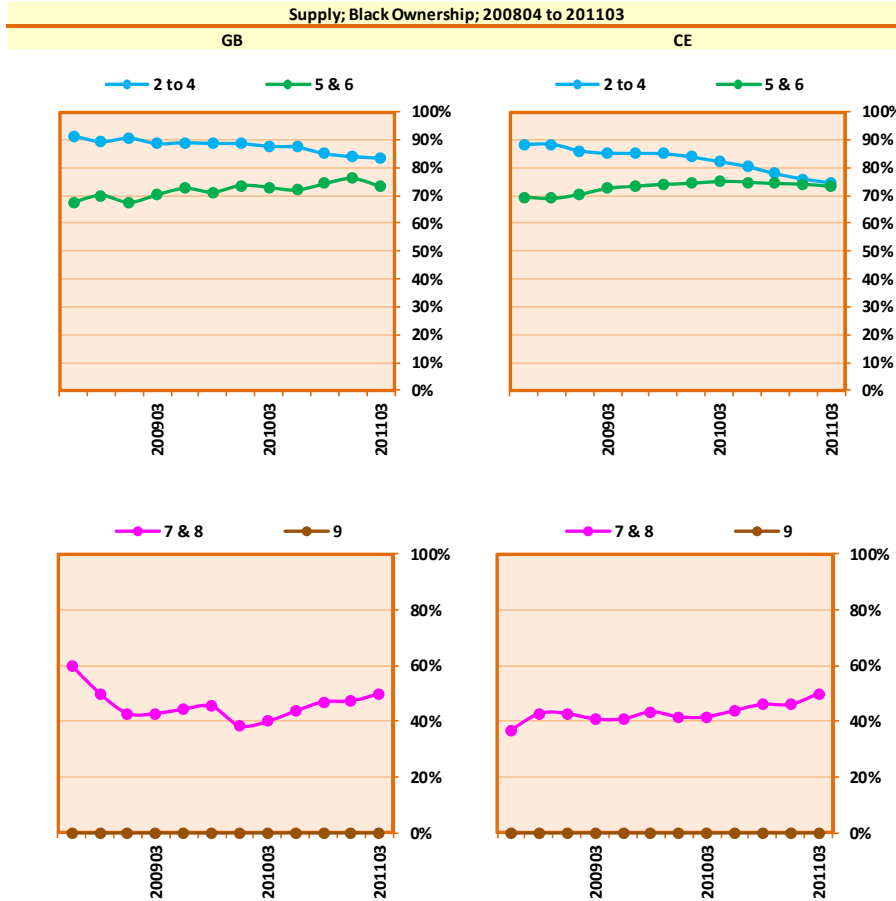
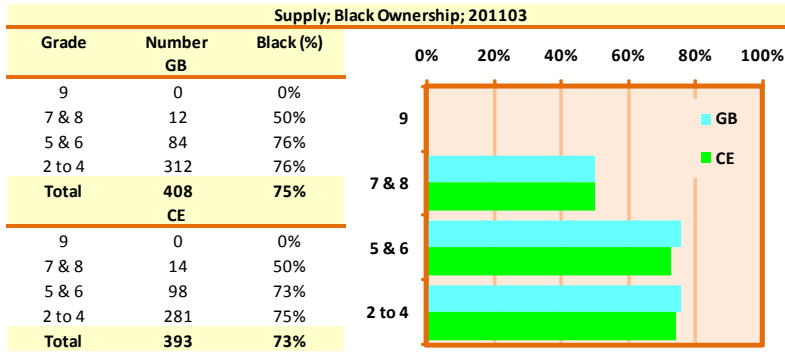
Supply; Black Ownership; 201103		
Grade	Number	Black (%)
9	7	22%
7 & 8	192	61%
5 & 6	981	76%
2 to 4	3 228	82%
<b>Total</b>	<b>4 408</b>	<b>79%</b>
CE		
9	6	13%
7 & 8	166	50%
5 & 6	1 083	73%
2 to 4	2 461	76%
<b>Total</b>	<b>3 716</b>	<b>73%</b>



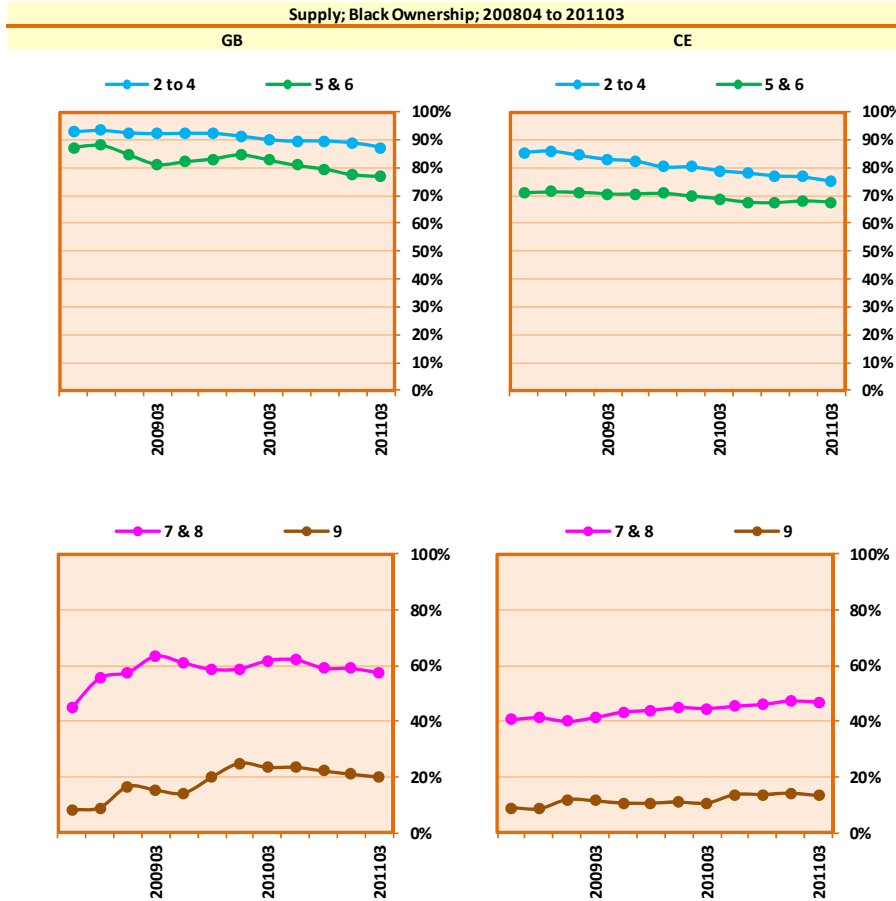
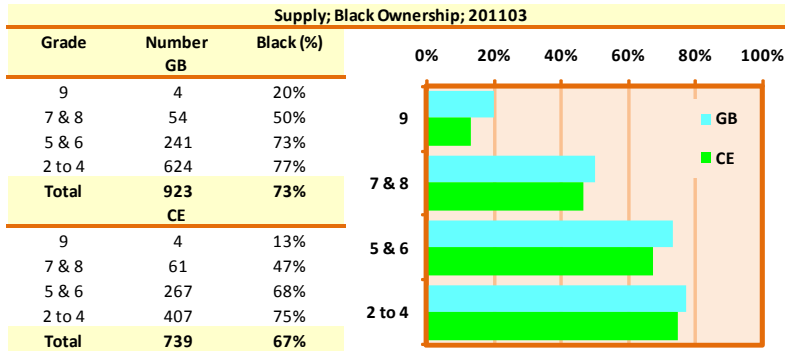
Supply; Black Ownership; 200804 to 201103



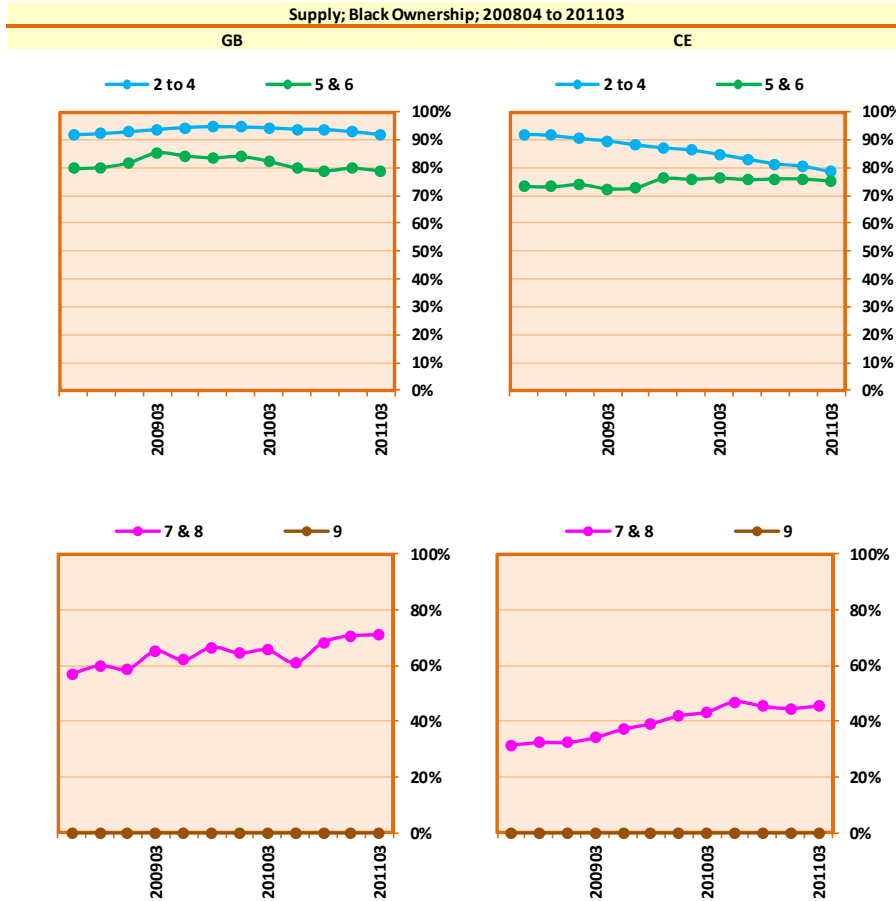
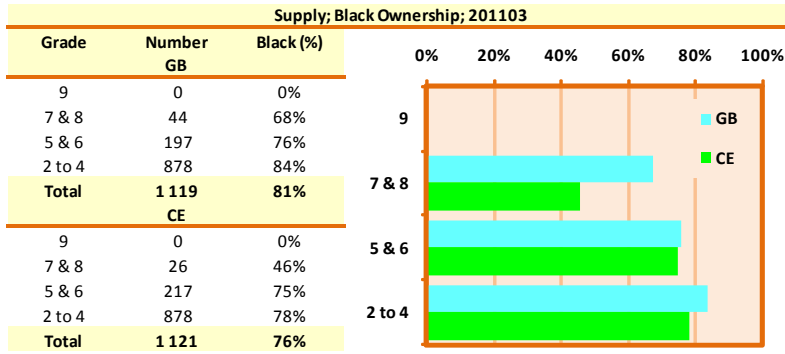
South Africa



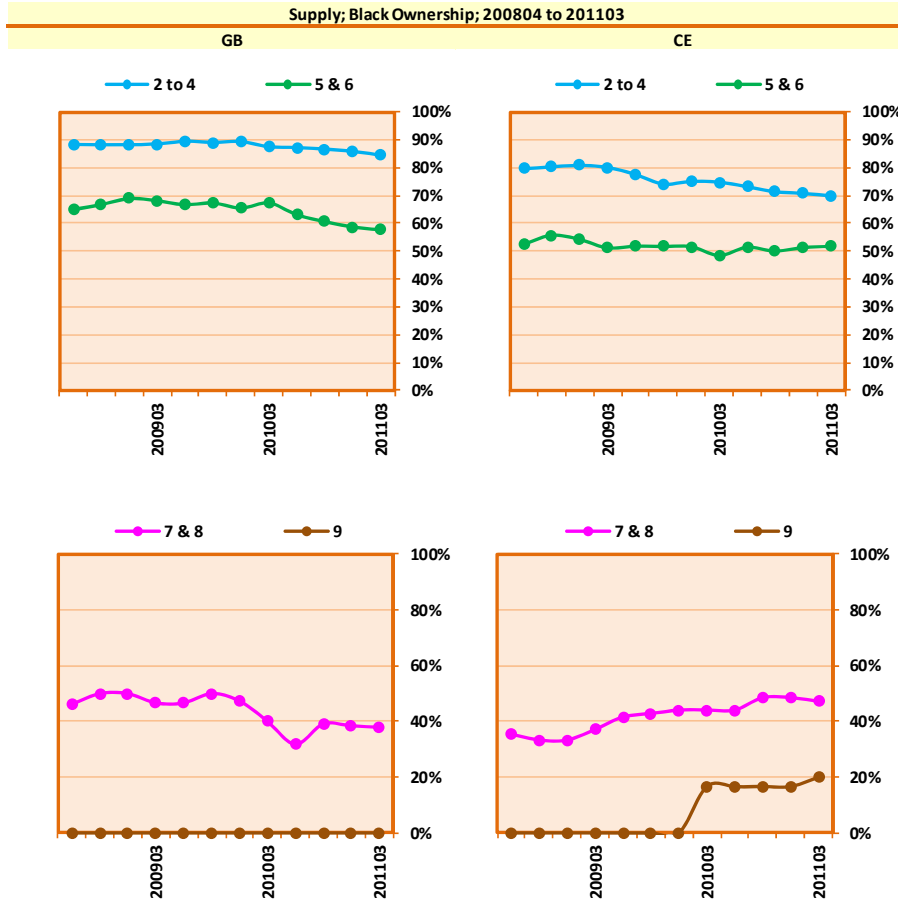
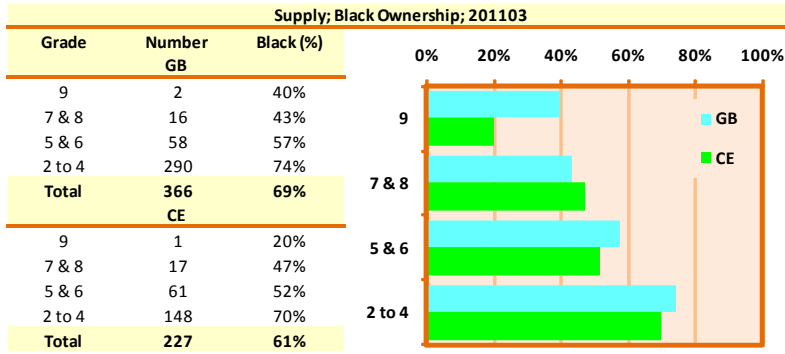
Eastern Cape



Gauteng



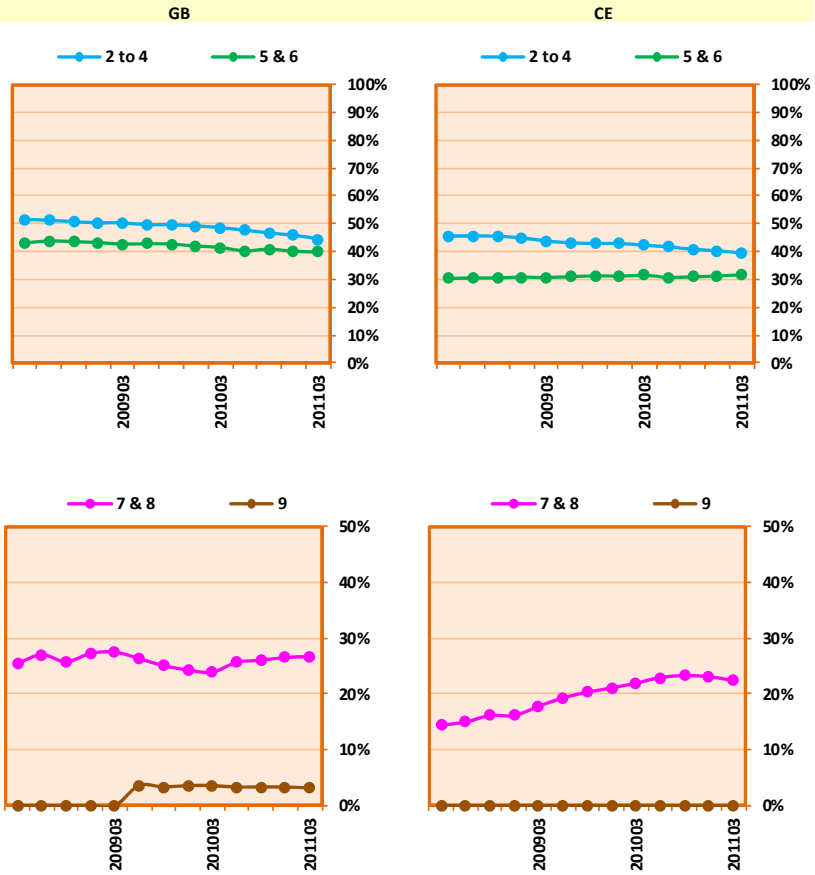
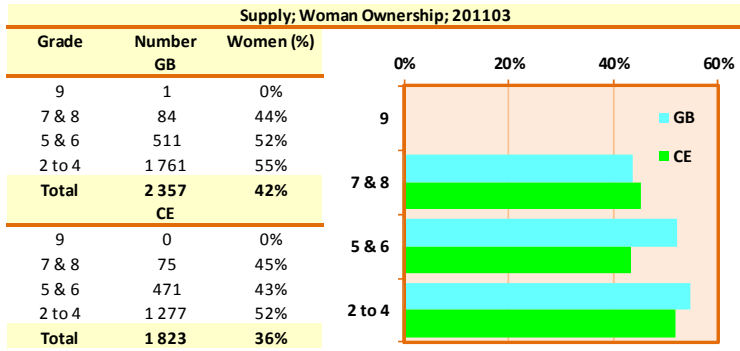
KwaZulu-Natal



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%.



## 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 70% 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.

