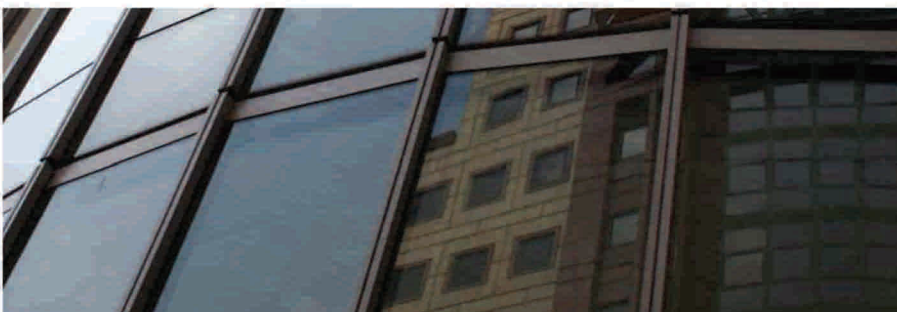


The cidb
Quarterly Monitor:
July 2009



THE ECONOMICS
OF CONSTRUCTION
IN SOUTH AFRICA

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



CIDB QUARTERLY MONITOR ; JULY 2009

1. Introduction

The cidb Quarterly Monitor provides an overview of the state of contractor development in South Africa as input to developing targeted development intervention strategies in support of the National Contractor Development Programme (NCDP). This Quarterly Monitor is covering the 3rd quarter of 2008 to 2nd quarter of 2009 – focuses on public sector supply and demand at a provincial level, and deals only with the General Building (GB) and Civil Engineering (CE) cidb Class of Works.

The cidb Quarterly Monitor also includes an overview of contracts awarded on maintenance, refurbishment, renovations, etc., which provides an indication of the allocation of public spending in line with the National Infrastructure Maintenance Strategy (NIMS). The cidb Quarterly Monitor also includes contractor perceptions of the confidence in business conditions and insufficient demand for work obtained from the cidb BER SME Business Confidence Survey.

The cidb Quarterly Monitor must only be seen as a guide to assist in developing targeted intervention strategies. Specifically, the cidb Quarterly Monitor should be seen as a tool for interrogating existing intervention strategies.

2. Background and Assumptions

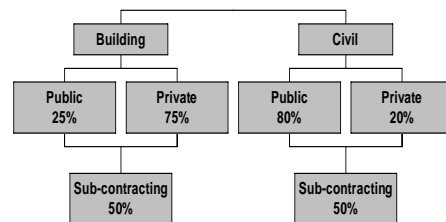
The background and assumptions used in developing and in interpreting the **cidb** Quarterly Monitor are highlighted below:

i) **Contracts Awarded:** Details of contracts awarded is obtained from the **cidb iTender Register of Projects supported** by the *Industry Insight Project Database*. The *Industry Insight Project Database* is considered to reflect around 60% of the total contracts awarded (and is constantly being improved). Because of the difficulties in obtaining reliable absolute data, the data on contracts awarded is no longer being scaled up to provide an estimate of total construction spend – and only information on the relative distribution of contracts awarded between contractor grades is presented. (The support of *Industry Insight* in providing this information is gratefully acknowledged.)

ii) **Public vs. Private Sector Demand:** The **cidb** Quarterly Monitor only presents information on public sector contracts for General Building (GB) and Civil Engineering (CE) **cidb** Class of Works. Most contractors would however target both public and private sector opportunities. Currently, public sector spend accounts for about 25% of total General Building activity and about 80% of Civil Engineering activity, although lower grade contractors, and in particular emerging contractors, would be more dependent of public sector contracts.

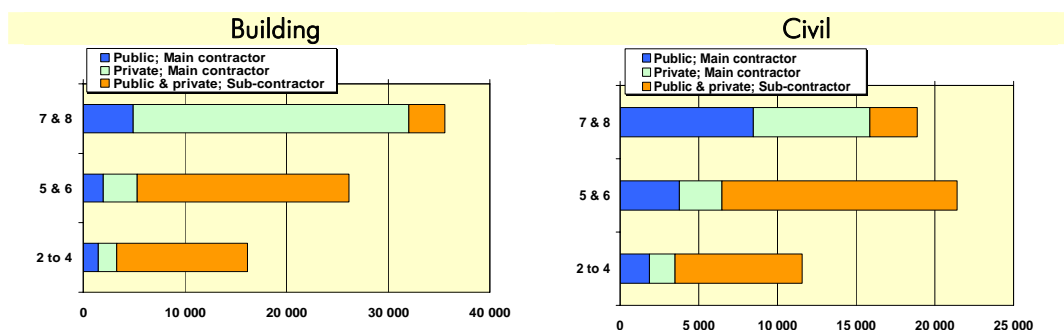
Class of Works	% Public Sector Spend
General Building (GB)	25%
Civil Engineering (CE)	80%

iii) **Sub-contracting:** Much of the work of contractors in Grades 2 to 6 is obtained through sub-contracting to higher level contractors, and not as main contractors. Typically, around 50% of work is sub-contracted to lower Grade or to speciality contractors.



The impact of sub-contracting is illustrated in the adjacent table and following figures, using an assumed distribution of work between the grades. Typically, direct public sector contracts to contractors in Grades 2 to 6 accounts for about 10% of total turnover in General Building and about 20% in Civil Engineering.

Class of Works	Public Sector Main Contracts as % of Total
General Building (GB)	10%
Civil Engineering (CE)	20%



iv) **Supply:** Contractor information is obtained from the cidb Register of Contractors, and considers only:

- contractors registered in Grades 2 to 8; and
- General Building (GB) and Civil Engineering (CE) Class of Works.

The data is then aggregated into the following categories:

- Grades 2 to 4; typically established and developing contractors that operate at a local level;
 - Grades 5 and 6; typically contractors in transition from operating at a local to a regional / provincial level; and
 - Grades 7 and 8; typically contractors that operate a regional / provincial level.
- | Grade | Characteristics |
|--------|-----------------------|
| 7 & 8 | provincial / regional |
| 5 & 6 | local / regional |
| 2 to 4 | local |

Grade 9 contractors are excluded from the analysis as these typically operate at a national / international level.

v) **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 SME Survey. The cidb SME Survey is undertaken by the Bureau for Economic Research (BER) for the cidb, and measures business conditions at a provincial level and in various contractor grades. The full results of the survey are available on the cidb web.

The 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.

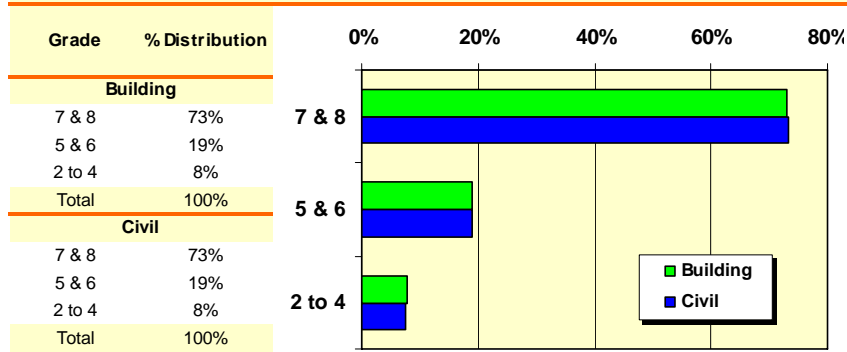
vi) **Contractor Development:** This cidb Quarterly Monitor includes information on new upgrades per contractor grade and new registrations during the preceding 12 months. The method of evaluating upgrades in the cidb Quarterly Monitor excludes non-compliant applications, but includes new entrants.

3. South Africa

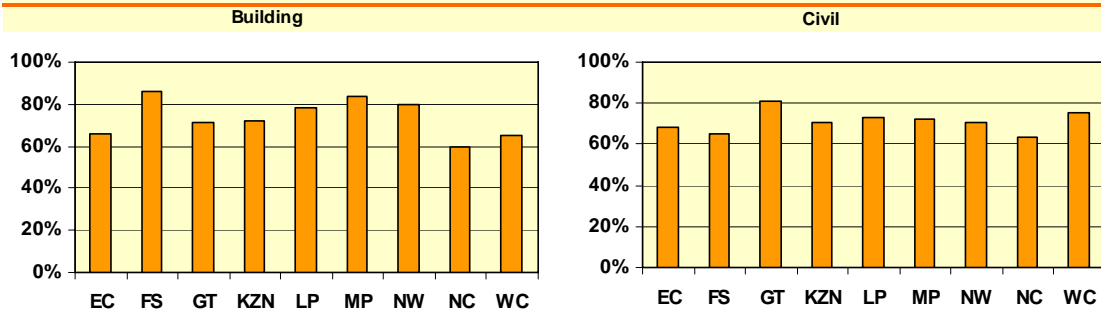
Demand: The distribution of public sector contracts awarded in South Africa in Grades 2 to 8 is shown in the adjacent figure. The distribution in the public sector contracts awarded between the grades clearly reflects the infrastructure requirements of South Africa, but it is noticeable that from the available data for the four quarters under review that:

- in General Building and in Civil Engineering, the value of contracts awarded to Grades 7 and 8 contractors in the various provinces is around 70% of the total value of contracts (in Grades 2 to 8) – and is reasonably consistent across all provinces;
- in General Building and in Civil Engineering, the value of contracts awarded to Grades 2 to 4 contractors is around 5% to 10% of the total value of contracts (in Grades 2 to 8); and
- the distribution of contracts is skewed slightly towards the Grade 2 to 6 contractors in General Building in the Eastern Cape, Northern Cape and Western Cape.

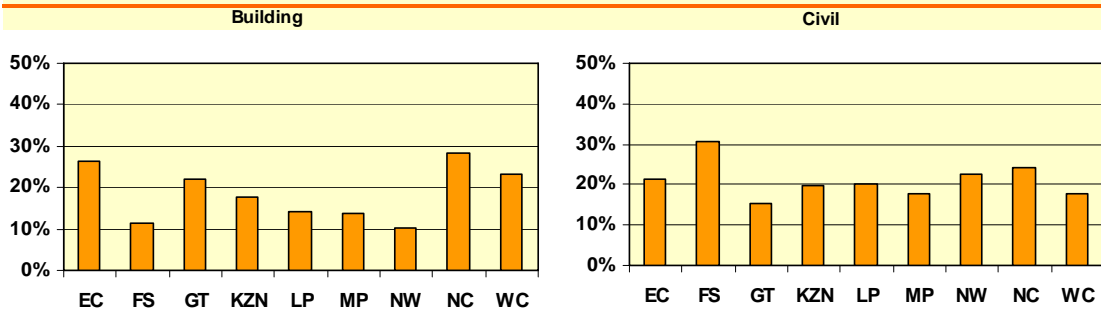
Demand; Public Sector Awards (% Distribution by Value)



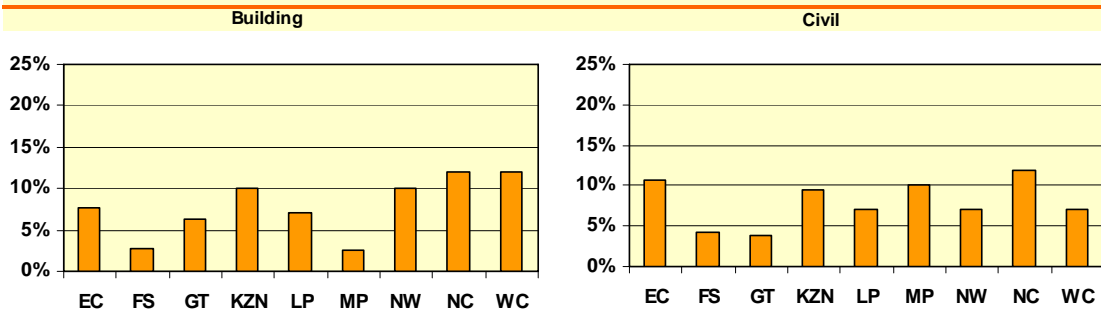
Grades 7 & 8



Grades 5 & 6



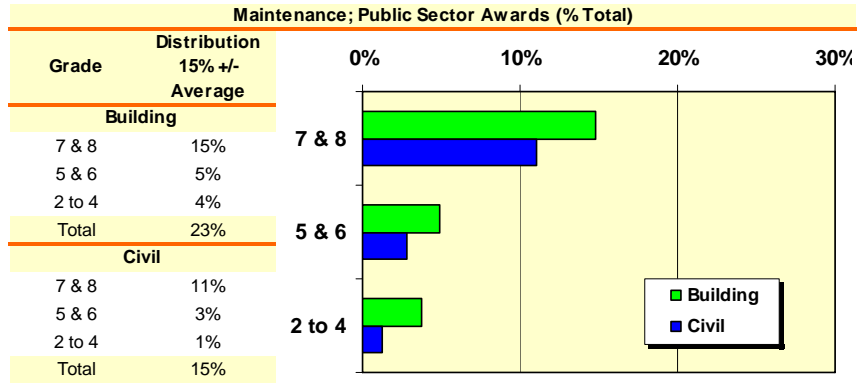
Grades 2 to 4



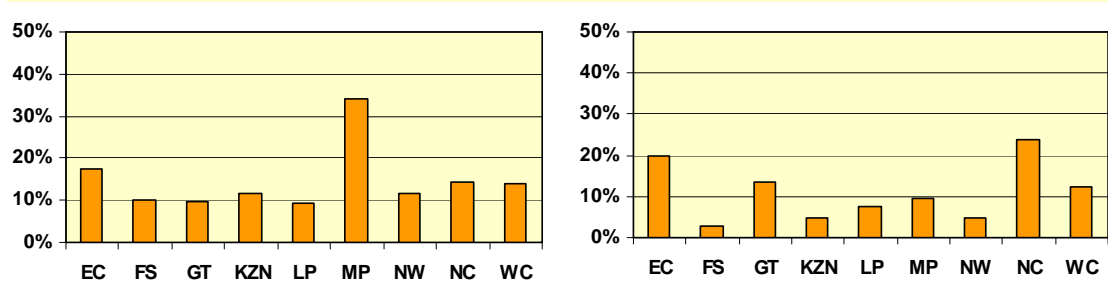
Maintenance: The value and distribution of public sector maintenance contracts (including refurbishment, renovations, etc.) awarded in South Africa in Grades 2 to 8 is shown in the figure. Overall, about 25% of public sector contracts in General Building and around 15% of contracts in Civil Engineering are for maintenance.

However, the breakdown of maintenance contracts across the provinces is very variable, with:

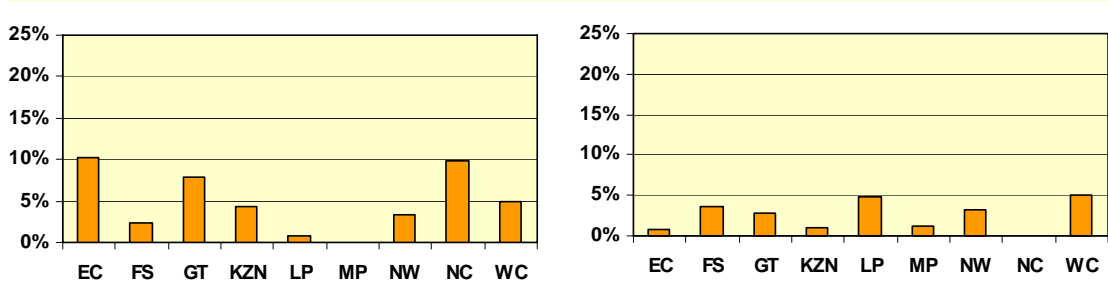
- the Free State, KwaZulu-Natal and Limpopo allocating much lower proportions to maintenance in General Building;
- the Free State, KwaZulu-Natal and North West allocating much lower proportions to maintenance in Civil Engineering; and
- the North West, Northern Cape and Western Cape allocating higher proportions to Grade 2 to 4 contractors for maintenance in General Building.



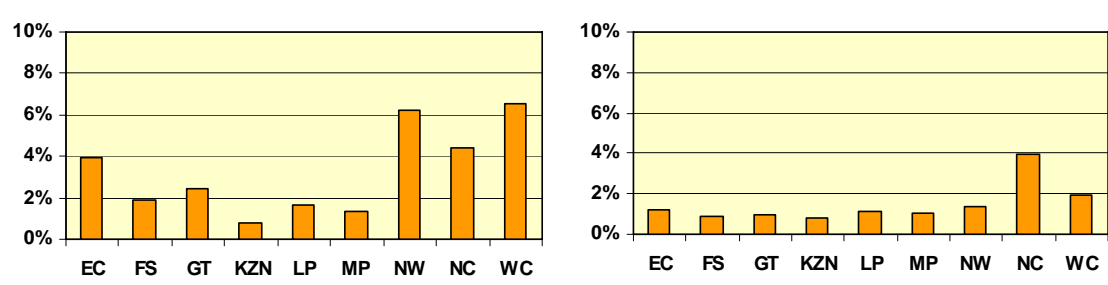
Grades 7 & 8



Grades 5 & 6



Grades 2 to 4



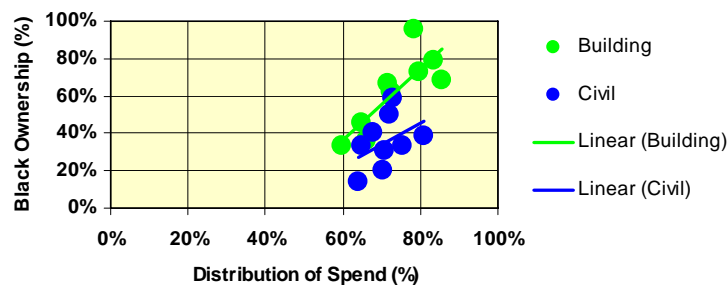
Supply; Black Ownership: Around 80% of cidb registered Grade 2 to 4 Building and Civil Engineering contractors are black owned (defined as more than 50% ownership control). Furthermore, around 70% of all Grade 5 and 6 General Building and Civil Engineering contractors are black owned, while around 60% of all Grade 7 and 8 General Building contractors are black owned. Black ownership of Civil Engineering contractors in grades 7 and 8 is however much lower – around 37% on average.

Furthermore, it can be seen that there is quite large variations in black ownership between provinces in Grades 5 and 6 and Grades 7 and 8.

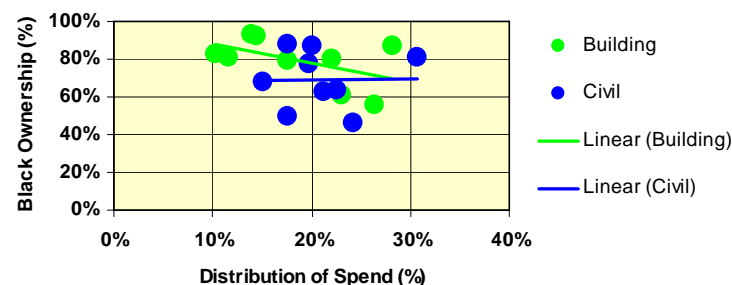
Of interest, as shown below, there appears to be:

- a very strong correlation between the distribution of the spend and black ownership in Grades 7 and 8 (i.e. the higher the proportion of spend the higher the black ownership); but
- there appears to be no correlation between proportion of spend and black ownership in Grades 5 and 6 (and in Grades 2 to 4) – which is possibly due to the fact that black ownership in Grades 2 to 6 is relatively high and other competitive factors dominate.

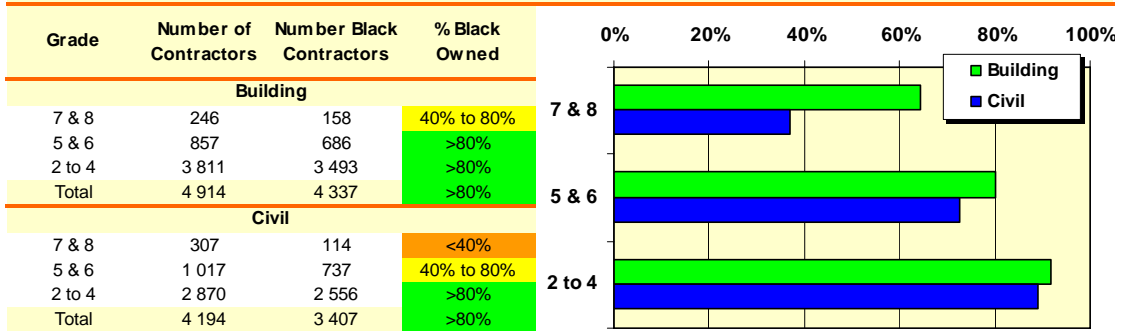
Grades 7 & 8



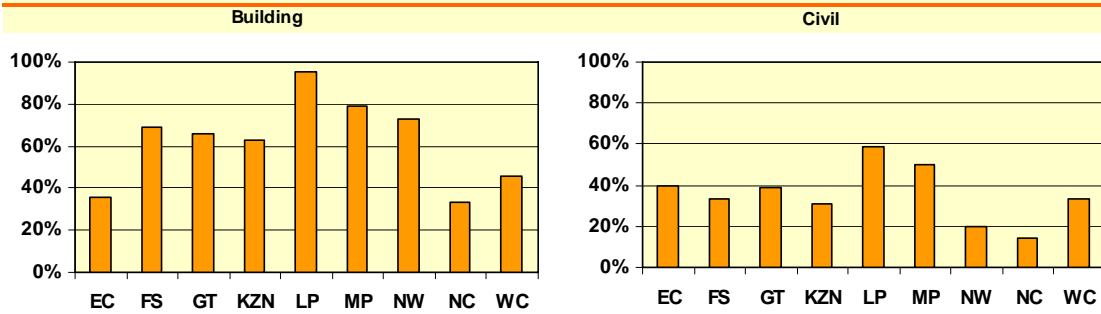
Grades 5 & 6



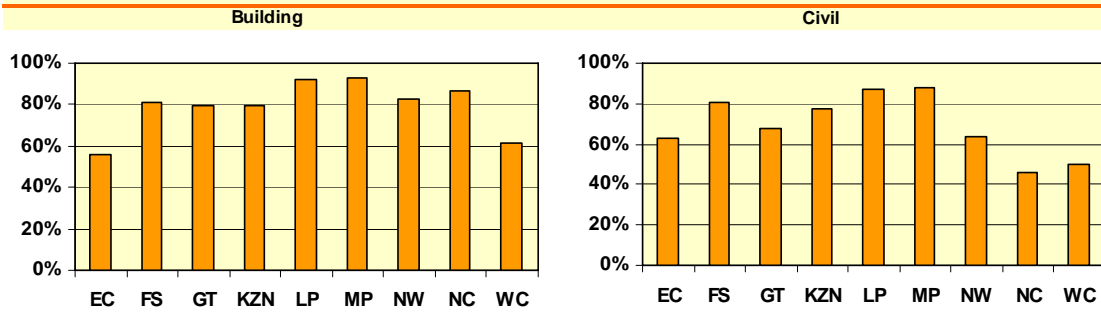
Supply; Black Ownership



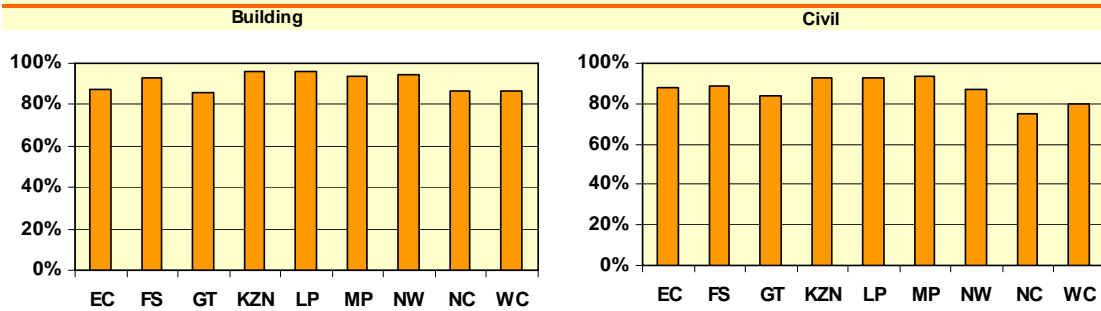
Grades 7 & 8



Grades 5 & 6



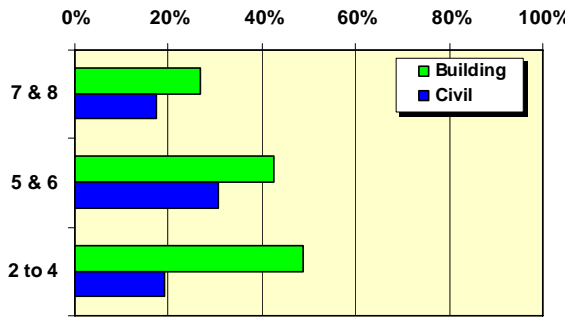
Grades 2 to 4



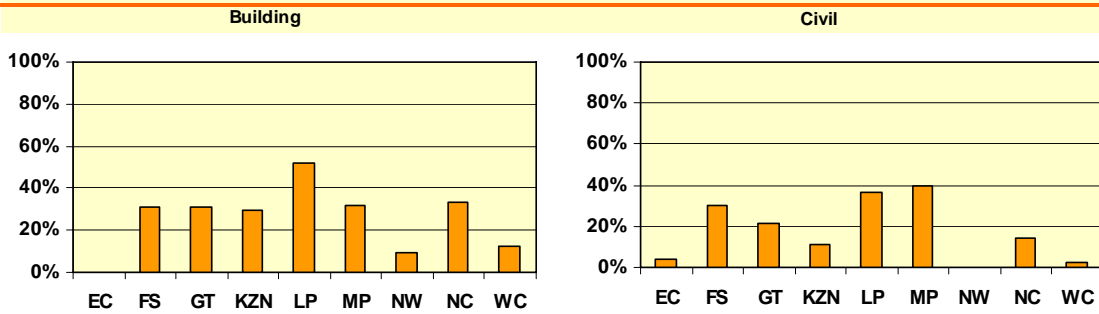
Supply; Women Ownership: On average, around 40% of all Grade 2 to 4 contractors are women owned – with the highest ownership in Limpopo (which probably reflects tender preferencing in this province), followed by Mpumalanga. However, women ownership varies significantly from province to province, and across the Grades. From Grades 5 and 6 and above, women ownership is typically less than 30% in the civil sector, when in the building sector it is around 30% to 50%.

Supply; Women Ownership

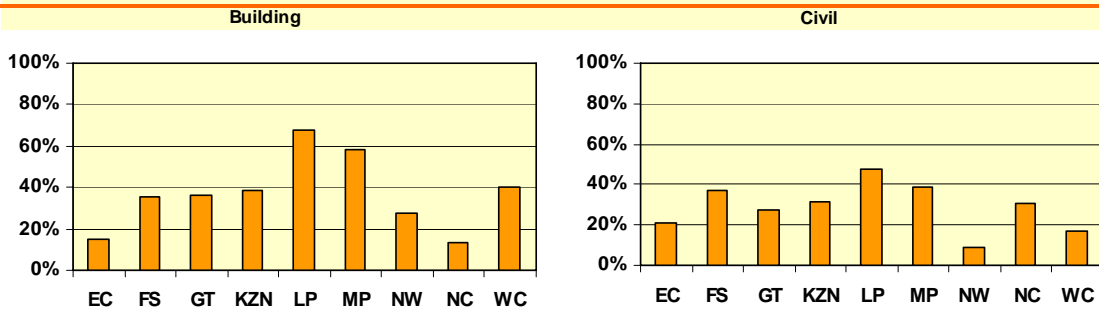
Grade	Number of Contractors	Number of Women Contractors	% Women Owned
Building			
7 & 8	246	66	<30%
5 & 6	857	363	30% to 50%
2 to 4	3 811	1 853	30% to 50%
Total	4 914	2 282	30% to 50%
Civil			
7 & 8	307	53	<30%
5 & 6	1 017	312	30% to 50%
2 to 4	2 870	548	<30%
Total	4 194	913	<30%



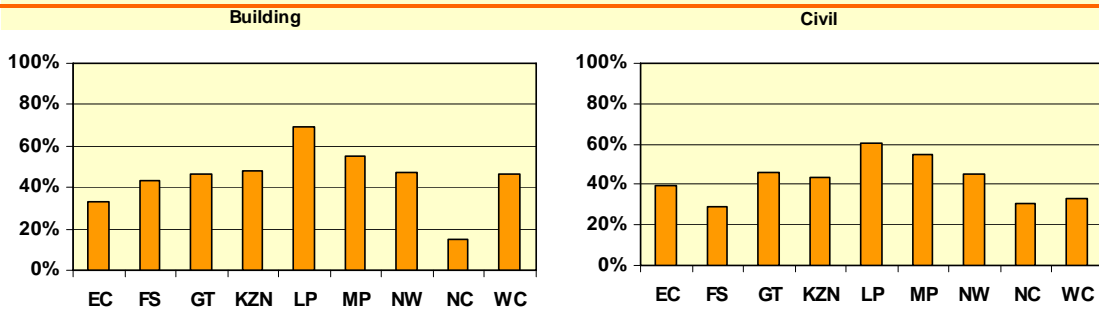
Grades 7 & 8



Grades 5 & 6



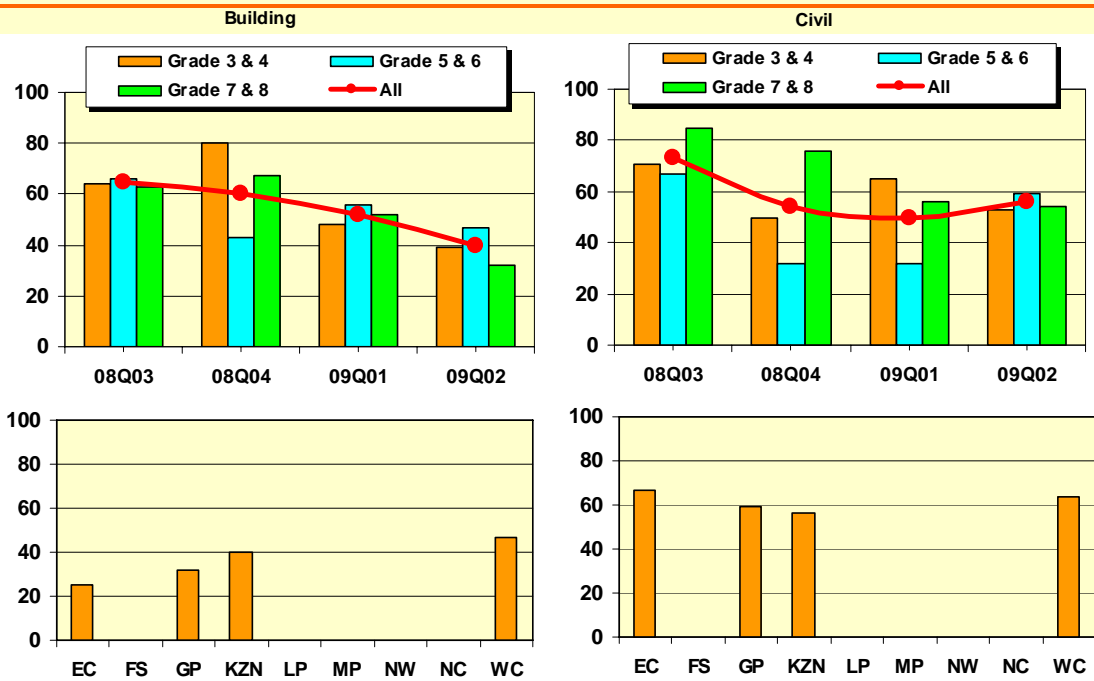
Grades 2 to 4



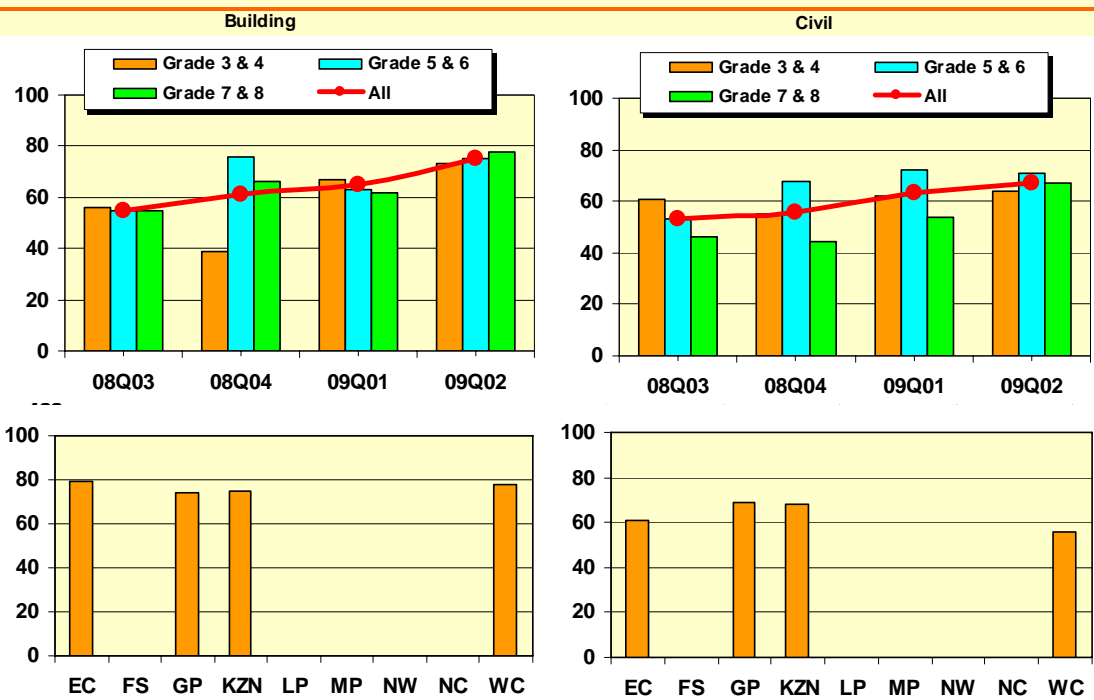
Business Conditions: The cidb/BER SME Business Confidence Index and Index of Insufficient Demand for Work is given in the adjacent figures. The Business Confidence Index represents the percentage of respondents rating the business conditions as satisfactory, while the index for demand for work is obtained by formula $(0,67 * \text{seriously} + 0,33 * \text{slightly})$ scaled up to 100 to give a % index.

It can be seen that, overall, business confidence in the General Building sector has continued to drop over the last quarter – suggesting increasing competitiveness between contractors. Insufficient demand for work has increased in both the general Building and Civil Engineering sectors over the past quarter.

Business Confidence



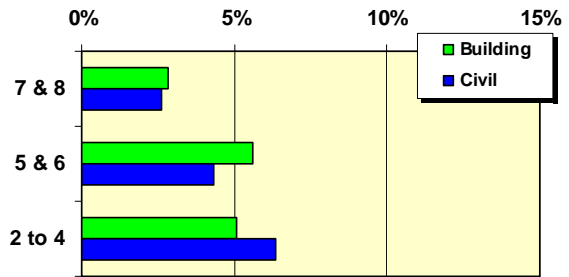
Insufficient Demand for Work



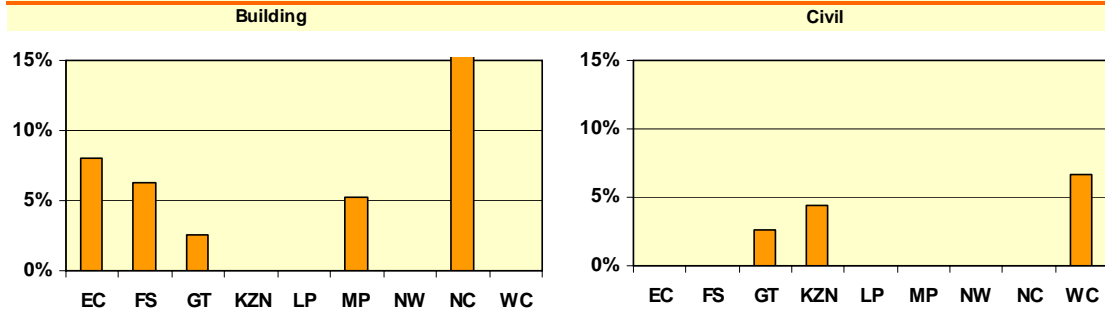
Contractor Development: Details of the upgrading of contractors in the building and civil sectors within the past four quarters is shown in the table. On average, around 6% of Grade 2 to 4 contractors are upgrading per year, around 6% within Grades 5 and 6, and around 3% in Grades 7 and 8.

Contractor Upgrades %

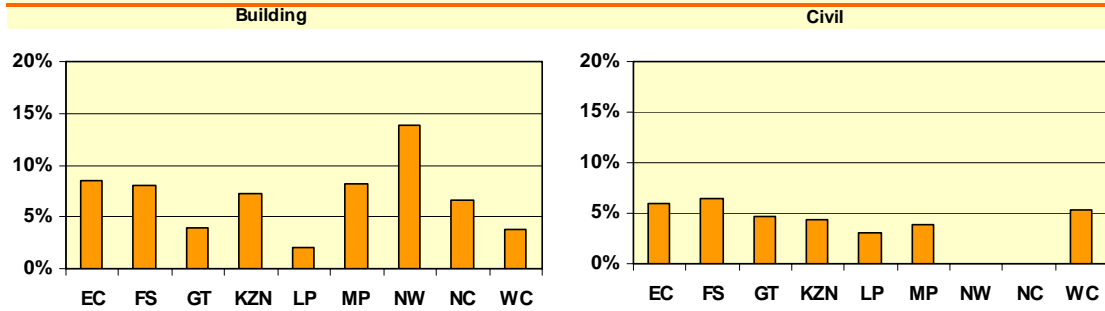
Grade (from)	Number of Upgrades	%	
Building			
7 & 8	7	3%	<5%
5 & 6	48	6%	5% to 10%
2 to 4	193	5%	5% to 10%
Total	248		
Civil			
7 & 8	8	3%	<5%
5 & 6	44	4%	<5%
2 to 4	183	6%	5% to 10%
Total	235		



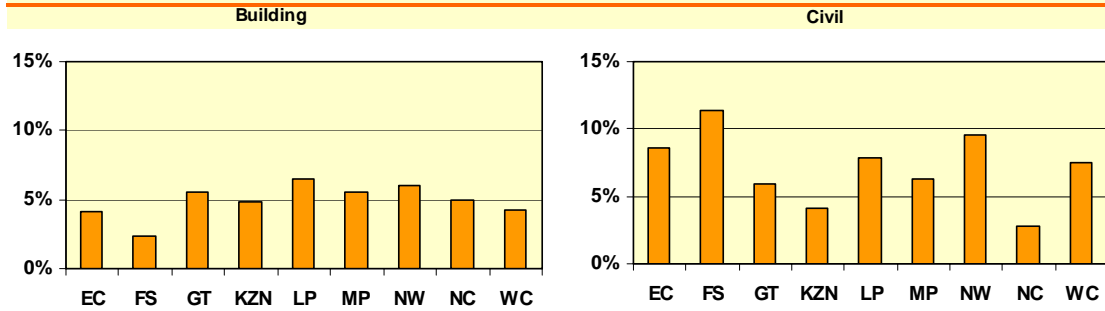
Grades 7 & 8



Grades 5 & 6



Grades 2 to 4

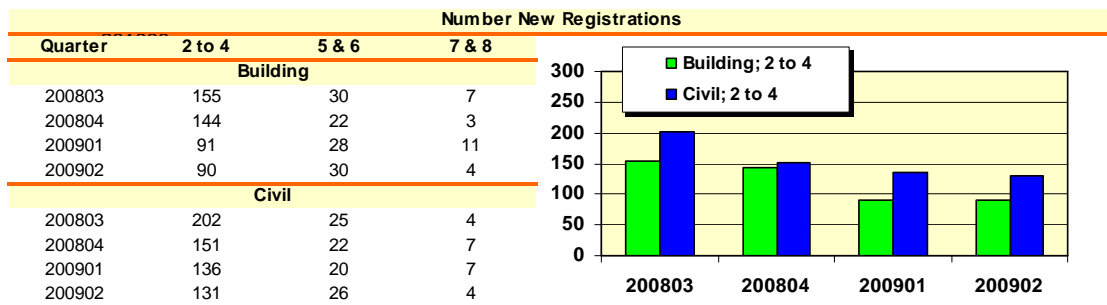


Contractor Development (continued): A comparison between the number of upgrades and the number of new registrations over the past four quarters is given in the adjacent figure. Of interest is that the number of new entrants within Grades 2 to 4 over the past year far exceeds the number of upgrades. It can be seen however that the number of new entrants per quarter in Grades 2 to 4 is decreasing – presumably due to the decrease in business confidence.

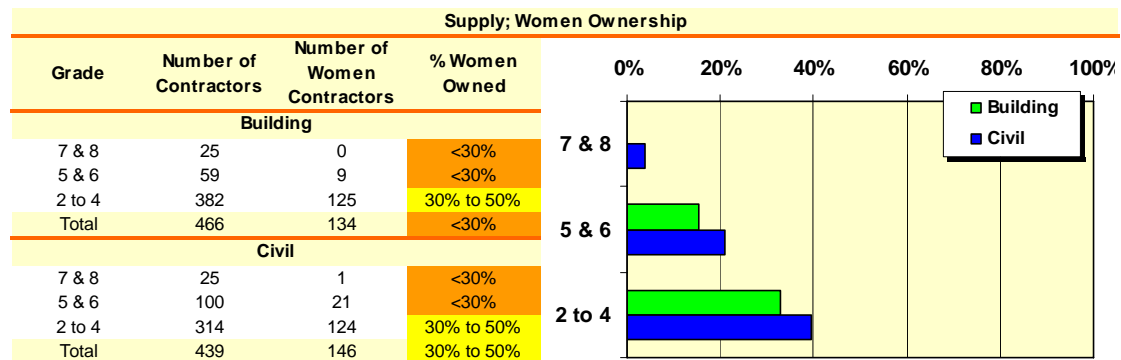
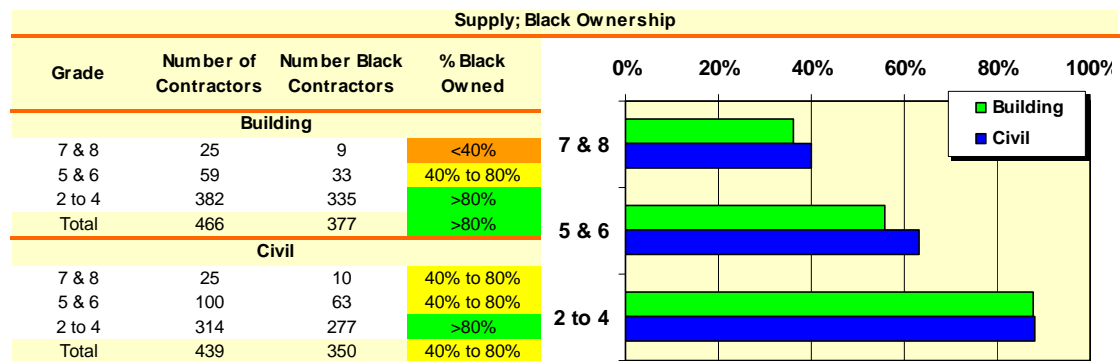
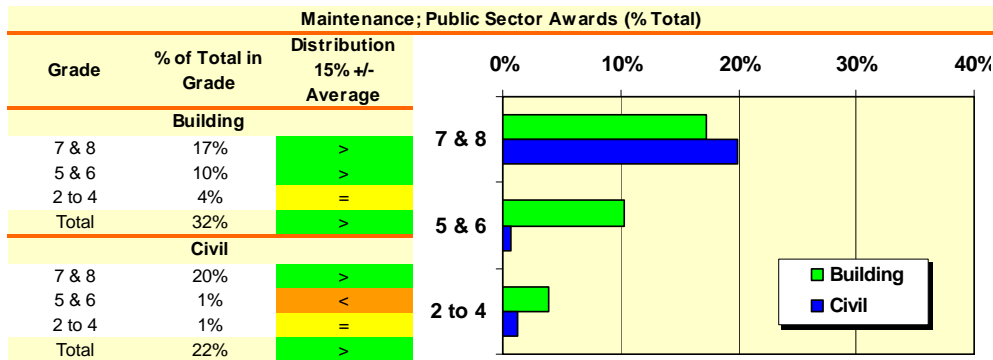
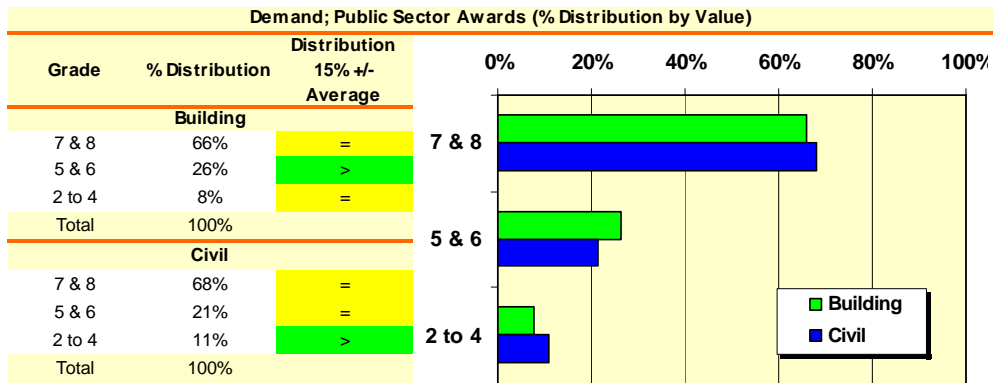
In comparison with a year ago, the number of upgrades per year in General Building and in Civil Engineering in Grades 2 to 4 remains relatively constant (around 130 and 100 per year respectively), while there has been a moderate increase in the number of upgrades in Grades 5 and 6 and in Grades 7 and 8 in both classes of works – suggesting an ongoing upward mobility of contractors.

Contractor Upgrades				
From/To	2 to 4	5 & 6	7 & 8	9
Building				
7 & 8			6	1
5 & 6		21	27	0
2 to 4	123	68	2	0
Civil				
7 & 8			6	2
5 & 6		32	12	0
2 to 4	93	89	1	0

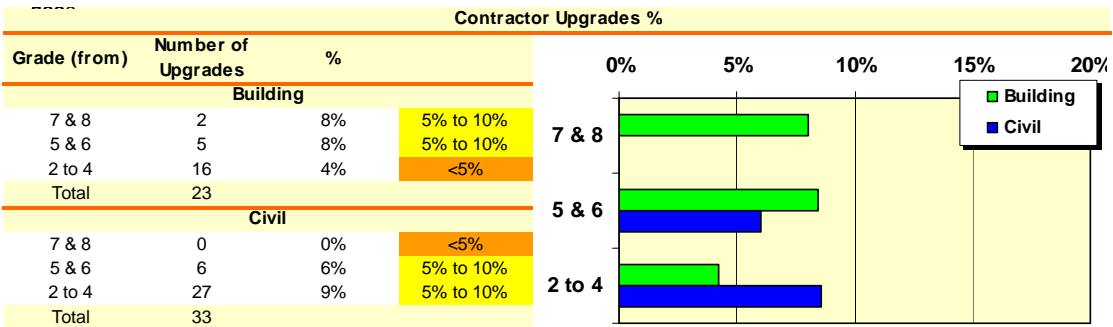
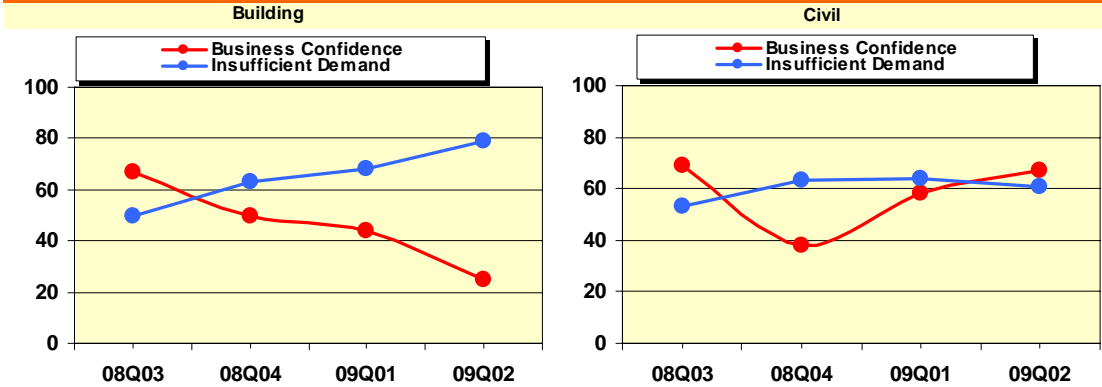
Upgrades & New Registrations			
	2 to 4	5 & 6	7 & 8
Building			
Upgrades (to)	123	89	35
New Reg.	480	110	25
Civil			
Upgrades (to)	93	121	19
New Reg.	620	93	22



4. Eastern Cape



Insufficient Demand for Work per Grade / Business Confidence Index (BCI)

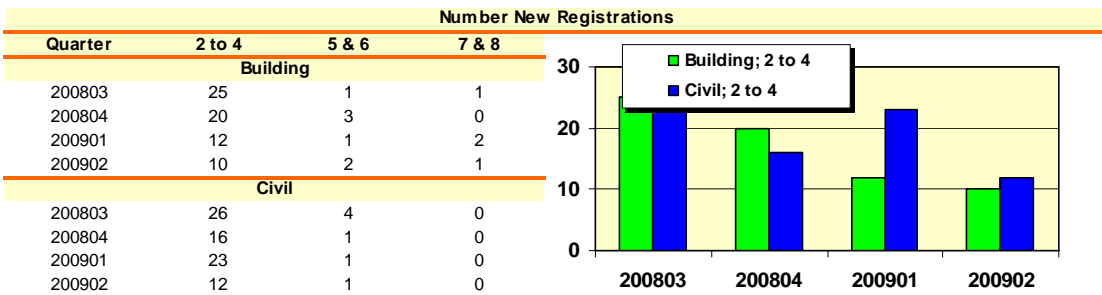


Contractor Upgrades

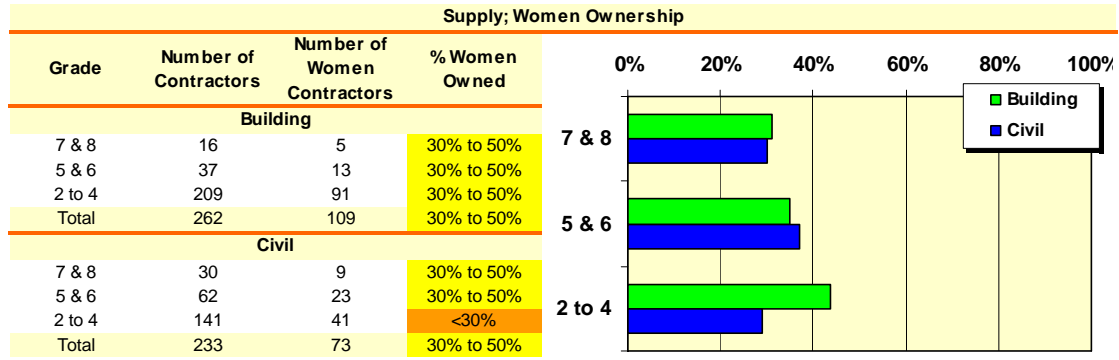
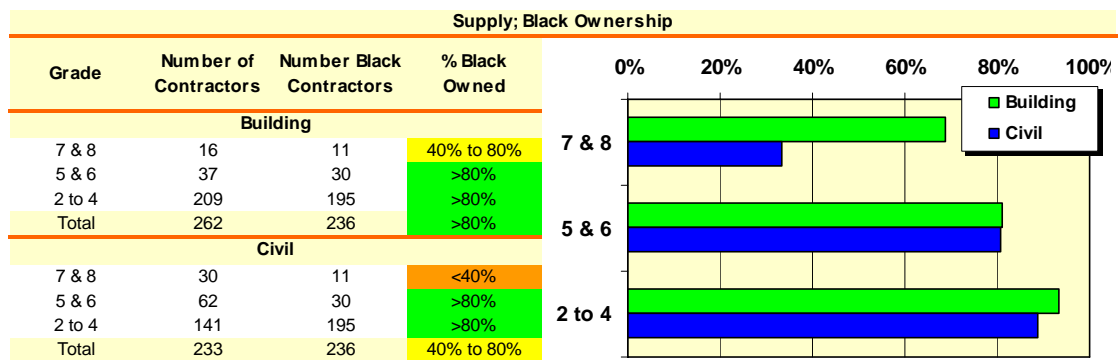
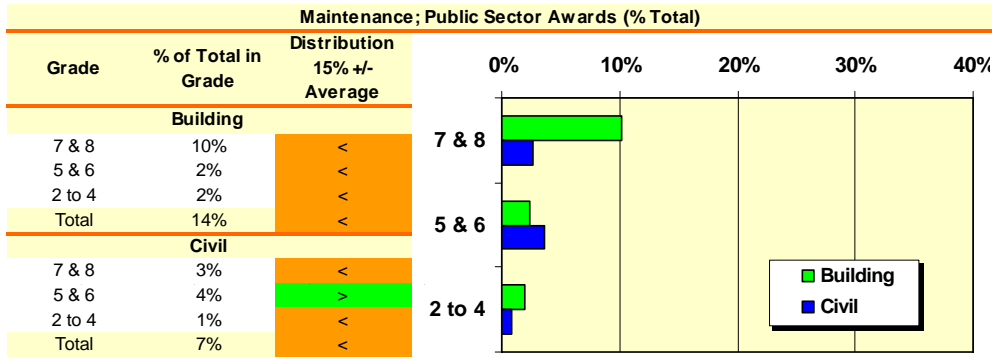
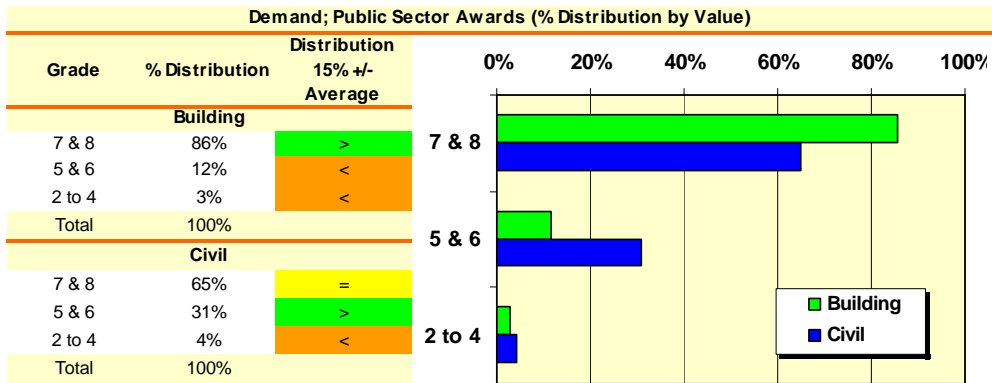
From/To	2 to 4	5 & 6	7 & 8	9
Building				
7 & 8			2	0
5 & 6		1	4	0
2 to 4	7	8	1	0
Civil				
7 & 8			0	0
5 & 6		5	1	0
2 to 4	17	10	0	0

Upgrades & New Registrations

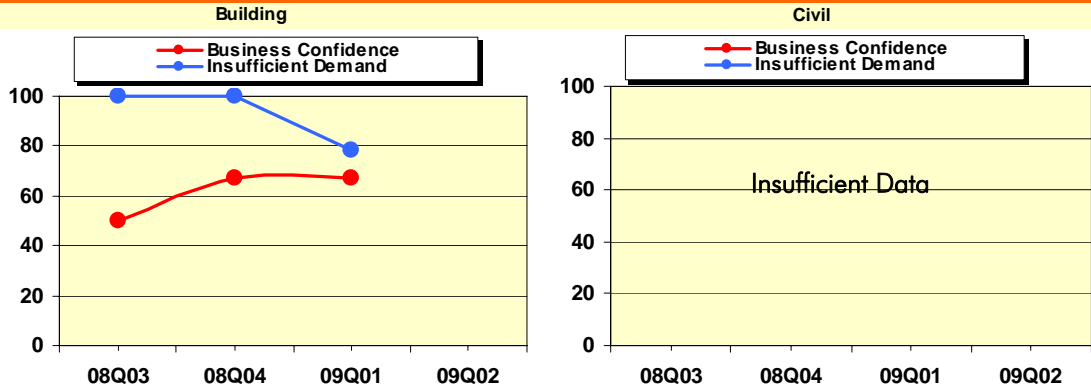
	2 to 4	5 & 6	7 & 8
Building			
Upgrades (to)	7	9	7
New Reg.	67	7	4
Civil			
Upgrades (to)	17	15	1
New Reg.	77	7	0



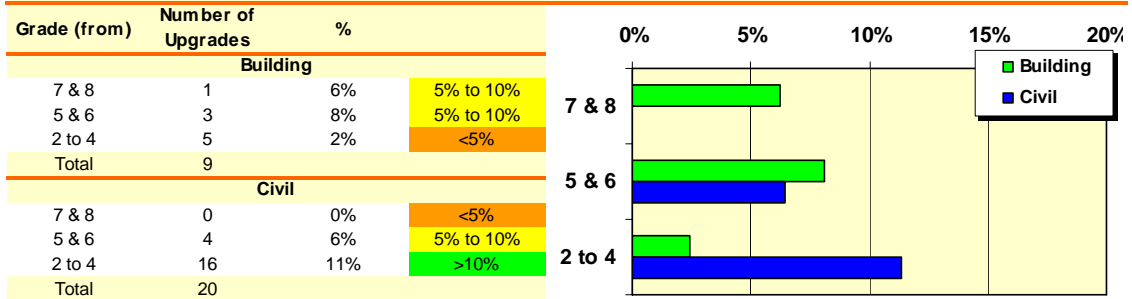
5. Free State



Insufficient Demand for Work per Grade / Business Confidence Index (BCI)



Contractor Upgrades %



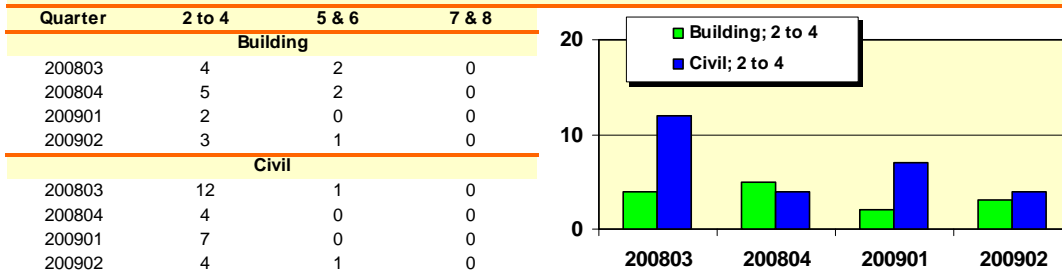
Contractor Upgrades

From/To	2 to 4	5 & 6	7 & 8	9
Building				
7 & 8			2	0
5 & 6		4	5	0
2 to 4	29	14	0	0
Civil				
7 & 8			2	1
5 & 6		6	7	0
2 to 4	15	17	1	0

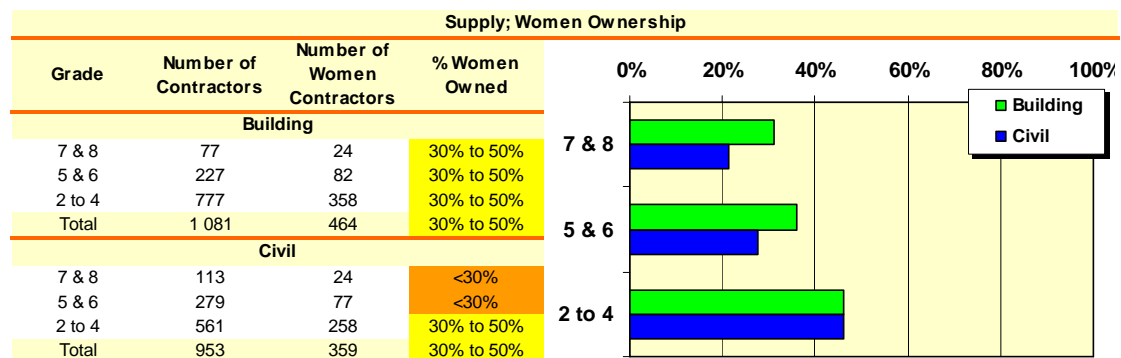
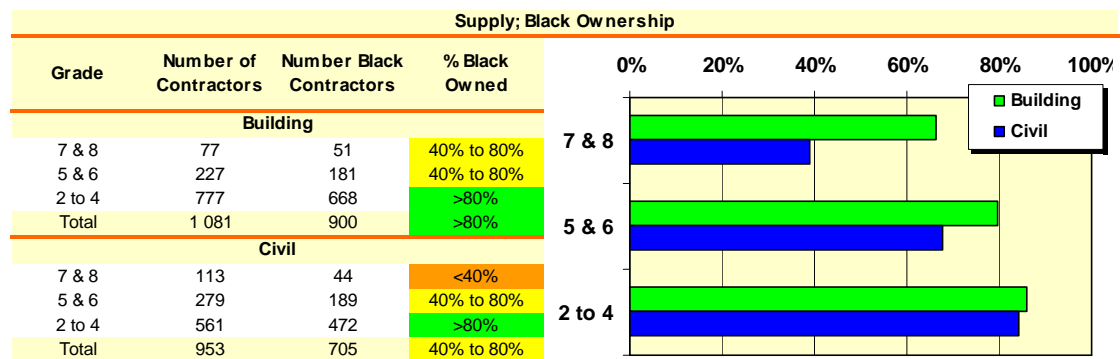
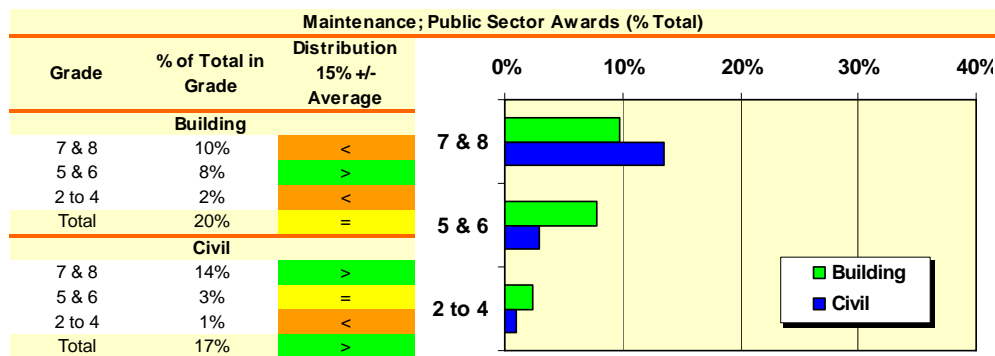
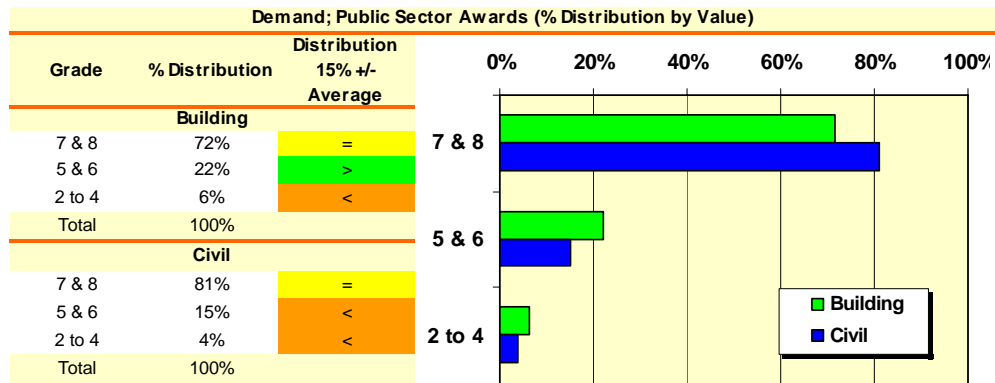
Upgrades & New Registrations

	2 to 4	5 & 6	7 & 8
Building			
Upgrades (to)	29	18	7
New Reg.	14	5	0
Civil			
Upgrades (to)	15	23	10
New Reg.	27	2	0

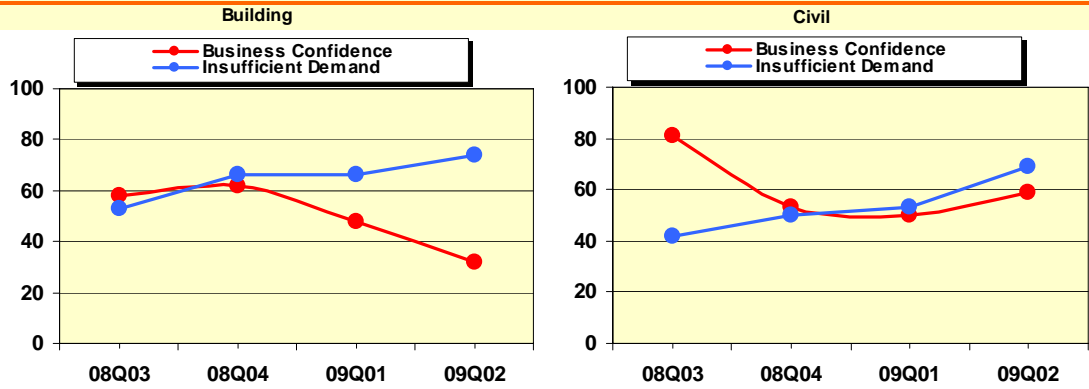
Number New Registrations



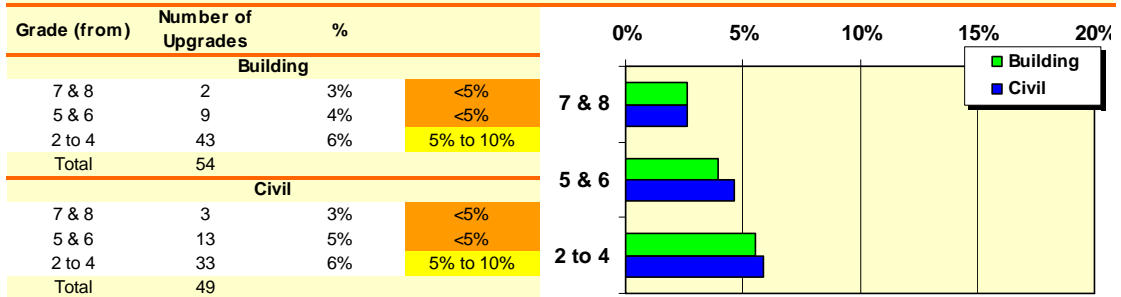
6. Gauteng



Insufficient Demand for Work per Grade / Business Confidence Index (BCI)



Contractor Upgrades %



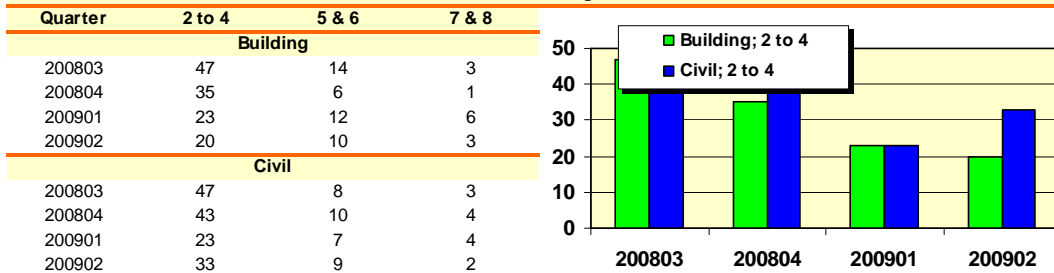
Contractor Upgrades

From/To	2 to 4	5 & 6	7 & 8	9
Building				
7 & 8			2	0
5 & 6		4	5	0
2 to 4	29	14	0	0
Civil				
7 & 8			2	1
5 & 6		6	7	0
2 to 4	15	17	1	0

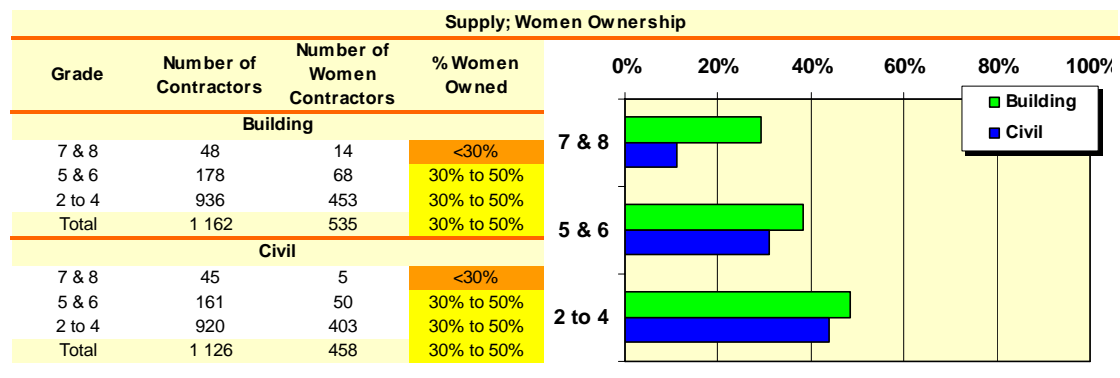
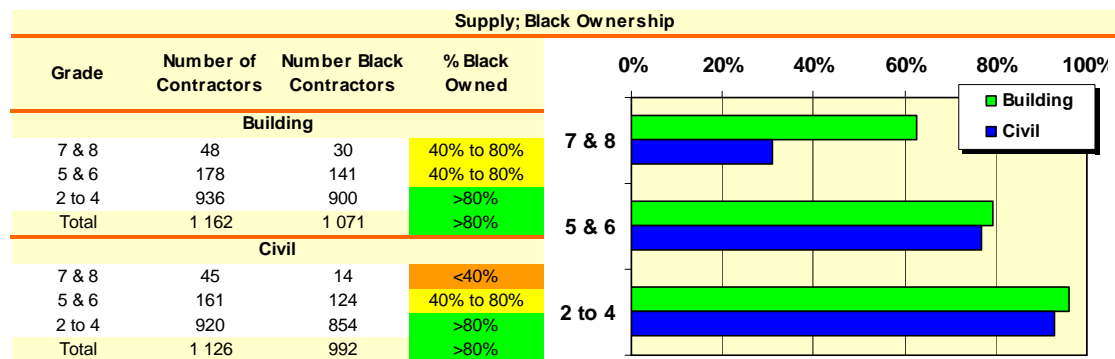
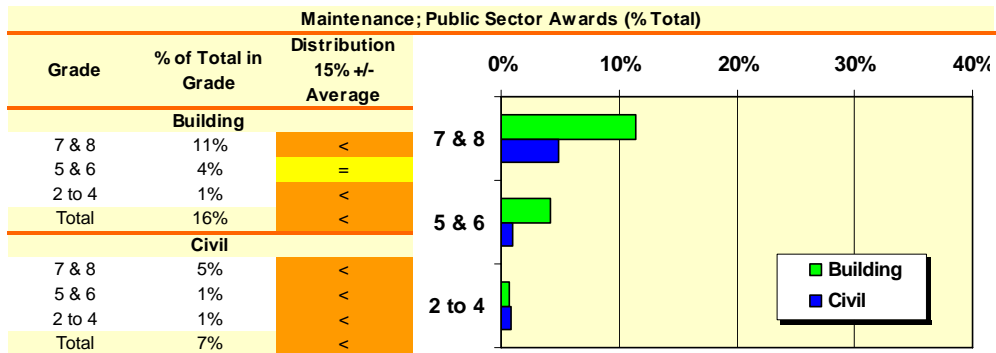
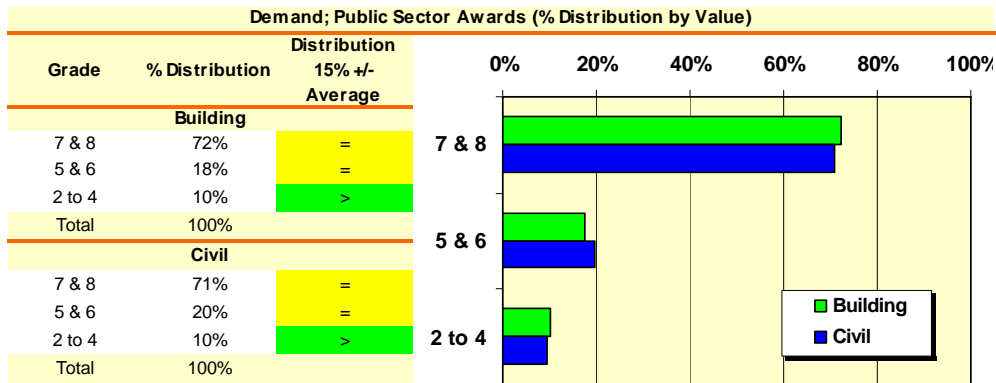
Upgrades & New Registrations

	2 to 4	5 & 6	7 & 8
Building			
Upgrades (to)	29	18	7
New Reg.	125	42	13
Civil			
Upgrades (to)	15	23	10
New Reg.	146	34	13

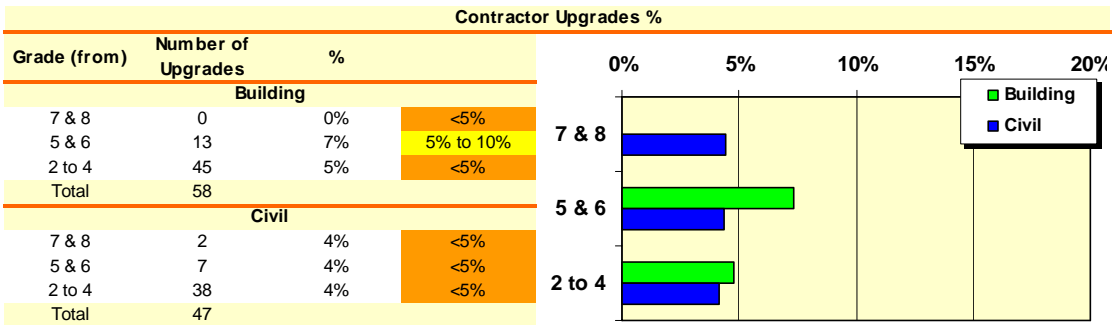
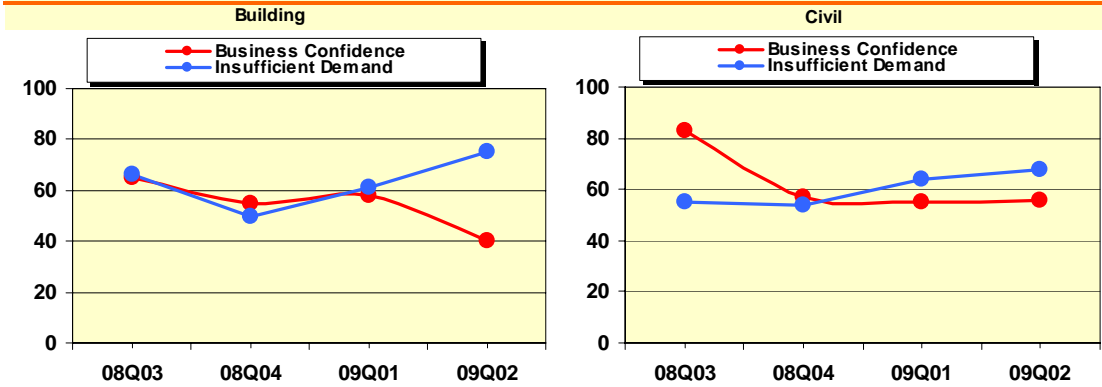
Number New Registrations



7. KwaZulu Natal



Insufficient Demand for Work per Grade / Business Confidence Index (BCI)

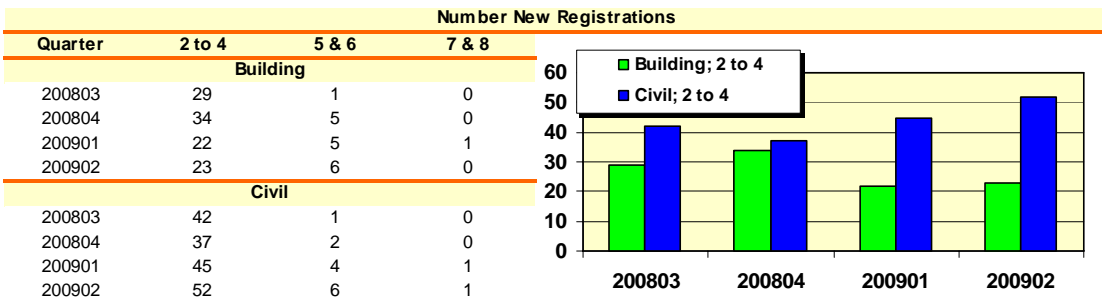


Contractor Upgrades

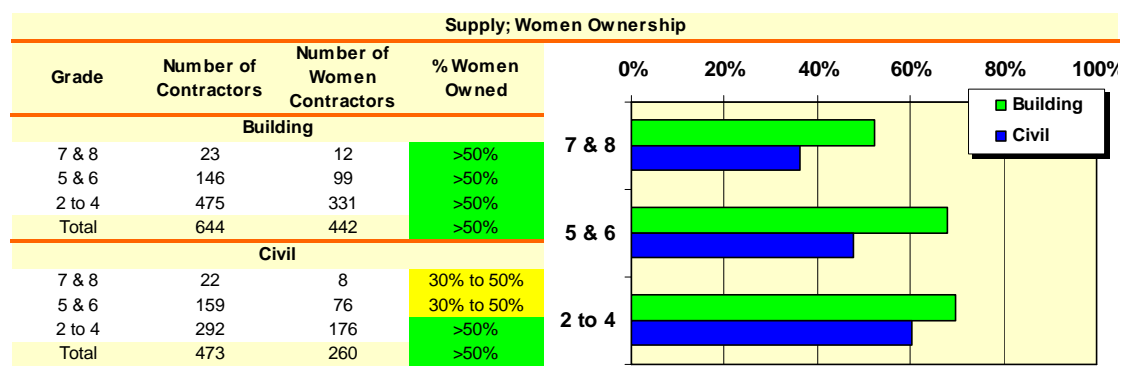
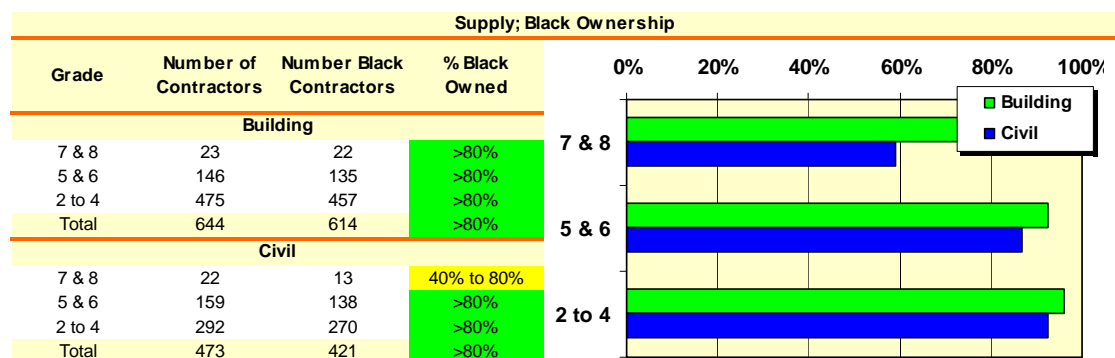
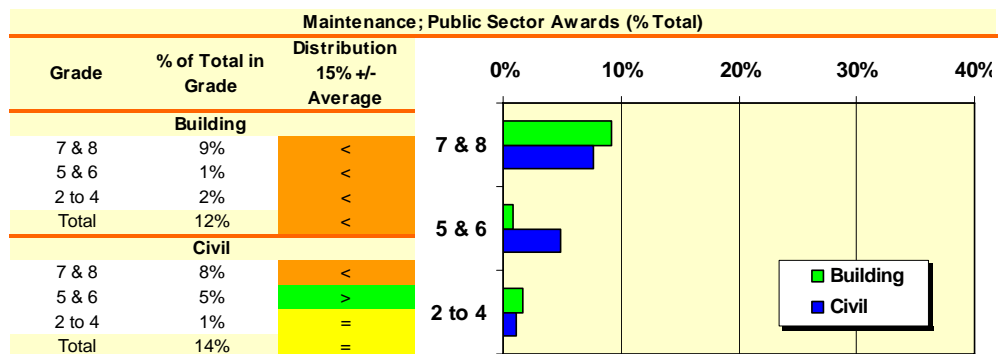
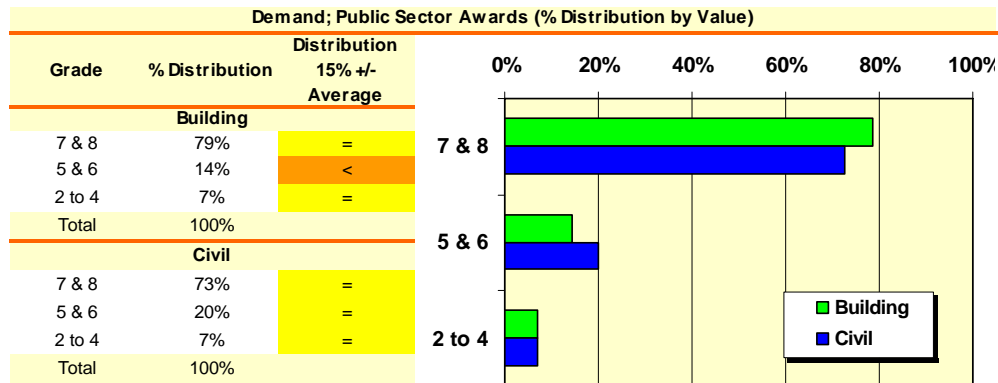
From/To	2 to 4	5 & 6	7 & 8	9
Building				
7 & 8			0	0
5 & 6		6	7	0
2 to 4	29	15	1	0
Civil				
7 & 8			2	0
5 & 6		7	0	0
2 to 4	27	11	0	0

Upgrades & New Registrations

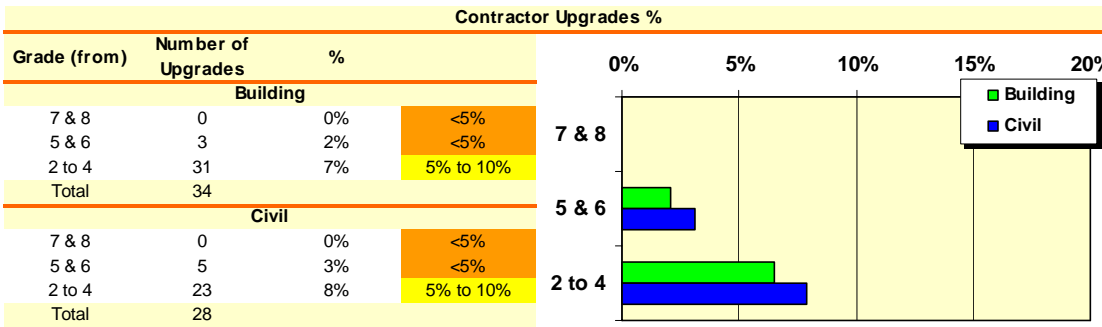
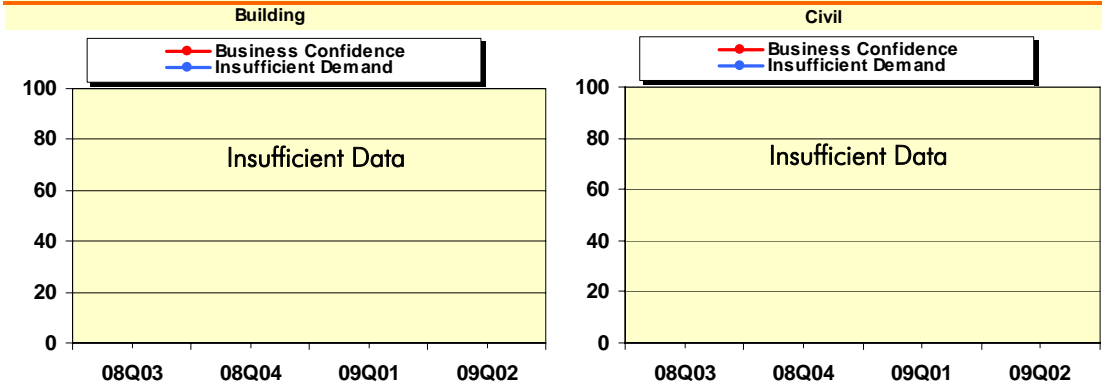
	2 to 4	5 & 6	7 & 8
Building			
Upgrades (to)	29	21	8
New Reg.	108	17	1
Civil			
Upgrades (to)	27	18	2
New Reg.	176	13	2



8. Limpopo



Insufficient Demand for Work per Grade / Business Confidence Index (BCI)

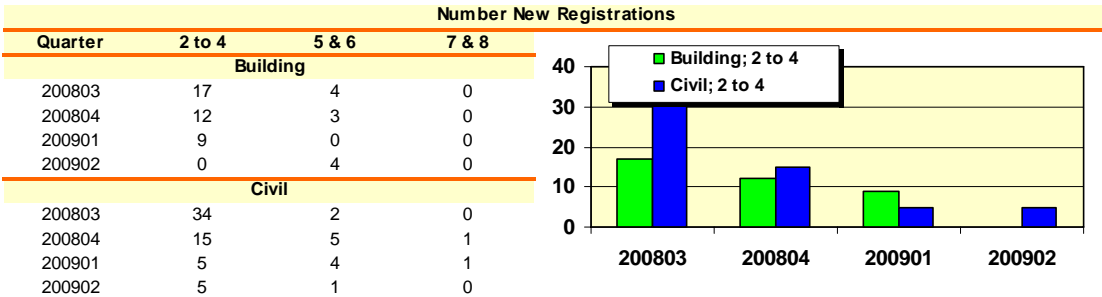


Contractor Upgrades

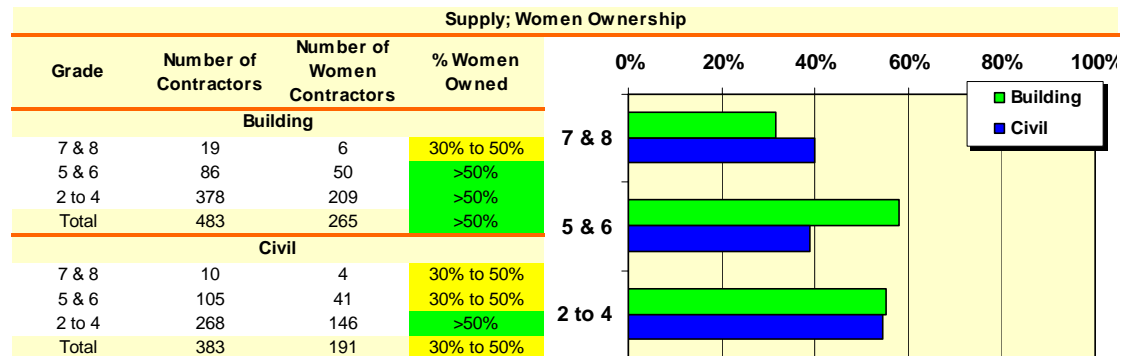
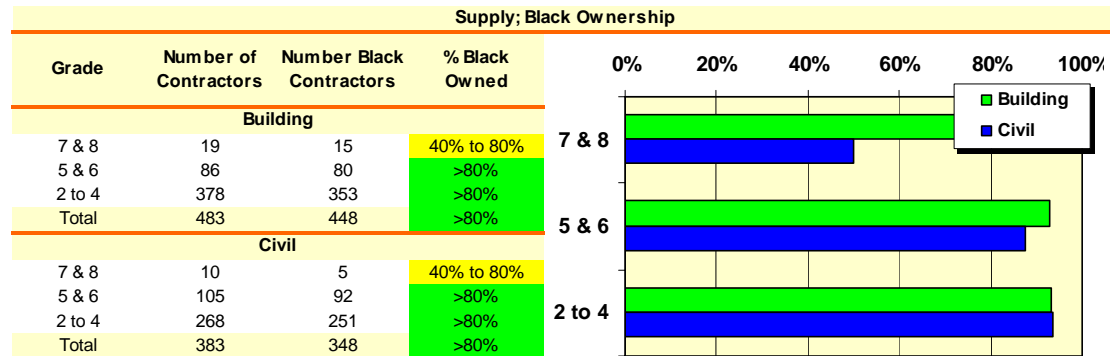
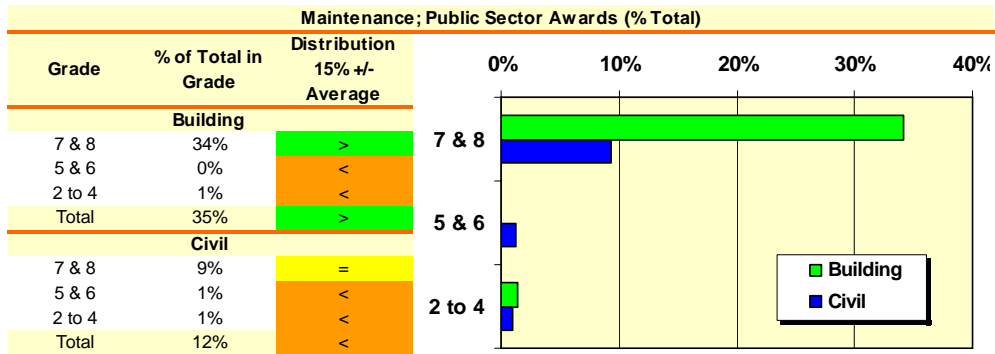
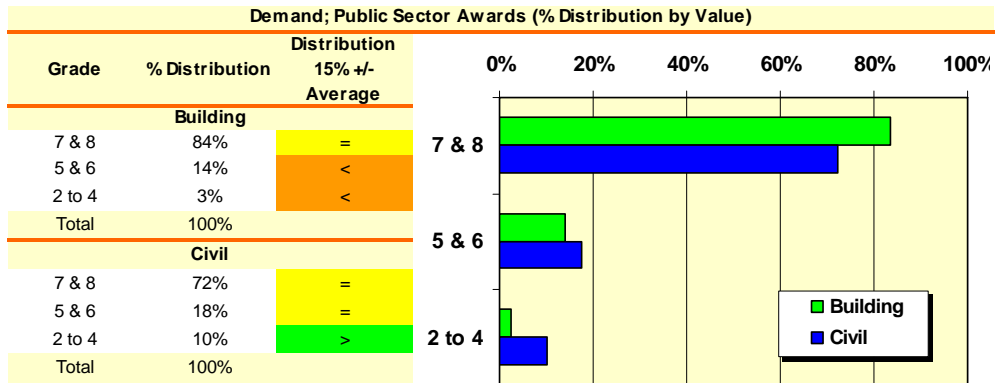
From/To	2 to 4	5 & 6	7 & 8	9
Building				
7 & 8			0	0
5 & 6		1	2	0
2 to 4	21	10	0	0
Civil				
7 & 8			0	0
5 & 6		3	2	0
2 to 4	10	13	0	0

Upgrades & New Registrations

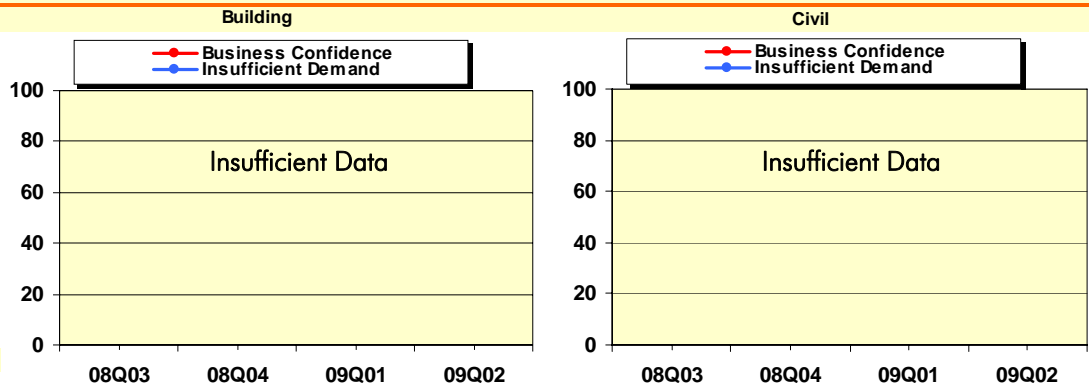
	2 to 4	5 & 6	7 & 8
Building			
Upgrades (to)	21	11	2
New Reg.	38	11	0
Civil			
Upgrades (to)	10	16	2
New Reg.	59	12	2



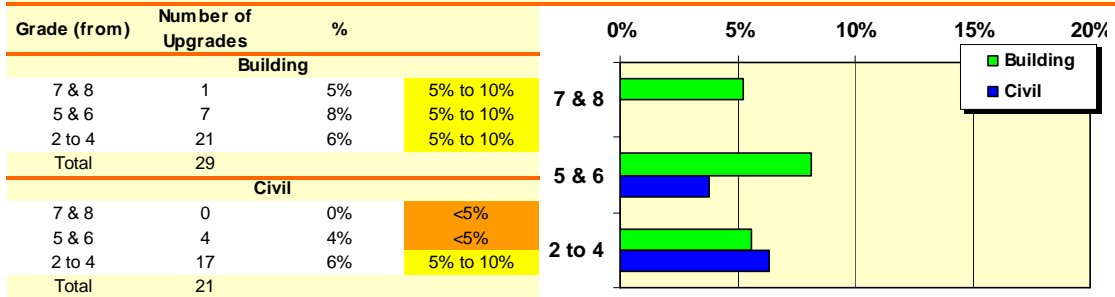
9. Mpumalanga



Insufficient Demand for Work per Grade / Business Confidence Index (BCI)



Contractor Upgrades %



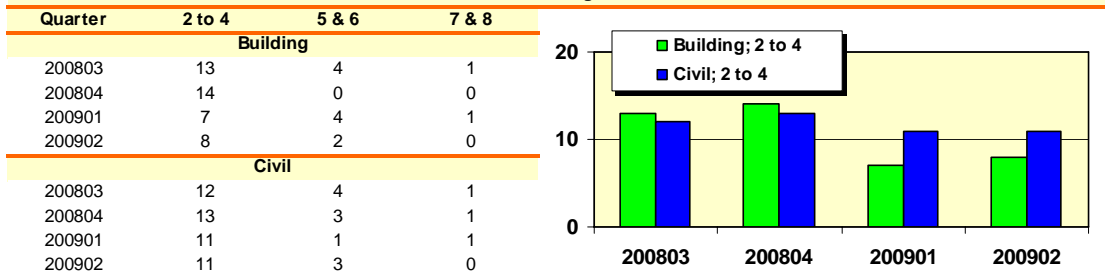
Contractor Upgrades

From/To	2 to 4	5 & 6	7 & 8	9
Building				
7 & 8			1	0
5 & 6		4	3	0
2 to 4	8	13	0	0
Civil				
7 & 8			0	0
5 & 6		4	0	0
2 to 4	6	11	0	0

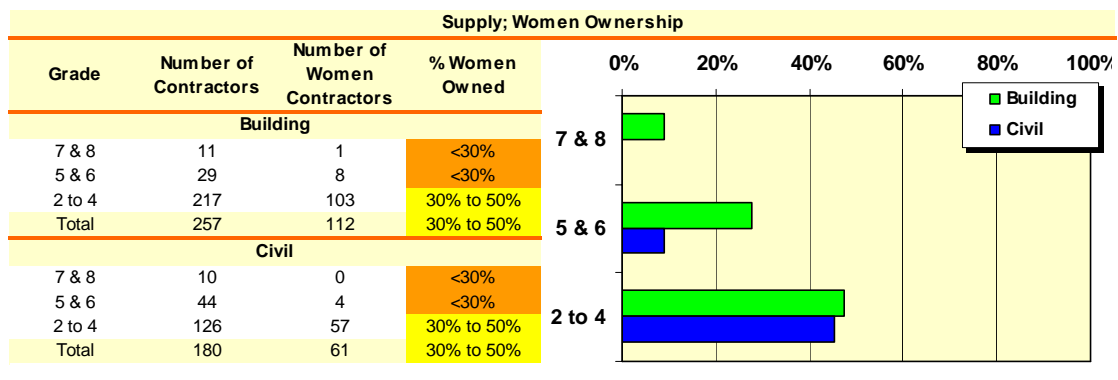
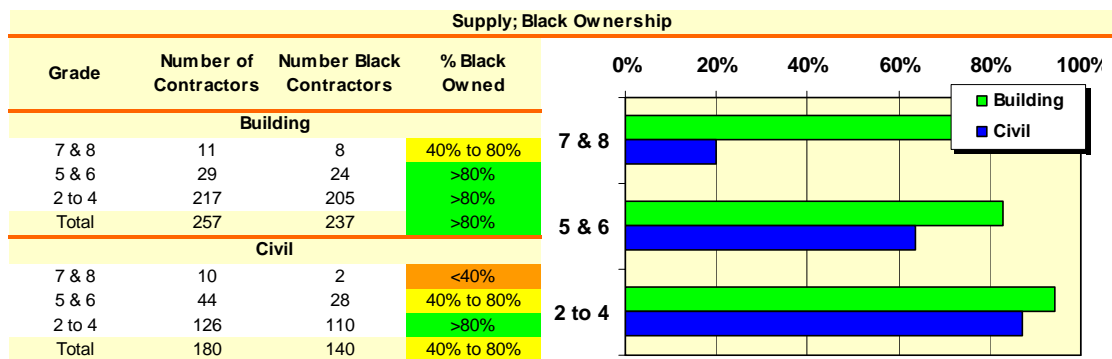
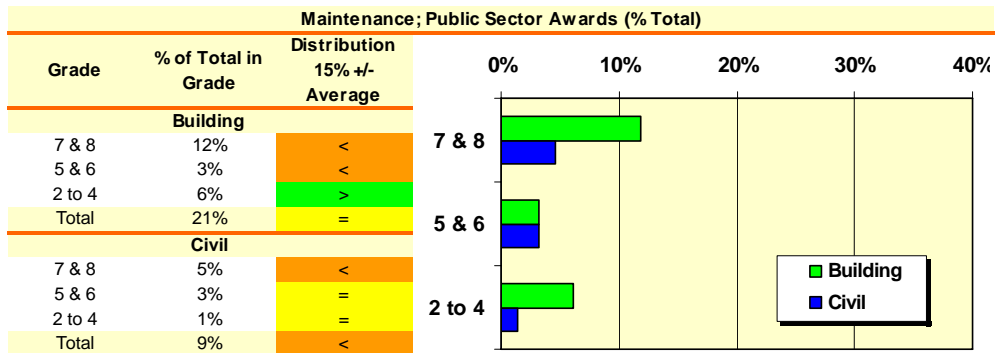
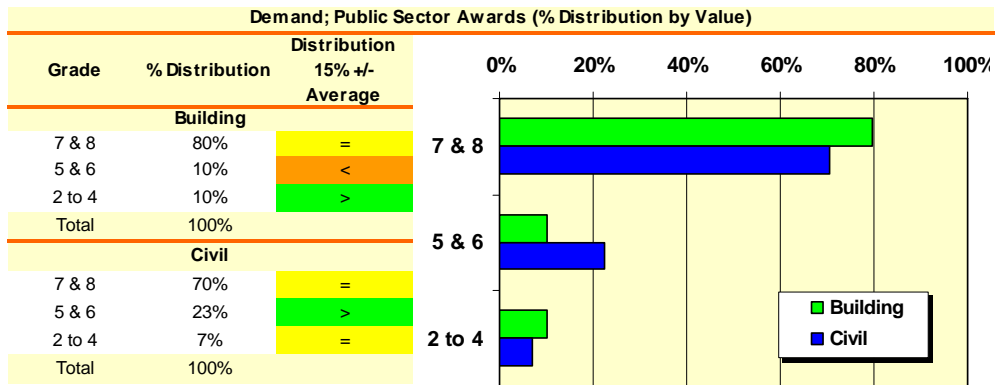
Upgrades & New Registrations

	2 to 4	5 & 6	7 & 8
Building			
Upgrades (to)	8	17	4
New Reg.	42	10	2
Civil			
Upgrades (to)	6	15	0
New Reg.	47	11	3

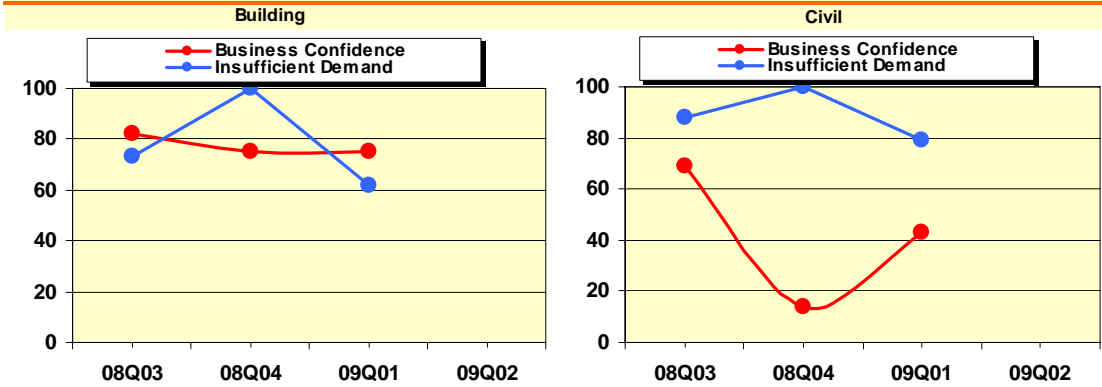
Number New Registrations



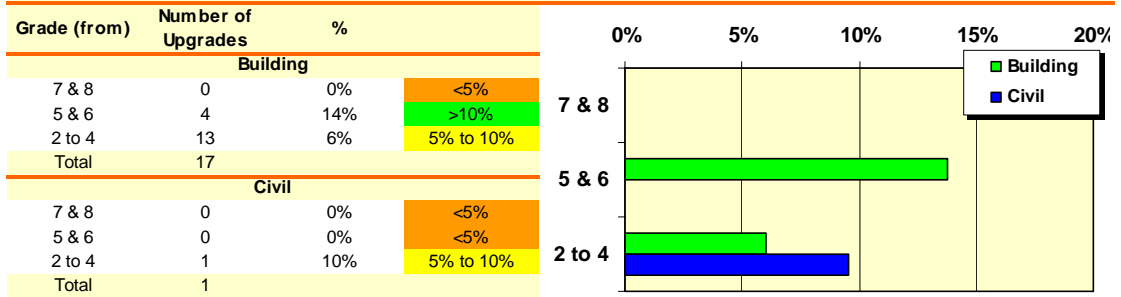
10. North West



Insufficient Demand for Work per Grade / Business Confidence Index (BCI)



Contractor Upgrades %



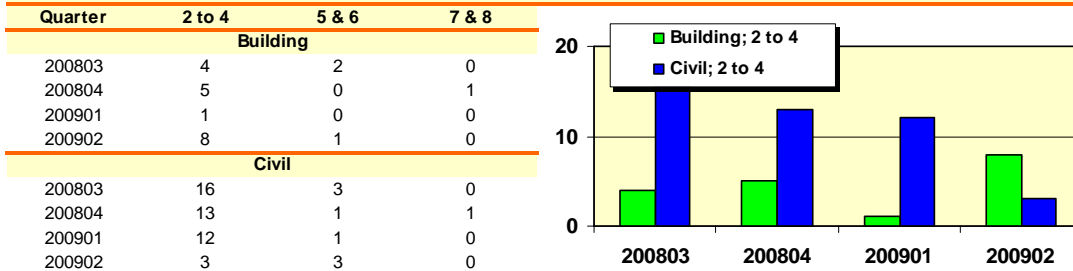
Contractor Upgrades

From/To	2 to 4	5 & 6	7 & 8	9
Building				
7 & 8			0	0
5 & 6		3	1	0
2 to 4	10	3	0	0
Civil				
7 & 8			0	0
5 & 6		0	0	0
2 to 4	0	1	0	0

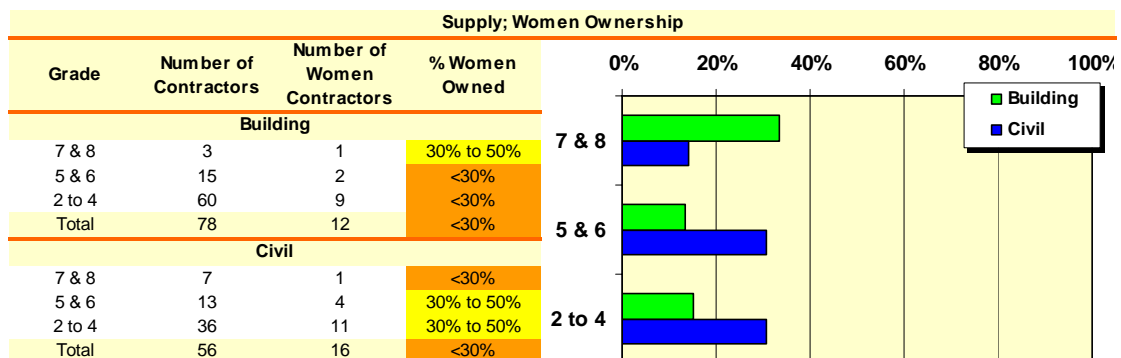
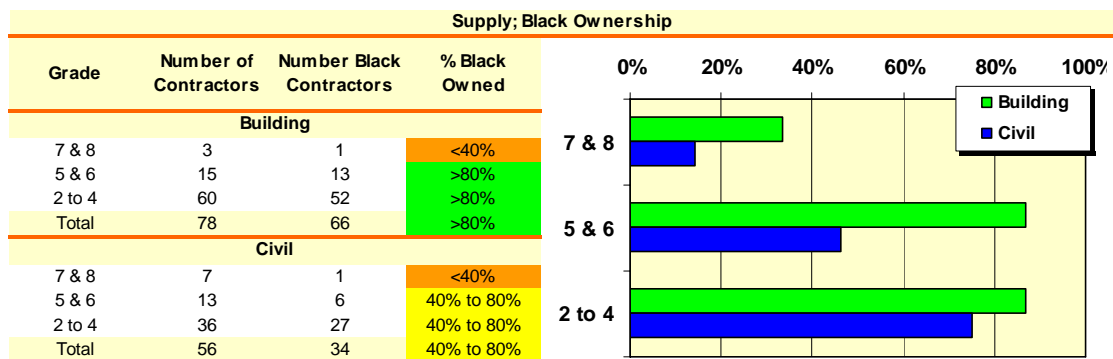
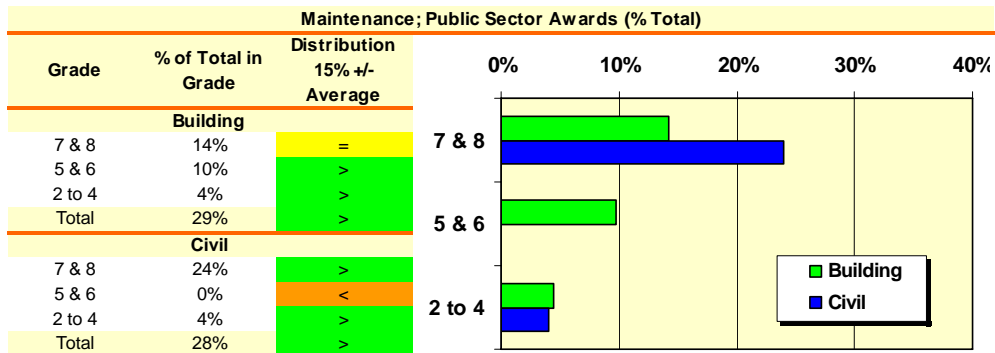
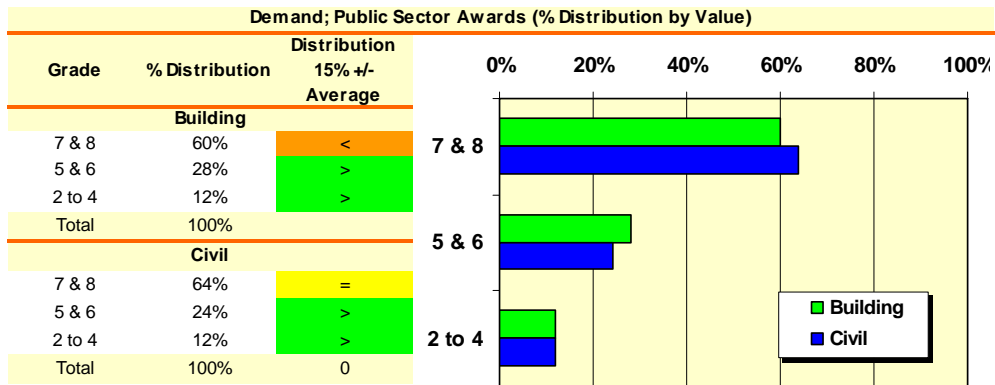
Upgrades & New Registrations

	2 to 4	5 & 6	7 & 8
Building			
Upgrades (to)	10	6	1
New Reg.	18	3	1
Civil			
Upgrades (to)	0	1	0
New Reg.	44	8	1

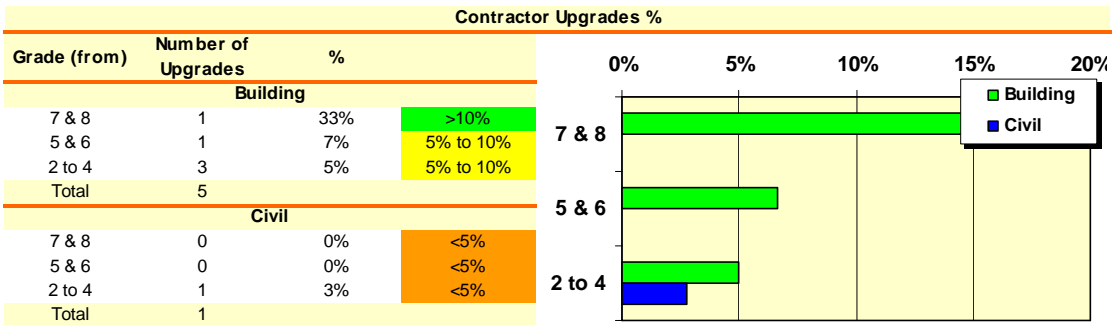
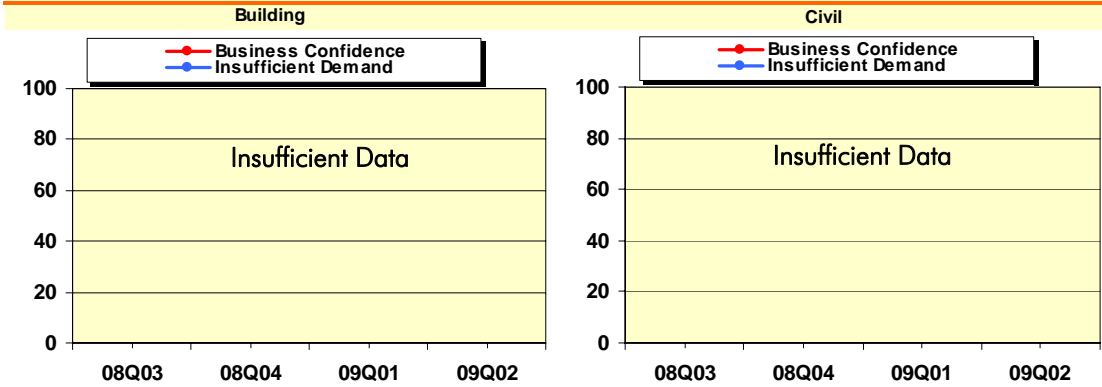
Number New Registrations



10. Northern Cape



Insufficient Demand for Work per Grade / Business Confidence Index (BCI)

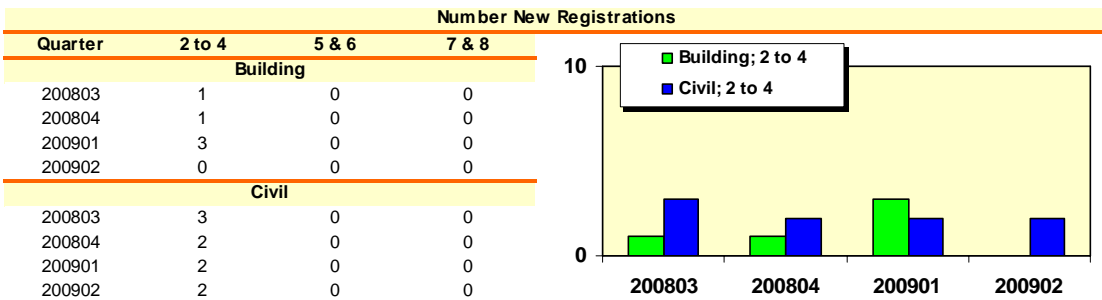


Contractor Upgrades

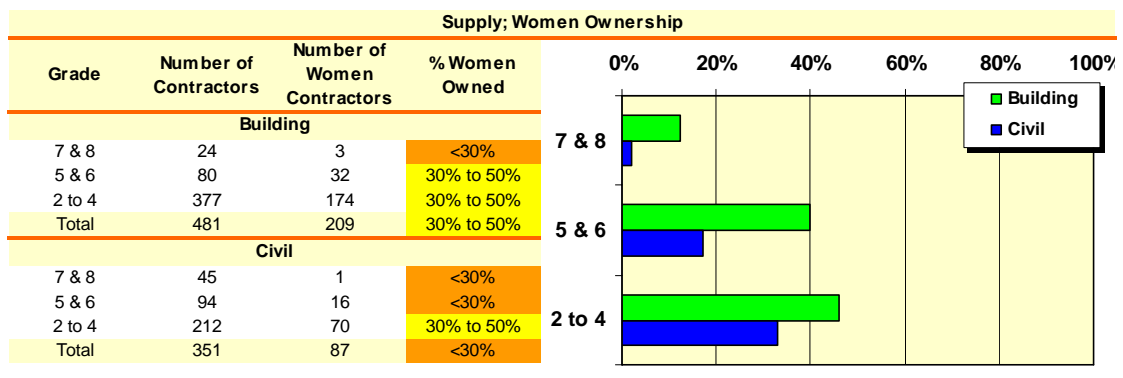
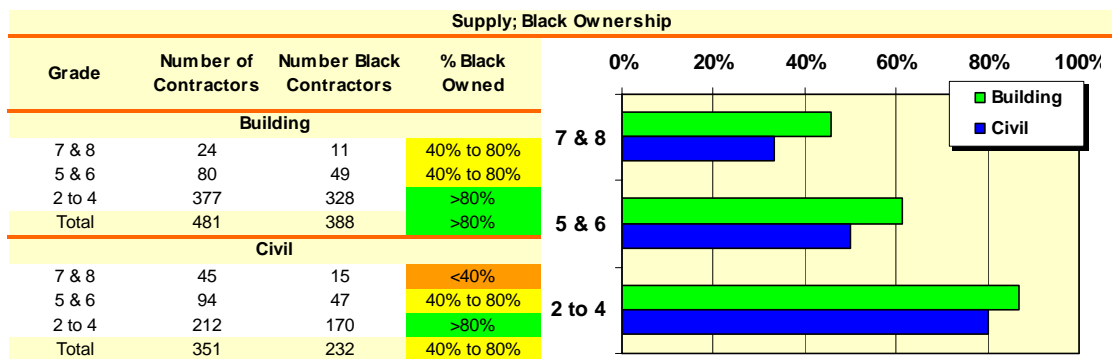
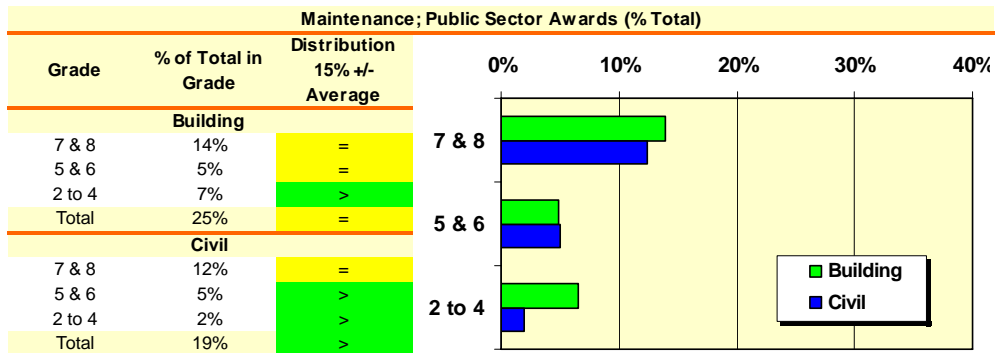
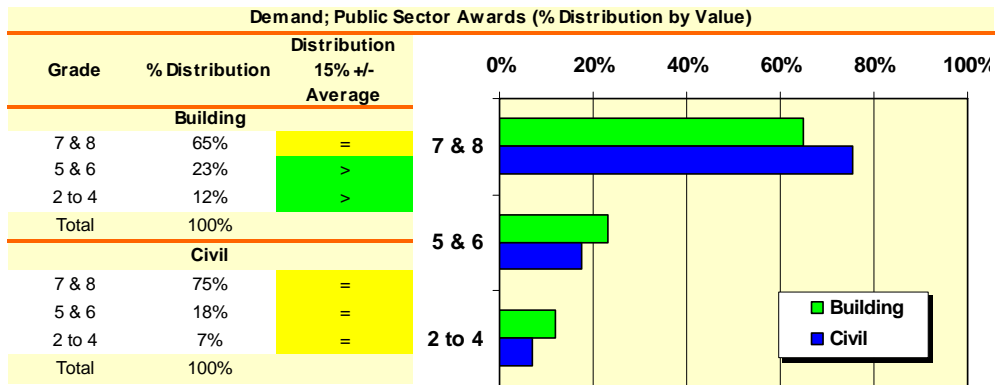
From/To	2 to 4	5 & 6	7 & 8	9
Building				
7 & 8			1	0
5 & 6		1	0	0
2 to 4	2	1	0	0
Civil				
7 & 8			0	0
5 & 6		0	0	0
2 to 4	0	1	0	0

Upgrades & New Registrations

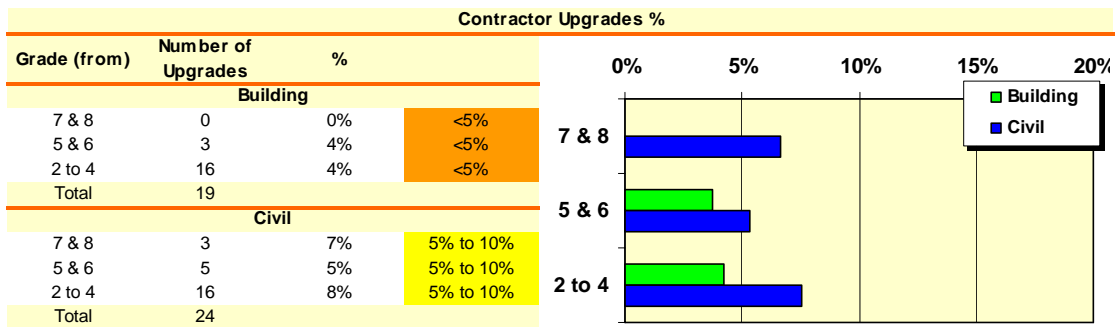
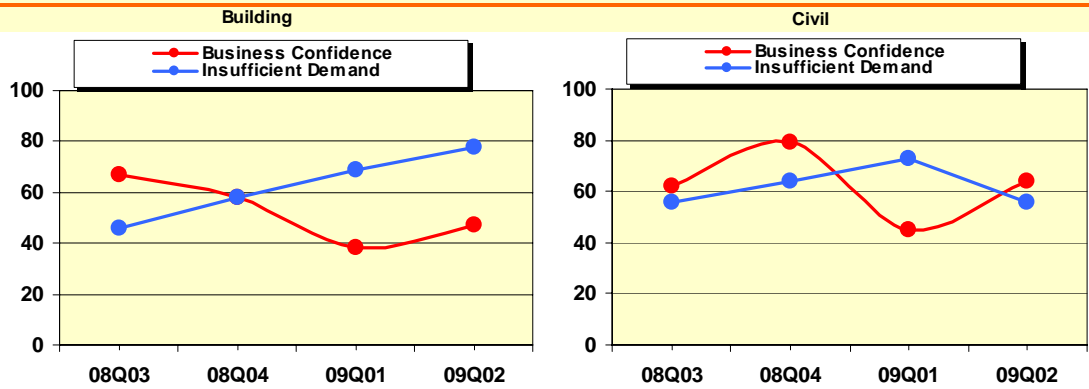
	2 to 4	5 & 6	7 & 8
Building			
Upgrades (to)	2	2	1
New Reg.	5	0	0
Civil			
Upgrades (to)	0	1	0
New Reg.	9	0	0



11. Western Cape



Insufficient Demand for Work per Grade / Business Confidence Index (BCI)



Contractor Upgrades

From/To	2 to 4	5 & 6	7 & 8	9
Building				
7 & 8			0	0
5 & 6		0	3	0
2 to 4	13	3	0	0
Civil				
7 & 8			2	1
5 & 6		4	1	0
2 to 4	8	8	0	0

Upgrades & New Registrations

	2 to 4	5 & 6	7 & 8
Building			
Upgrades (to)	13	3	3
New Reg.	63	15	4
Civil			
Upgrades (to)	8	12	3
New Reg.	35	6	1

