



Construction Industry Development Board

DEVELOPMENT THROUGH PARTNERSHIP

A detailed architectural drawing of a building's exterior wall and roof junction is shown. A magnifying glass is positioned over a section of the drawing, highlighting specific details like insulation and structural elements. The drawing includes various annotations, dimensions, and material specifications. A red horizontal bar is overlaid at the bottom of the image, containing the title 'CONSTRUCTION MONITOR'.

CONSTRUCTION MONITOR

Contractor Development
Q2 • 2015

CIDB CONSTRUCTION MONITOR - CONTRACTOR DEVELOPMENT; JULY 2015

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CIDB CONSTRUCTION MONITOR - CONTRACTOR DEVELOPMENT; JULY 2015

1. Introduction

With effect of January 2015, the cidb restructured its cidb *Quarterly Monitors* to focus on individual themes each quarter. The intended schedule of themes is as follows:

- Quarter 1: Supply & Demand;
- Quarter 2: Contractor Development;
- Quarter 3: Employment; and
- Quarter 4: Empowerment.

The cidb *Construction Monitor – Contractor Development* (Quarter 2) covers the state of contractor development in the contracting sector. Specifically, the *Construction Monitor – Contractor Development* examines:

- Contracts Upgrades:** Details of contractor upgrades is obtained from the cidb Register of Contractors, which contains records of the gradings of contractors over the life of the Register. The assessment of contractor gradings is presented for all contractors in the Register of Contractors, as well as for contractors within public sector contractor development programmes (CDPs). The details of contractor upgrades is limited the *Monitor* to the cidb General Building (GB) and Civil Engineering (CE) classes of works.
- Performance and Quality:** Details of improvements in the performance of contractors and quality of construction is obtained primarily from the annual cidb *Construction Industry Indicators* (CIIs), and annual trends in performance. This information is supplemented by a sample assessment of the competence of contractors.

As context, contractor information is aggregated into the following categories:

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

Note that the information captured previously in the cidb *Quarterly Monitors* is still available on request from the cidb, and will shortly be available on-line on the cidb web.

2. Contractor Development

2.1 Background and Context

Contractor development can be viewed as improvements in a contractor's¹:

- grading status; and
- performance and quality of work.

Studies by the cidb have highlighted the slow pace of development from small and medium-size contractors to large contractors². This study has also highlighted that sustainable contractor development is dependent on enterprise factors which often take time to grow and develop, including financial resources, management skills, and technical capabilities. Other factors such as construction experience, as well as process maturity (business and construction processes) are also relevant for growth. As organisations grow, their processes have to be continually adapted. It should be stressed, however, that all construction companies can mature over time – even if they remain at the same grade.

The cidb study also highlighted several other factors which also influence the growth of contracting enterprises. These include:

- good individual and collective experience;
- attracting and retaining the right people and maintaining a strong workforce;
- the maintenance of high standards;
- investment in fixed assets; and
- working closely with the supply chain.

The growth of contractors measured in terms of contractor upgrades is examined in Section 3, while client perceptions as to the performance of contractors and possible changes in the performance of contractors is given in Section 4.

2.2 The National Contractor Development Programme

An important instrument in supporting contractor development and transformation within the construction sector is the National Contractor Development Programme (NCDP), which is a public sector led programme comprising of a partnership between the cidb, National and Provincial Public Works and other willing stakeholders and partners³. Key objectives of the NCDP are to increase the capacity, equity ownership, sustainability, quality and performance of cidb registered contractors – effectively raising the contribution of the construction industry to South Africa's accelerated and shared growth initiative.

The NCDP recognises two key instruments to support contractor development, namely:

- a) *Contractor Development Programmes (CDPs)*: A CDP is defined within the NCDP as an entity that is established for the purpose of providing developmental support to contractors. Contractors who participate within CDPs receive structured developmental support which is targeted to achieve predetermined developmental objectives. Work opportunities are typically provided through direct contracts with the developing contractors within the CDP.

Such models are referred to within the NCDP as “direct targeting”, and contractor development within CDPs is examined in Section 5.

1 NCDP (2011). *NCDP Summary Framework*. Produced by Department of Public Works and the Construction Industry Development Board, September 2011, accessible at cidb.org.za.

2 cidb (2012). *The Construction Industry as a Vehicle for Contractor Development and Transformation*. Construction Industry Development Board, March 2012, accessible at cidb.org.za.

3 NCDP (2011). *NCDP Summary Framework*. Produced by Department of Public Works and the Construction Industry Development Board, September 2011, accessible at cidb.org.za.

b) *Procurement driven developmental outcomes:* Procurement models that target developmental support and developmental outcomes to developing contractors is also an important mechanism to support contractor development. Such procurement models include, amongst others, application of the:

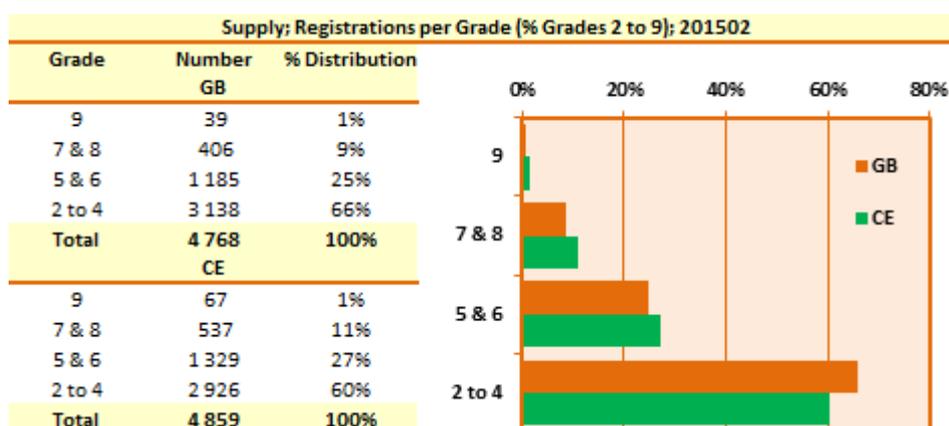
- cidb *Standard for Indirect Targeting for Enterprise Development*⁴, which provides for a minimum contract participation goal of 5% of the total project value to be undertaken by joint-venture partners or to sub-contract to developing contractors that are also to be beneficiaries of enterprise development support from the main contractor;
- coega development corporation *Specification for the Employment of SMME Sub-Contractors* (“ses 003”).

Such models are referred to within the NCDP as “indirect targeting”. There is however insufficient information available at present to assess contractor development through indirect targeting. The cidb is however establishing mechanisms to monitor contractor development through indirect targeting, and aims to report on this in future editions of the cidb *Construction Monitor – Contractor Development*.

4 cidb (2013). cidb *Standard for Indirect Targeting for Enterprise Development through Construction Works Contracts*, Government Gazette 36190, 25 February 2013, accessible at cidb.org.za.

3. Contractor Upgrades

As context, an overview of the structure of the industry in terms of General Building (GB) and Civil Engineering (CE) contractors is given below.



The rate of contractor upgrades over the past 10 years, three years and annual rates of contractor upgrades are given in the following sections.

3.1 10-year View

Details of upgrades of contractors that achieved a Grade of 5 to 9 in General Building (GB) and in Civil Engineering (CE) within the past 10 years is given in the table below. It should be noted that the information presented below refers to upgrades from a lower grade to the maximum grade achieved – i.e. a backward looking view. (Note that the table includes contractors that achieved a maximum grade but are no longer registered with the cidb.) It is seen that around 60% of all contractors have upgraded one or more grades over 10 years. Alternatively, around 40% of contractors have not yet upgraded one or more times.

Maximum Grade	Contractor Upgrades (1 or more); 2005Q3 to 2015Q2; Total			
	GB		CE	
	Number	%	Number	%
9	32	42%	66	56%
7 & 8	548	75%	665	77%
5 & 6	1 591	60%	1 705	59%
Total	2 171	62%	2 436	63%

A further breakdown in terms of black-owned contractors (50% and more black-ownership) is given below. Overall it is seen that the number of black-owned contractors that have upgraded one or more grade over the past 10 years is higher than the industry average, with around 80% of black-owned Grade Civil Engineering (CE) contractors in Grades 7 to 9 having upgraded one more more grades in 10 years.

Maximum Grade	Contractor Upgrades; 2005Q3 to 2015Q2; Black-Owned			
	GB		CE	
	Number	%	Number	%
9	13	72%	20	83%
7 & 8	412	82%	467	84%
5 & 6	1 422	64%	1 482	63%
Total	1 847	67%	1 969	67%

A more detailed breakdown is given below in which it is seen that around 50% of contractors have upgraded between 1 and 2 or more grades over 10 years, but only 10% of contractors have upgrades 4 or more grades in 10 years.

General Building (GB) Contractor Upgrades (1 or more); 2005Q3 to 2015Q2; Total					
Maximum Grade	1 or more	2 or more	3 or more	4 or more	5 or more
9	42%	30%	13%	11%	8%
7 & 8	75%	53%	32%	13%	6%
5 & 6	60%	44%	27%	8%	0%
Total	62%	46%	28%	9%	2%

Civil Engineering (CE) Contractor Upgrades (1 or more); 2005Q3 to 2015Q2; Total					
Maximum Grade	1 or more	2 or more	3 or more	4 or more	5 or more
9	56%	38%	17%	6%	3%
7 & 8	77%	52%	29%	11%	5%
5 & 6	59%	42%	25%	8%	0%
Total	63%	44%	26%	9%	1%

3.2 3-year View

A shorter term perspective of contractor development is given below, in which details of upgrades of contractors that are currently in Grades 5 to 9 and in General Building (GB) and in Civil Engineering (CE) over the past 3 years is given in the table below. Again, it should be noted that the information presented below refers to upgrades from a lower grade to the maximum grade achieved – i.e. a backward looking view. (Note that the table includes contractors that achieved a maximum grade but are no longer registered with the cidb.) It is seen that around 50% of contractors have upgraded 1 or more grade in 3 years.

Maximum Grade	Contractor Upgrades (1 or more); 2012Q3 to 2015Q2; Total			
	GB		CE	
	Number	%	Number	%
9	18	35%	32	40%
7 & 8	293	53%	413	60%
5 & 6	909	47%	979	47%
Total	1 220	48%	1 424	50%

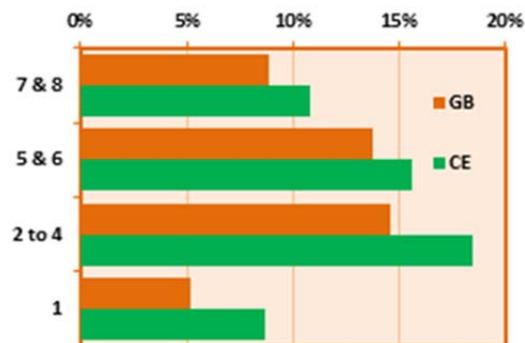
A breakdown of upgrades of black-owned contractors (50% and more black-ownership) over three years for in terms is given below. It is seen that the results for black-owned contractors are slightly that the total industry average, and specifically in the Grades 7 to 9.

Maximum Grade	Contractor Upgrades (1 or more); 2005Q3 to 2015Q2; Black-Owned			
	GB		CE	
	Number	%	Number	%
9	6	46%	12	63%
7 & 8	230	57%	308	66%
5 & 6	808	49%	874	50%
Total	1 044	50%	1 194	53%

3.3 Annual View

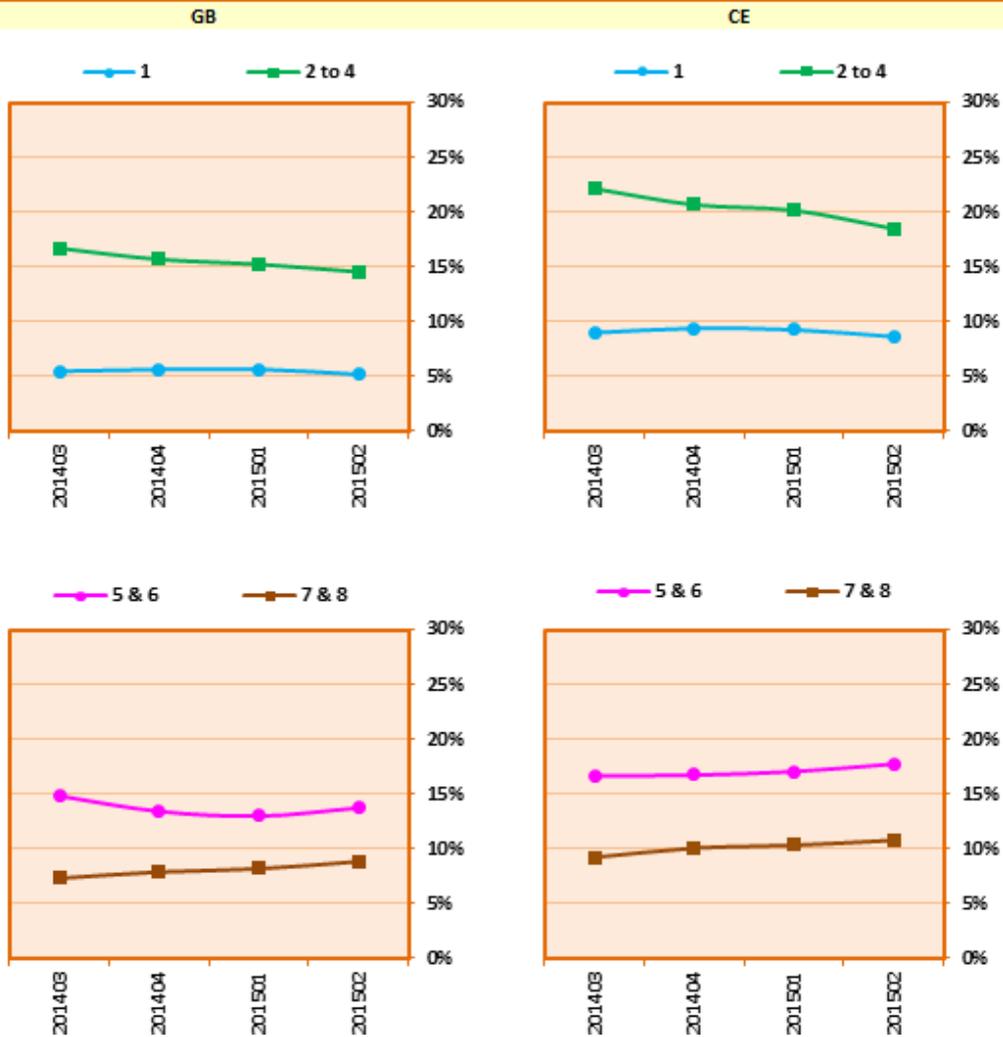
Details of the annual upgrading of contractors in General Building (GB) and in Civil Engineering (CE) within the past four quarters (2014Q3 to 2015Q2) is shown in the following table. Note that the data reflects the number of upgrades from a particular grade to a higher grade (i.e. from / to). It is seen that the average rate of contractor upgrades per year for contractors in Grade 1 is around 5% to 7% per annum for GB and CE, and around 15% to 18% per annum for Grades 2 to 6 in both classes of works. In Grades 7 & 8, the average rate of upgrade is around 10% per annum.

Upgrades: 2014Q3 to 2015Q2							
From/To	2 to 4	5 & 6	7 & 8	9	Total	Registrations	%
GB							
7 & 8	0	0	29	7	36	406	9%
5 & 6	0	81	82	0	163	1 185	14%
2 to 4	264	185	8	0	457	3 138	15%
1	1 024	92	0	0	1 117	21 484	5%
Total	1 288	358	119	7	1 773	26 213	7%
CE							
7 & 8	0	0	38	20	58	537	11%
5 & 6	0	96	139	1	236	1 329	18%
2 to 4	315	215	11	0	541	2 926	18%
1	949	90	0	0	1 040	12 027	9%
Total	1 264	401	188	21	1 875	16 819	11%



Trends in the annual rate of upgrades over the past four quarters is given in the following figures. It is seen that the annual rate of upgrades shows a slight decrease in Grades 2 to 4. However, notwithstanding the current difficult economic conditions, Grades 5 & 6 and Grades 7 & 8 show a slight upward trend.

Upgrades per Year; 201403 to 201502



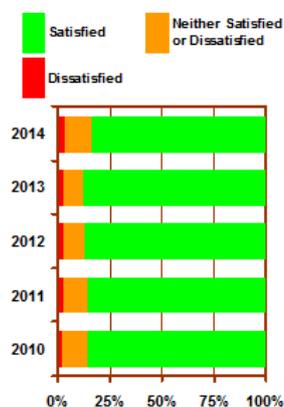
Details of contractor upgrades for selected provinces is given in Appendix 1, and further details are available on request from the cidb.

4. Performance and Quality

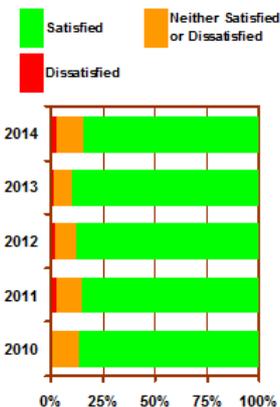
The cidb *Construction Industry Indicators* (CIIs) are measures of the performance of the industry, focusing on clients, the client's agent / consultant and contractors⁵. Several measures of the performance of contractors are given below.

An assessment of the client's satisfaction with the overall performance of contractors is given below. Clients were satisfied with the overall performance of the contractor employed on 84% of the projects surveyed in 2014. On the other hand, clients were neutral or dissatisfied on 16% of the projects. The client satisfaction results observed in the 2014 survey shown a slight (but noticeable) decrease when compared to the 2013 survey results.

Also included below is an assessment of the client's satisfaction with the quality of the construction product. Overall, clients were satisfied with the quality of the completed work at handover on 85% of the projects, and were neutral or dissatisfied on 15% of the projects surveyed in 2014. This represents a significant decrease in client satisfaction compared to the 2013 survey results, for which clients were satisfied with the quality of the completed work was at 90%.



Overall Performance of Contractor



Quality of Completed Work

A further measure of the performance of contractors is the level of defects at handover. Around 86% of projects surveyed in 2014 were "apparently defect free" or had "few defects" at practical completion / handover and 14% of facilities had "some defects" or "major defects". The survey results show an increase in the level of defects (apparently defect free" or had "few defects") compared to the 2013 survey results.

Although several indicators are suggesting a decrease in performance and quality of work delivered by contractors, the results are not necessarily conclusive. However, it is reasonable to conclude that a noticeable increase in performance and quality is not being observed.

Improving the performance of contractors is a key underlying objective of the cidb Contractor recognition Scheme that is currently being rolled out by the cidb.

5 cidb (2014). *cidb Construction Industry Indicators; Summar Results 2014*. Construction Industry Development Board, January 2015, accessible at cidb.org.za.

5. Contractor Development Programmes

A contractor development programme (CDP) is defined as⁶:

an entity that is established for the purpose of providing developmental support to contractors. Contractors who participate within CDPs receive structured developmental support which is targeted to achieve predetermined developmental objectives.

Work opportunities are typically provided through direct contracts with the developing contractors within the CDP. Structured developmental support could be provided by the government institution that is providing the work opportunities, or could be outsourced to a developmental institution.

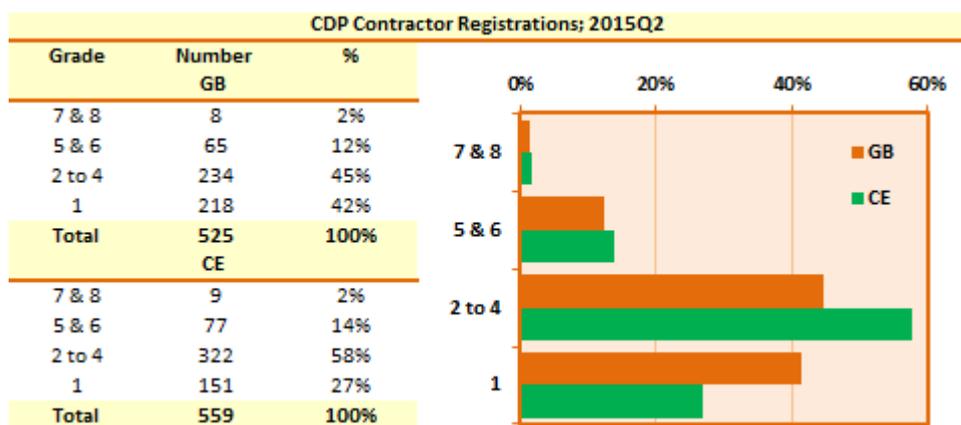
This *Construction Monitor – Contractor Development* draws on information available from 21 CDPs that are currently being monitored by the NCDP, namely:

Province	CDP	Number of Contractors
Eastern Cape	• Incubator	96
	• COEGA (IDZ)	31
	• Chris Hani DM (Vuk'uphile)	22
	• Mainstream	11
	• Outreach	14
	• Masakhesonke	35
	• SCI – Mainstream	5
	• SCI - Outreach	34
Free State	• Contractor Development Programme (CDP)	163
Gauteng	• eKurrhuleni (Vuk'uphile)	121
	• Seda Construction Incubator (SCI)	31
KwaZulu-Natal	• Vukuphile	22
	• Dept. of Transport (Vukuzakhe)	464
Limpopo	• Contractor Development Programme	10
Mpumalanga	• IDT (Sakabakhi)	40
Northern Cape	• Prov. Roads and Transport (Upington Hospital)	5
	• Construction Incubator Programme (CIP)	11
North West	• Vukuphile	9
	• Vukuphile (CIP)	65
	• Vukuphile	15
Western Cape	• Department of Transport & Public Works (Senyuka)	14

5.1 Contractor Registrations

An overview of the total number of contractor registrations in the General Building (GB) and Civil Engineering (CE) classes of works within these CDPs current as at 2015Q2 is given below. Note that the graph only reflects registrations that are currently active, and also that contractors can have more than one registration. It is seen that around 530 contractors in CDPs currently hold a GB registration and around 560 hold a CE registration. Around 45% of all GB registrations and around 60% of CE registrations are for contractors in Grades 2 to 4.

⁶ NCDP (2011). *NCDP Summary Framework*. Produced by Department of Public Works and the Construction Industry Development Board, September 2011, accessible at cidb.org.za.



5.2 Contractor Upgrades

An assessment of the number of contractors within CDPs that have upgraded one or more grade over the last three years is given below – with reference to the contractor’s grade at the start of the three year period. Note that in the absence of detailed information regarding the date of entry of contractors into CDPs, a three year period has been used. The information presented in the table below must therefore be seen as indicative information only, that can be used as a baseline for further monitoring.

One or more Contractor Upgrades; 2012Q3 to 2015Q2		
Initial Grade	Number	%
GB		
7 & 8	0	0%
5 & 6	10	27%
2 to 4	125	48%
1	124	28%
Total	259	35%
CE		
7 & 8	0	0%
5 & 6	16	46%
2 to 4	194	50%
1	178	46%
Total	388	48%

From the table above, it is seen that around 35% of all General Building (GB) contractors have upgraded one or more grade in three years. Similarly, around 45% of all Civil Engineering (CE) contractors have upgraded one or more grade in three years. Notwithstanding this, the performance across CDPs is however variable, due amongst others to the availability of project funding and support mechanisms provided.

Details of contractor upgrades within CDPs for selected provinces is given in Appendix 2, and further details are available on request from the cidb.

5.3 Competence Assessments

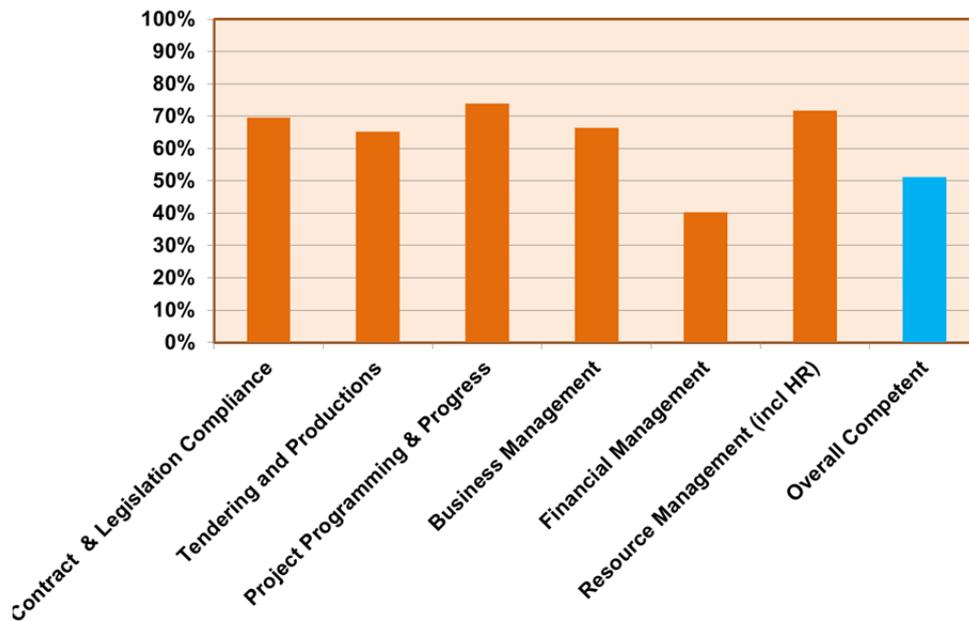
The NCDP *Guidelines for Implementing Contractor Development Programmes*⁷ specifies that training should be aligned to the cidb *Competence Standard for Contractors*⁸. Useful information regarding the

7 cidb (2011). *Guidelines for Implementing Contractor Development Programmes*. Construction Industry Development Board, February 2013, accessible at cidb.org.za.

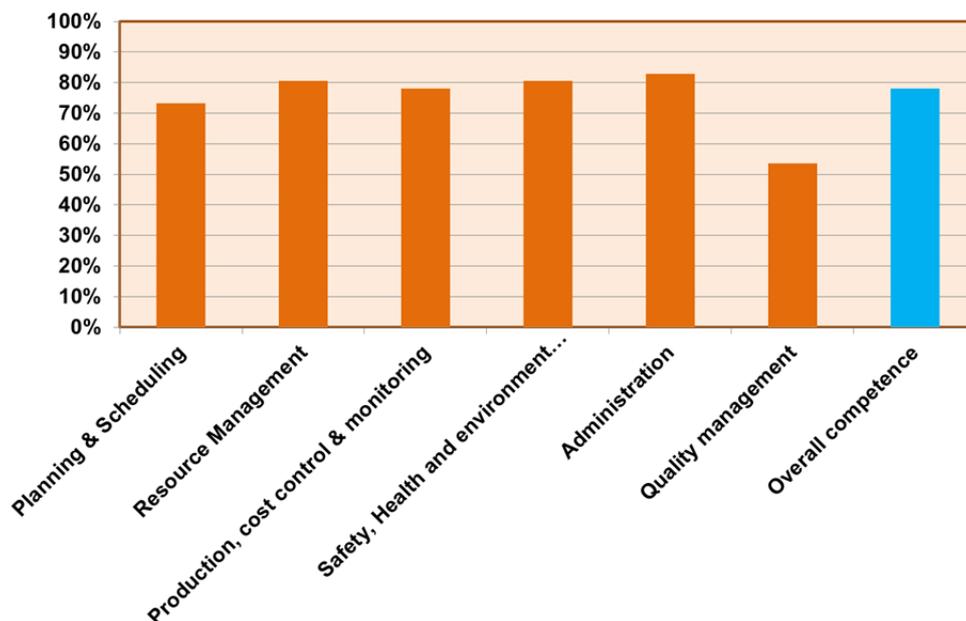
8 cidb (2015). *cidb Competence Standard for Contractors*. To be published in the Government Gazette, 2015

performance of contractors within CDPs is available from a pilot project undertaken to assess the competence of contractors against the cidb *Competence Standard for Contractors*.

An assessment of the competence of around 90 Grade 2 to 4 contractors drawn from within CDPs against the competence requirements for 'Business Management' is given in the figure below. It is seen that only around 50% of the contractors within the pilot were assessed as meeting the business management competence requirements of the cidb *Competence Standard for Contractors*, with contractors being least competent in the area of 'Financial Management' and 'Risk Management'. These areas are key developmental areas for contractors within CDPs.

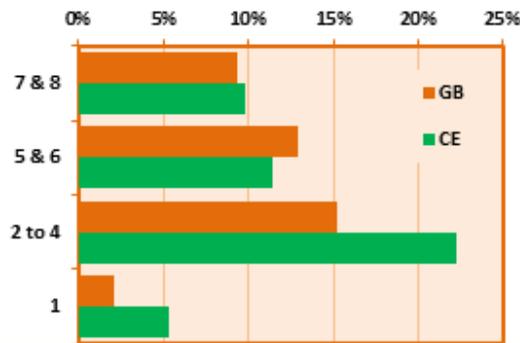


Similarly, an assessment of the competence of around 40 Grade 5 and 6 contractors within CDPs against the competence requirements for 'Works Management' is given in the figure below. It is seen that around 80% of the contractors within the pilot were assessed as meeting the works management competence requirements of the cidb *Competence Standard for Contractors*, but with contractors being least competent in the area of 'Quality management'. Quality control methods and systems are further key development area for contractors within CDPs

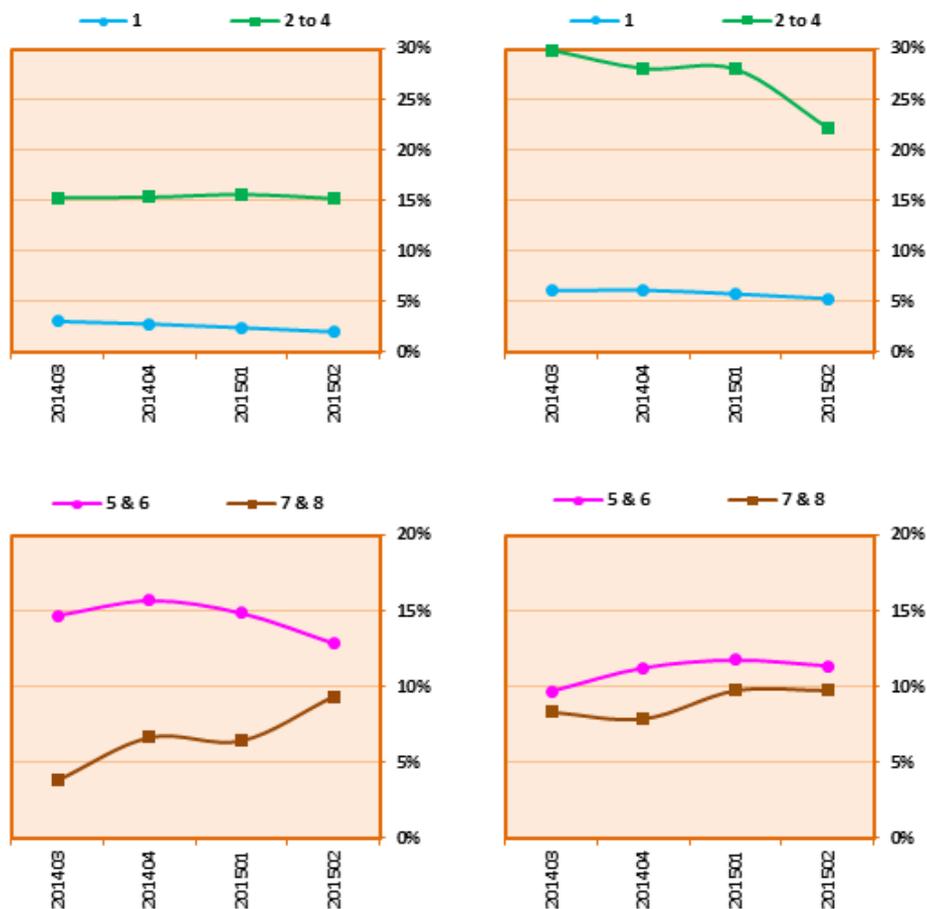


Appendix 1: Provincial Data: Upgrades

Upgrades; 201403 to 201502							
From/To	2 to 4	5 & 6	7 & 8	9	Total	Registrations	%
GB							
7 & 8	0	0	3	0	3	32	9%
5 & 6	0	5	8	0	13	101	13%
2 to 4	33	20	1	0	54	355	15%
1	77	5	0	0	82	4 032	2%
Total	110	30	12	0	152	4 520	3%
CE							
7 & 8	0	0	4	0	4	41	10%
5 & 6	0	8	10	0	18	158	11%
2 to 4	37	33	0	0	70	315	22%
1	119	13	0	0	132	2 484	5%
Total	156	54	14	0	224	2 998	7%

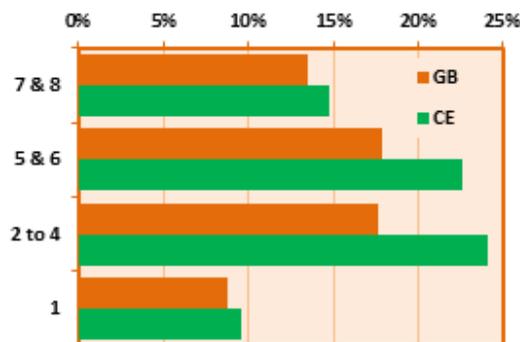


Upgrades per Year; 201403 to 201502

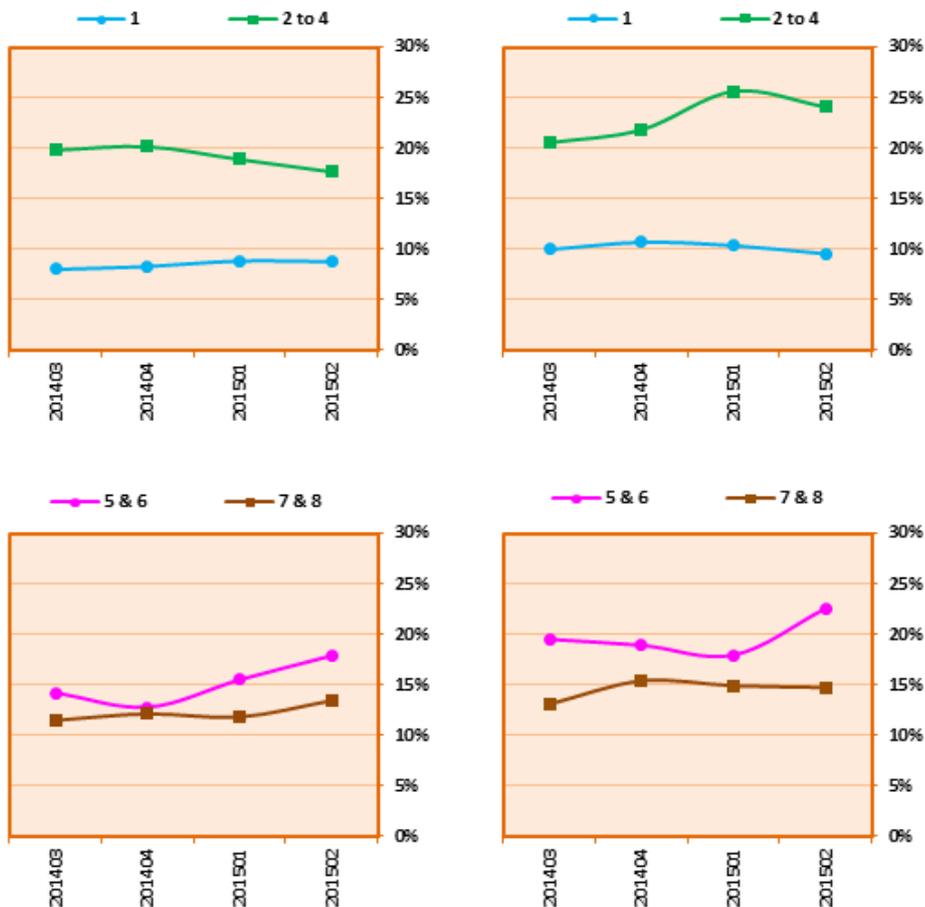


Eastern Cape

Upgrades; 201403 to 201502							
From/To	2 to 4	5 & 6	7 & 8	9	Total	Registrations	%
GB							
7 & 8	0	0	14	7	21	156	13%
5 & 6	0	26	32	0	58	324	18%
2 to 4	62	52	6	0	120	679	18%
1	322	44	0	0	367	4 179	9%
Total	384	122	53	7	566	5 338	11%
CE							
7 & 8	0	0	19	12	31	210	15%
5 & 6	0	25	49	1	75	332	23%
2 to 4	45	56	5	0	106	440	24%
1	170	31	0	0	201	2 101	10%
Total	215	112	73	13	413	3 083	13%

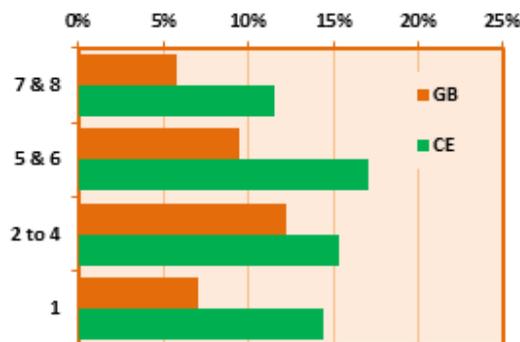


Upgrades per Year; 201403 to 201502

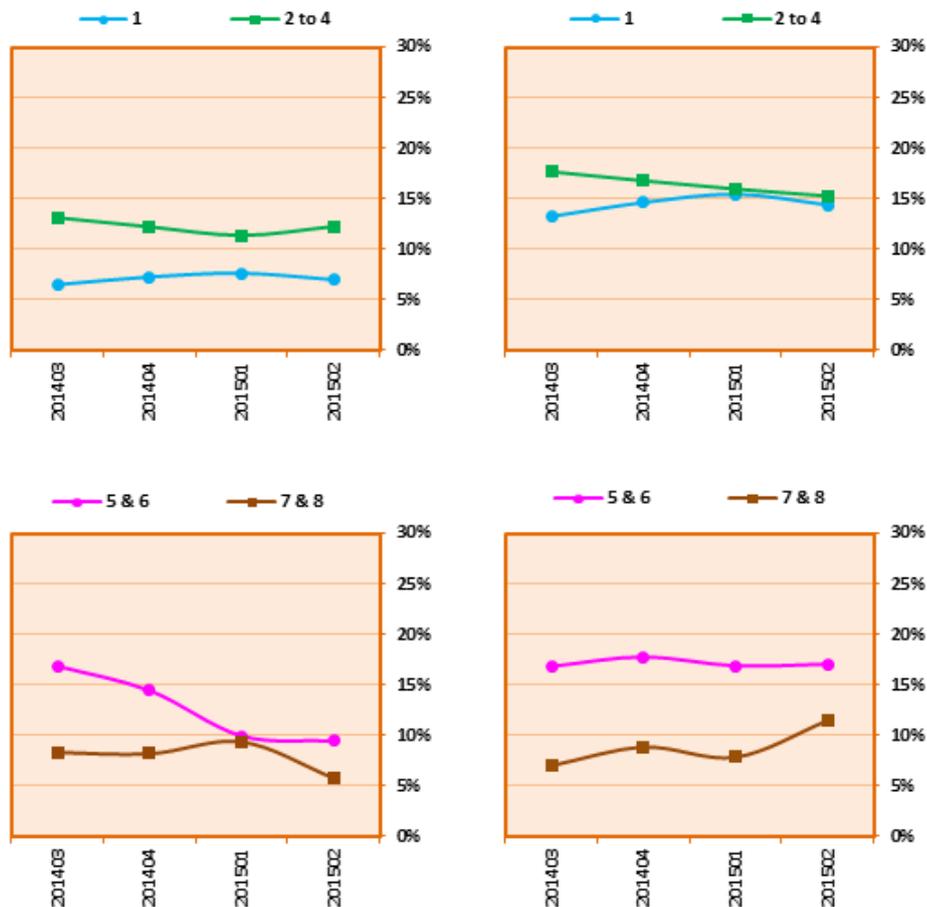


Gauteng

Upgrades; 201403 to 201502							
From/To	2 to 4	5 & 6	7 & 8	9	Total	Registrations	%
GB							
7 & 8	0	0	4	0	4	69	6%
5 & 6	0	14	11	0	25	264	9%
2 to 4	62	45	1	0	108	880	12%
1	247	12	0	0	259	3 696	7%
Total	309	71	16	0	396	4 909	8%
CE							
7 & 8	0	0	3	7	10	87	11%
5 & 6	0	23	25	0	48	281	17%
2 to 4	123	59	3	0	185	1 210	15%
1	358	14	0	0	373	2 588	14%
Total	481	96	31	7	616	4 166	15%

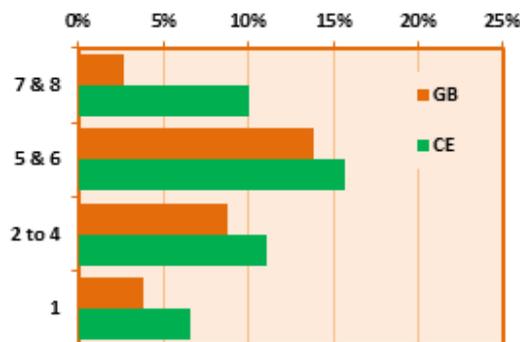


Upgrades per Year; 201403 to 201502

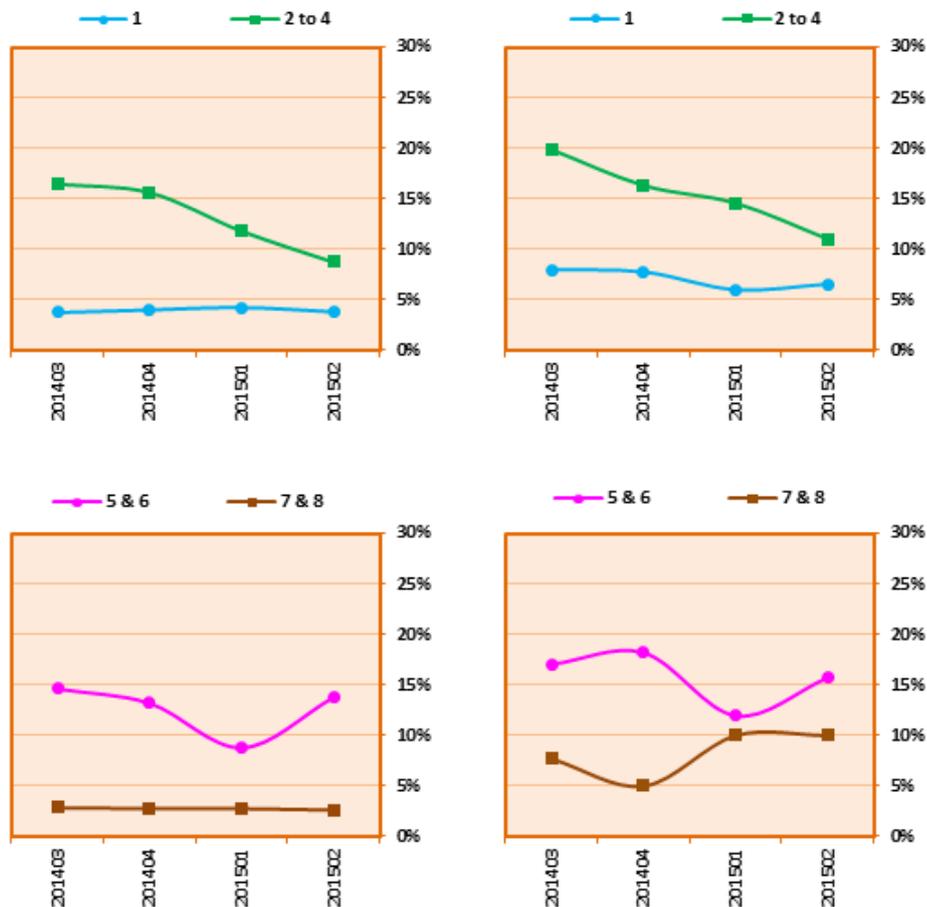


KwaZulu-Natal

Upgrades; 201403 to 201502							
From/To	2 to 4	5 & 6	7 & 8	9	Total	Registrations	%
GB							
7 & 8	0	0	1	0	1	38	3%
5 & 6	0	8	4	0	12	87	14%
2 to 4	13	9	0	0	22	252	9%
1	53	2	0	0	55	1441	4%
Total	66	19	5	0	90	1818	5%
CE							
7 & 8	0	0	3	1	4	40	10%
5 & 6	0	5	9	0	14	89	16%
2 to 4	5	5	0	0	17	154	11%
1	31	2	0	0	33	502	7%
Total	36	12	12	1	68	785	9%

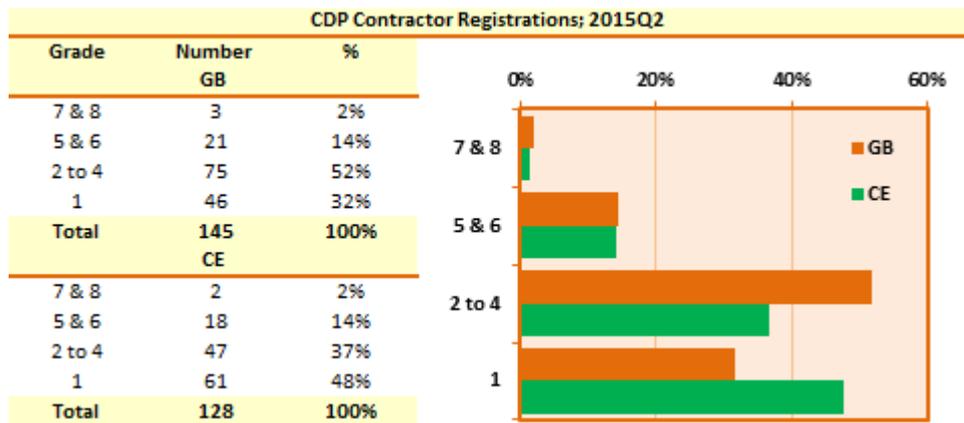


Upgrades per Year; 201403 to 201502



Western Cape

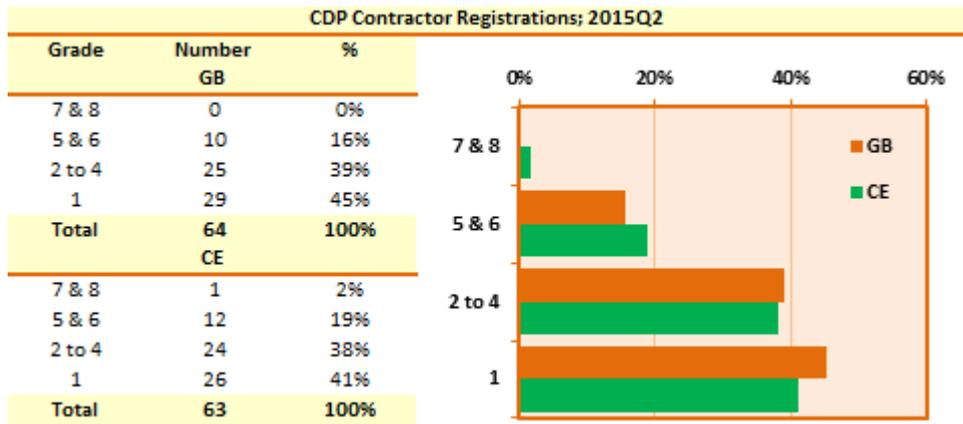
Appendix 2: Provincial Data; Contractor Development Programmes



**One or more Contractor Upgrades;
2012Q3 to 2015Q2**

Grade from	Number	%
GB		
7 & 8		
5 & 6	4	33%
2 to 4	44	49%
1	28	33%
Total	76	41%
CE		
7 & 8		
5 & 6	3	50%
2 to 4	24	55%
1	43	37%
Total	70	42%

Eastern Cape

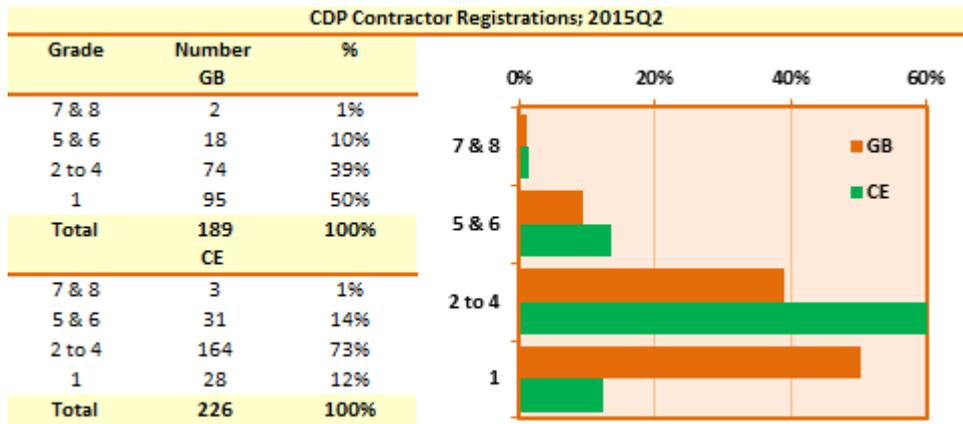


**One or more Contractor Upgrades;
2012Q3 to 2015Q2**

Grade from	Number GB	%
7 & 8		
5 & 6	1	20%
2 to 4	7	44%
1	22	24%
Total	30	26%

Grade from	Number CE	%
7 & 8		
5 & 6	2	100%
2 to 4	10	37%
1	30	32%
Total	42	34%

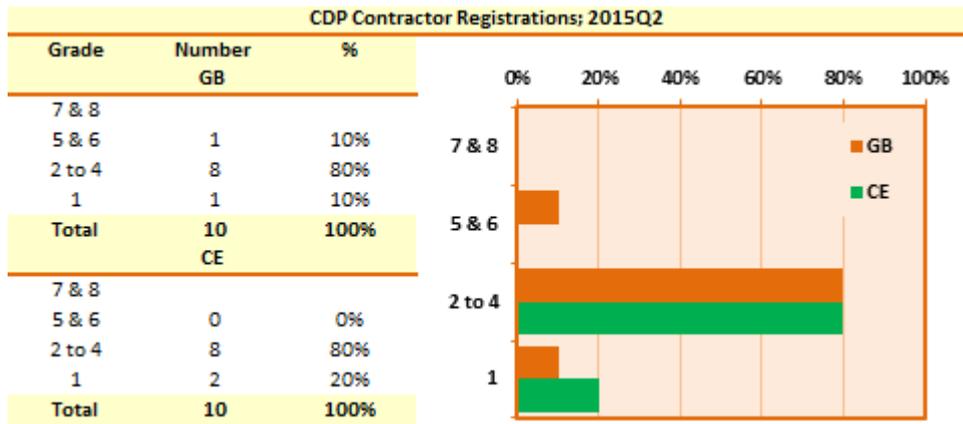
Gauteng



**One or more Contractor Upgrades;
2012Q3 to 2015Q2**

Grade from	Number	%
GB		
7 & 8	0	0%
5 & 6	3	27%
2 to 4	42	46%
1	29	21%
Total	74	30%
CE		
7 & 8		
5 & 6	9	45%
2 to 4	108	45%
1	44	88%
Total	161	52%

Kwa-Zulu Natal



**One or more Contractor Upgrades;
2012Q3 to 2015Q2**

Grade from	Number	%
GB		
7 & 8		
5 & 6	0	0%
2 to 4	4	50%
1	0	0%
Total	4	40%
CE		
7 & 8		
5 & 6		
2 to 4	3	60%
1	4	67%
Total	7	64%

Western Cape

Pretoria Head Office

+27 12 482 7200/+27 86 100 cidb

Gauteng Provincial Office

Pretoria • 0861 428 222

Western Cape Provincial Office

Cape Town • 0861 927 222

Eastern Cape Provincial Office

Bisho • 0861 222 327

Northern Cape Provincial Office

Kimberley • 053 861 9631

Free State Provincial Office

Bloemfontein • 0861 377 222

KwaZulu-Natal Provincial Office

Durban • 0861 596 222

Limpopo Provincial Office

Polokwane • 0861 222 765

Mpumalanga Provincial Office

Nelspruit (Mbombela) • 0861 678 222

North West Provincial Office

Mahikeng • 0861 243 222

Anonymous Fraud Line

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