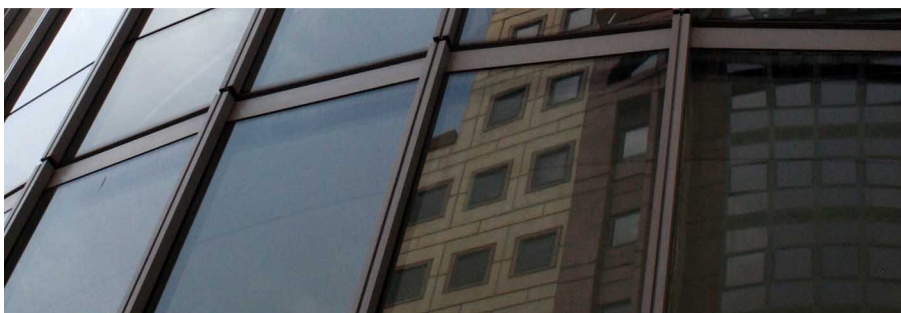


The cidb
Quarterly Monitor:
January 2009



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 ; JANUARY 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 covering the 1st to 4th quarters of 2008 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 public spending in line with the National Infrastructure Maintenance Strategy (NIMS) and the cidb Quarterly Monitor has included the cidb BER/Business Confidence Survey for Grade 4 to Grade 8 General Building and Civil Engineering contractors for all the provinces includes perceptions of the confidence in business conditions and insufficient demand for work obtained from the recently introduced cidb SME Business Condition 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

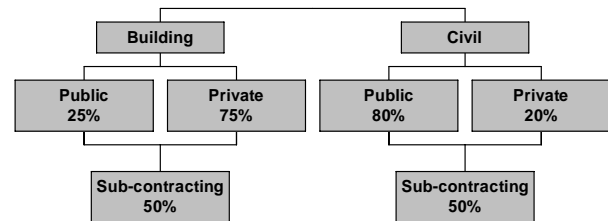
The background and assumptions used in developing and in interpreting the cidb Quarterly Monitor are highlighted below:

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 be about 60% or more accurate (and is constantly being improved). This data has then been scaled up to reflect total construction spend as reflected from Reserve Bank data. (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.

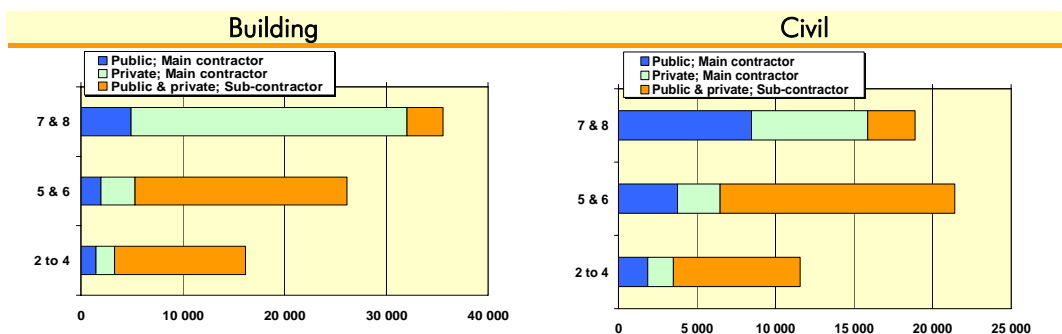
Class of Works	% Public Sector Spend
General Building (GB)	25%
Civil Engineering (CE)	80%

iii) **Sub-contracting:** Much of the work of contractors in Grades 2 to 6 is through obtained 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 Business Condition Survey. The cidb SME Business Condition 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.

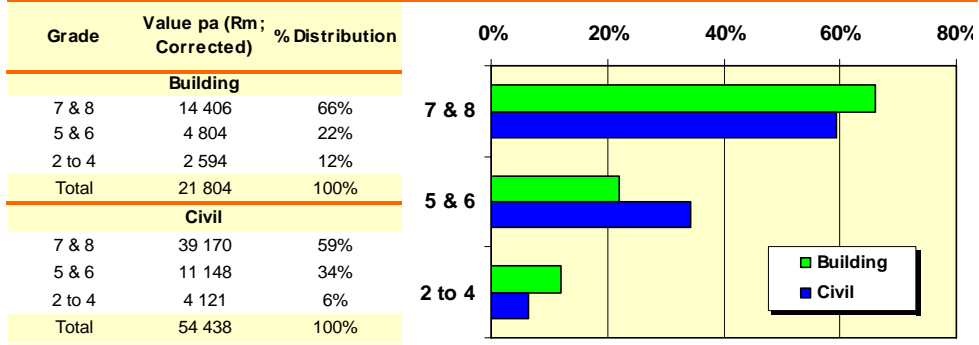
- vi) **Contractor Development:** This cidb Quarterly Monitor includes information on new upgrades per contractor grade and new registrations during the preceding 12 months. The method of evaluating upgrades in the cidb Quarterly Monitor has been changed from previous editions of the cidb Quarterly Monitor. Previously, only upgrades were considered for “compliant” applications (i.e. where the full financial and track record information has been provided), and new business enterprises (i.e. who do not have a previous track record at time of registration) were also excluded. The present method excludes non-compliant applications, but includes new entrants.

3. South Africa

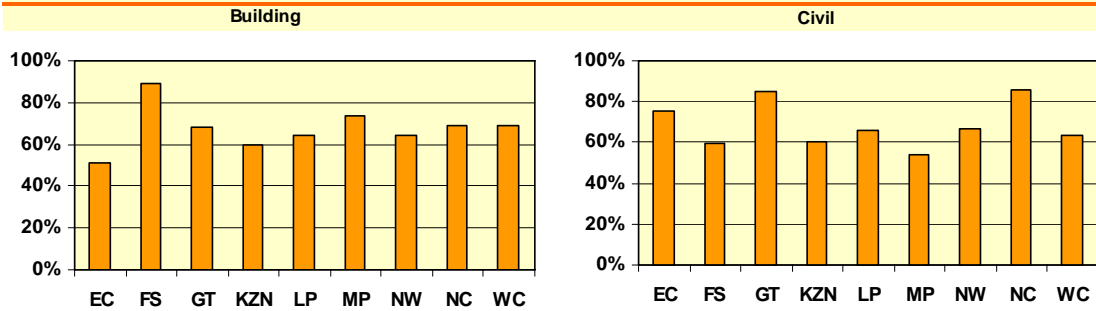
Demand: The value and distribution of public sector contracts awarded in South Africa in Grades 2 to 8 is shown in the adjacent table and figures. The distribution in the public sector contracts awarded between the grades clearly reflects the infrastructure requirements of South Africa, but it is noticeable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

- in General Building, the distribution of public sector contracts awarded in the Free State is skewed towards Grades 7 and 8 as compared to other provinces;
- in Civil Engineering, the distribution of public sector contracts awarded in Gauteng and the Northern Cape is skewed towards Grades 7 and 8 as compared to other provinces.

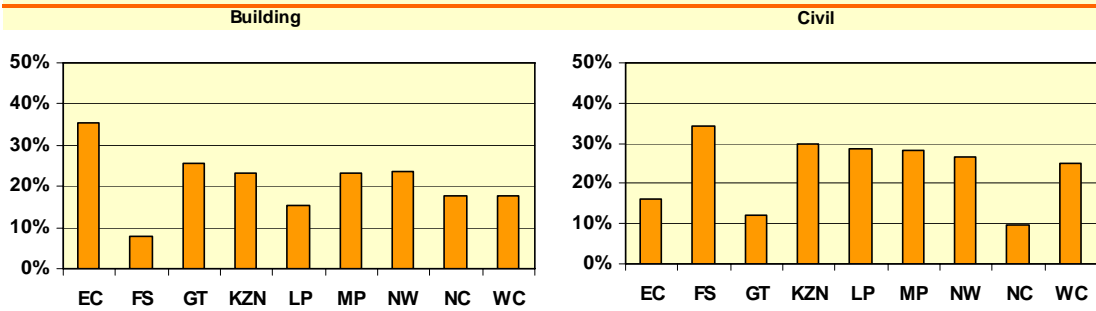
Demand; Public Sector Awards (Corrected)



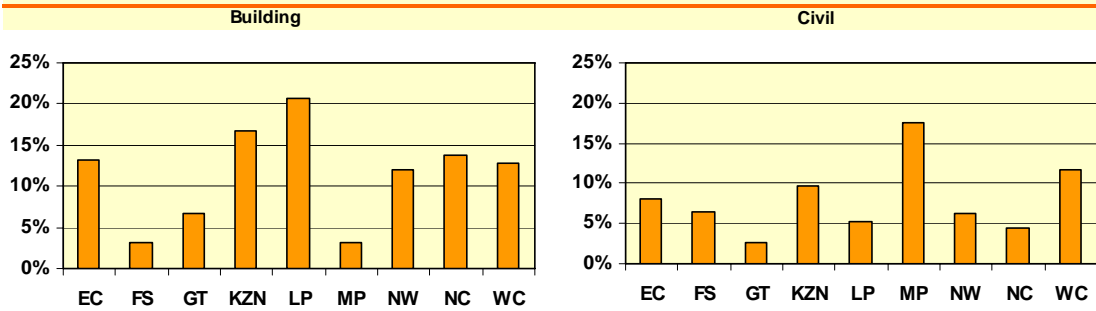
Grades 7 & 8



Grades 5 & 6

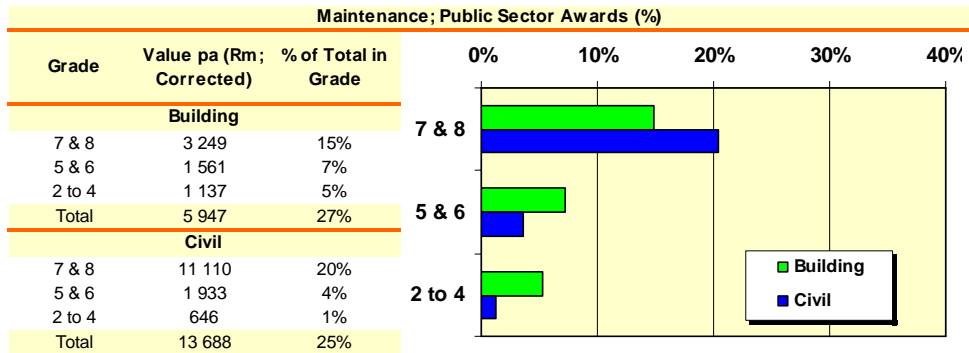


Grades 2 to 4

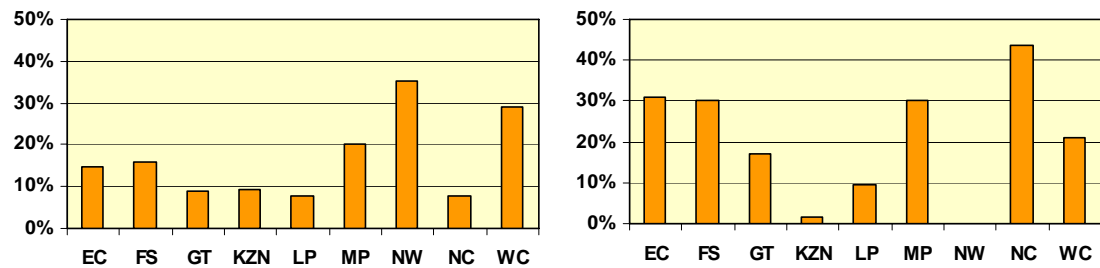


Maintenance: The value and distribution of public sector maintenance contracts (including refurbishment, renovations, etc.) awarded in South Africa in Grades 2 to 8 is shown in the adjacent table and figures. Overall, about 27% of public sector building contracts and around 25% of civil contracts are for maintenance – which is somewhat encouraging given the state of infrastructure in South Africa.

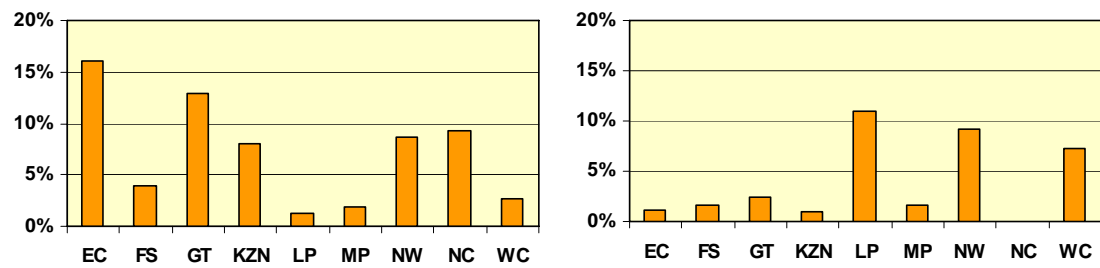
However, the breakdown of maintenance contracts across the provinces is variable, with Free State, Limpopo, and Mpumalanga allocating much lower proportions to maintenance – in particular within Grades 2 to 6 in General Building.



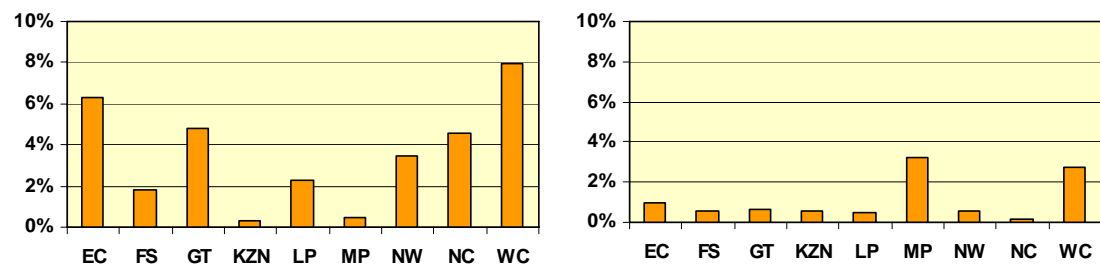
Grades 7 & 8



Grades 5 & 6



Grades 2 to 4

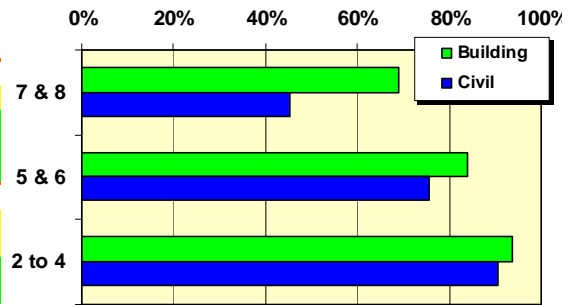


Supply; Black Ownership: For South Africa as a whole (and in fact for every province in South Africa other than the Northern Cape), more than 80% of cidb registered Grade 2 to 4 building and civil contractors are black owned (defined as more than 50% ownership control). Furthermore, more than 60% of all Grade 5 and 6 building and civil contractors are black owned, while around 60% of all Grade 7 and 8 building contractors are black owned.

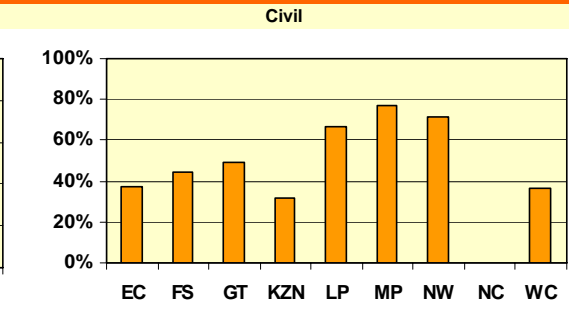
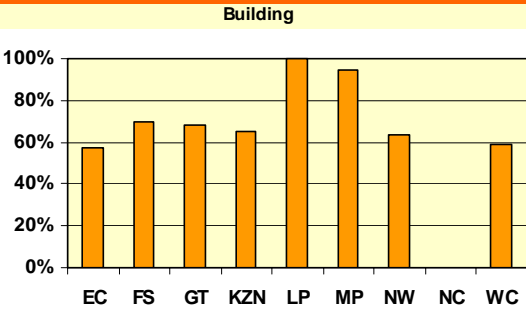
While the high proportion of black owned contractors is encouraging, the sustainability and growth of contractors should be the end goal – which is examined later in this cidb Quarterly Monitor.

Supply; Black Ownership

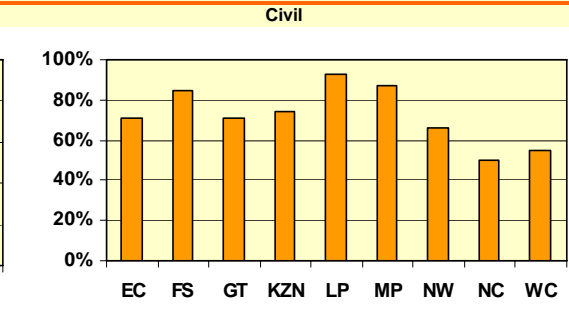
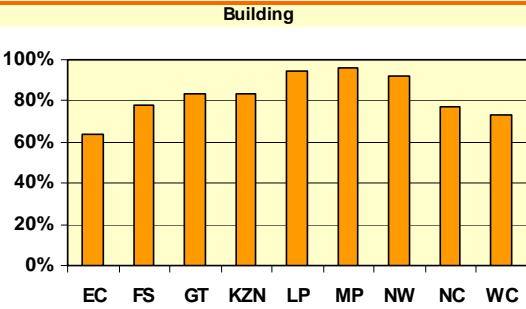
Grade	Number of Contractors	Number Black Contractors	% Black Owned
Building			
7 & 8	242	167	40% to 80%
5 & 6	779	655	>80%
2 to 4	4 261	4 001	>80%
Total	5 282	4 823	>80%
Civil			
7 & 8	302	137	40% to 80%
5 & 6	982	741	40% to 80%
2 to 4	3 033	2 751	>80%
Total	4 317	3 629	>80%



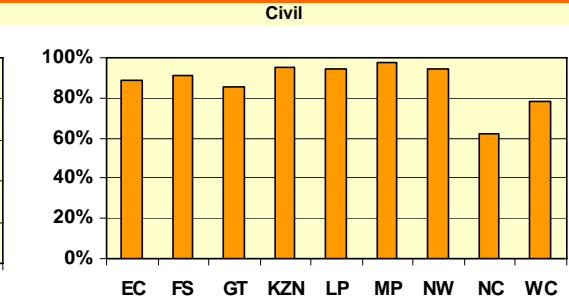
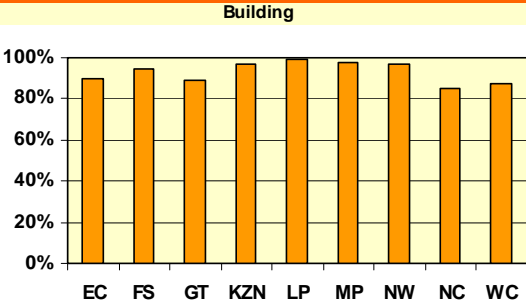
Grade 7 & 8



Grade 4 & 5



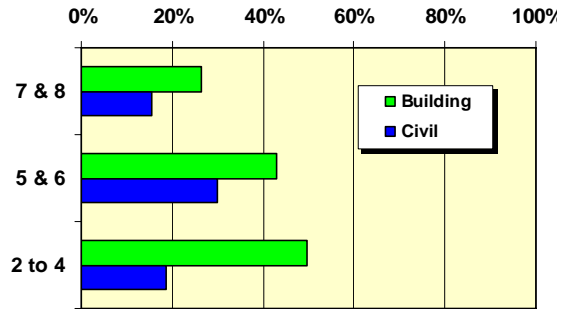
Grade 2 to 4



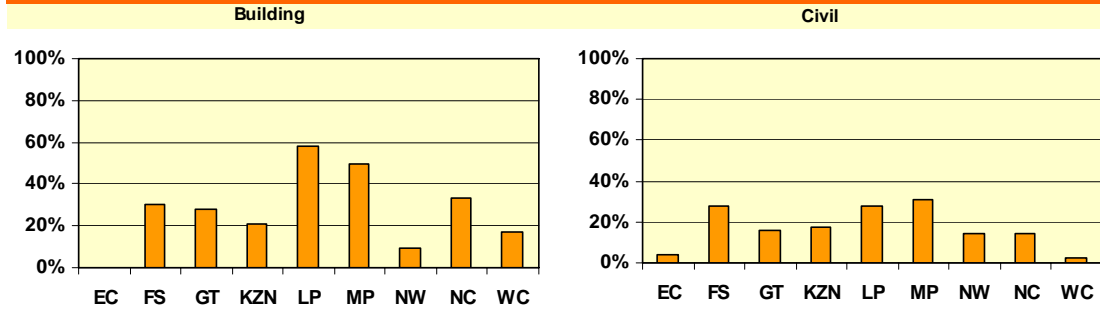
Supply; Women Ownership: On average, around 40% of all Grade 2 to 4 contractors are women owned – with the highest ownership in Limpopo (which probably reflects tender preferencing in this province), followed by Mpumalanga. However, women ownership varies significantly from province to province, and 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

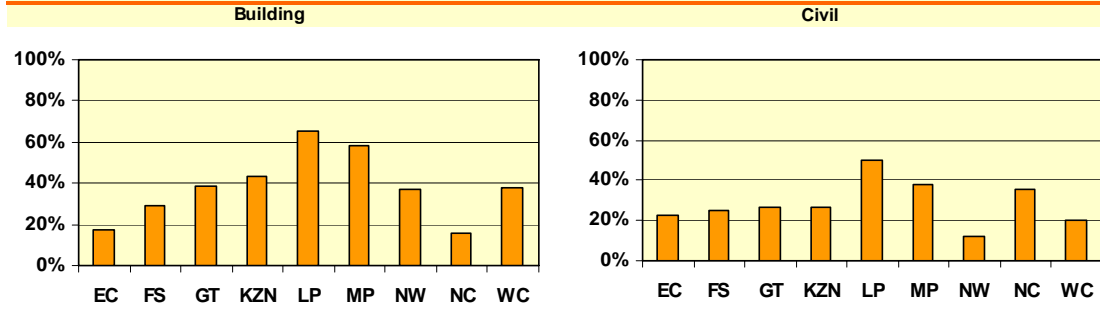
Grade	Number of Contractors	Number of Women Contractors	% Women Owned
Building			
7 & 8	242	64	<30%
5 & 6	779	336	30% to 50%
2 to 4	4 261	2 122	30% to 50%
Total	5 282	2 522	30% to 50%
Civil			
7 & 8	302	47	<30%
5 & 6	982	293	<30%
2 to 4	3 033	570	<30%
Total	4 317	910	<30%



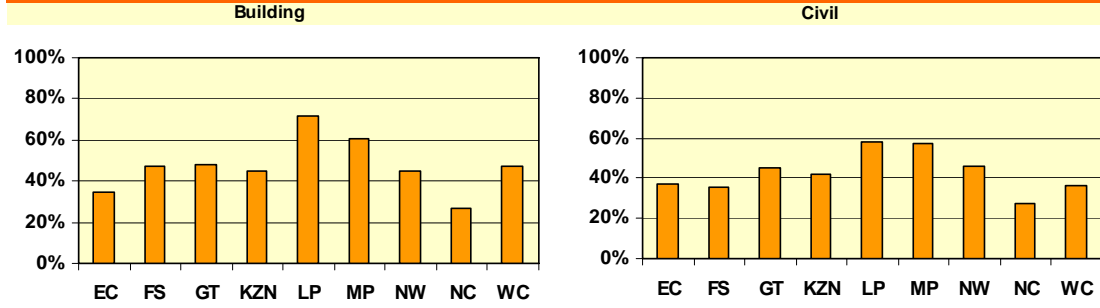
Grades 7 & 8



Grades 5 & 6



Grades 2 to 4

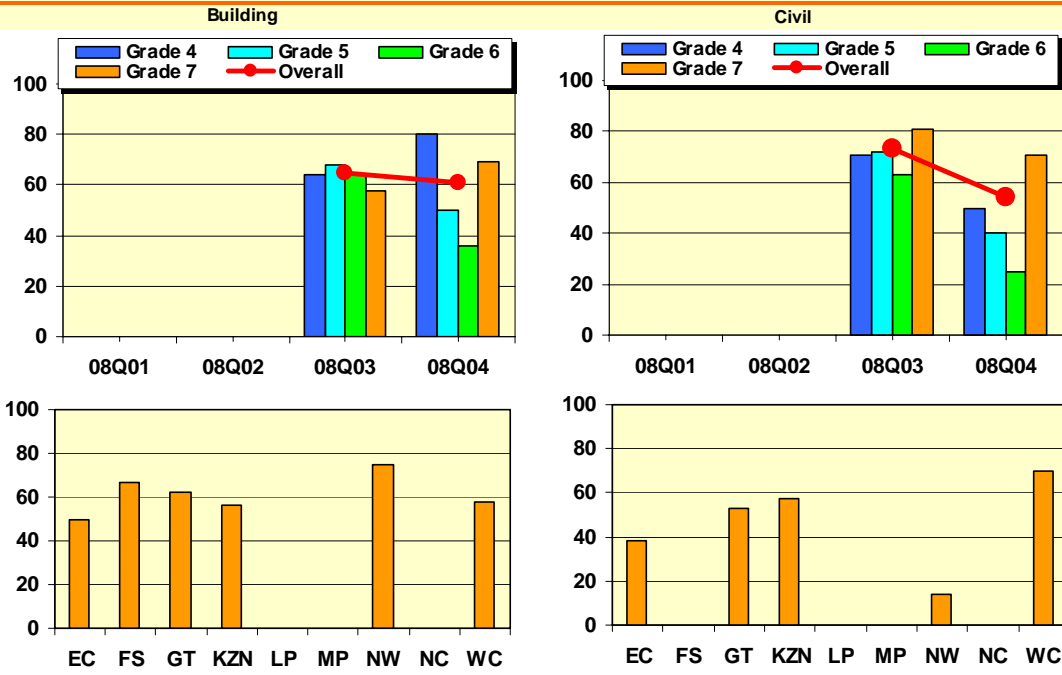


Business Conditions: The cidb SME Business Confidence Index for the country as a whole and covering public and private sector work is given in the adjacent figures, together with the index of contractors indicating insufficient demand for work being a constraint. The Business Confidence Index represents 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.

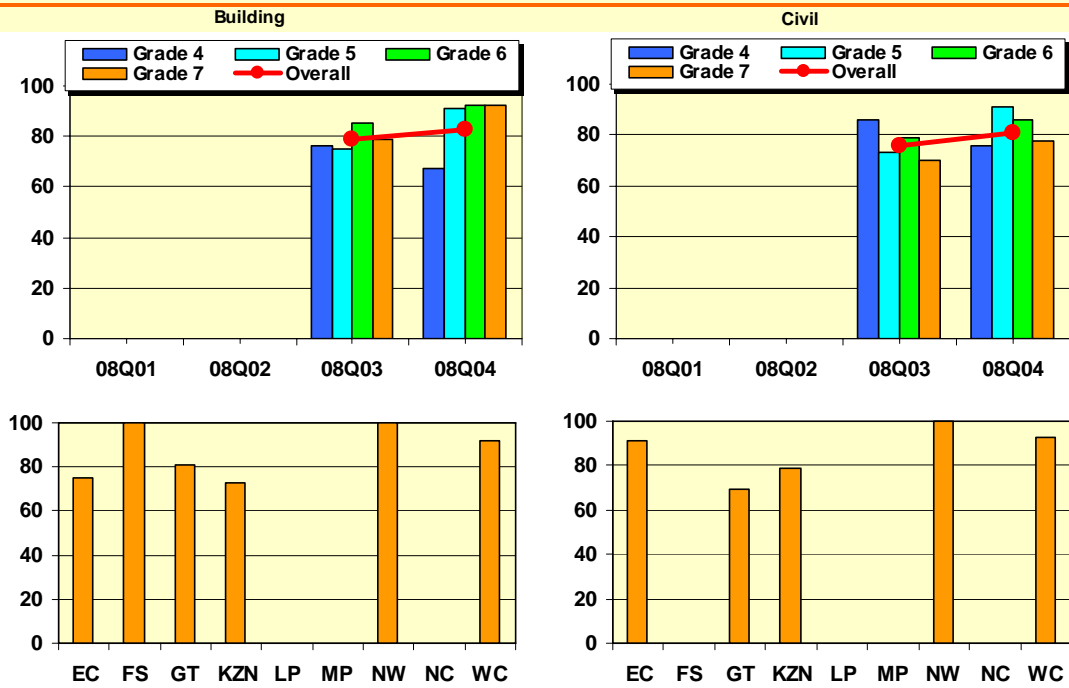
It can be seen that, overall, business confidence in the building sector has continued to drop over the last quarter – suggesting increasing competitiveness between contractors. (Note however that the public sector is not a major player in the residential sector.) Specifically, business confidence of Grades 4 and 7 building contractors has increase in the 4th quarter of 2008, while business confidence of Grades 5 and 6 building contractors has decreased. In the civil sector, business confidence has decreased across all grades.

Overall, insufficient demand for work has increased in both the building and civil contractors over the past quarter.

Business Confidence



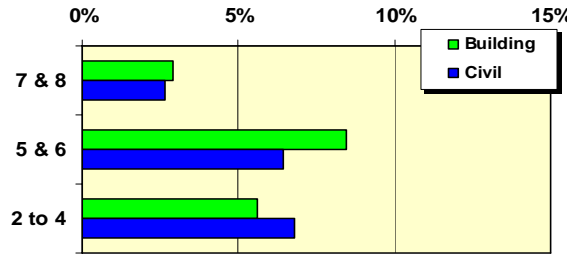
Insufficient Demand for Work



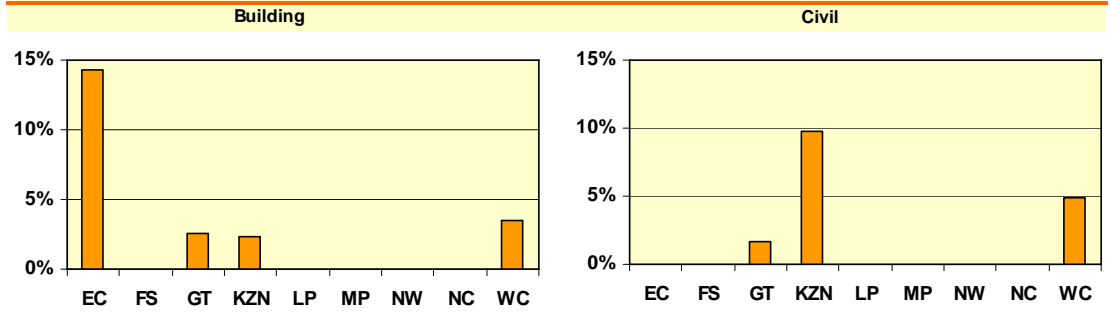
Contractor Development: Details of the upgrading of contractors in the building and civil sectors within the past four quarters is shown in the adjacent figure. On average, around 6% of Grade 2 to 4 contractors are upgrading per year, around 7% within Grades 5 and 6, and around 3% in Grades 7 and 8.

Contractor Upgrades %

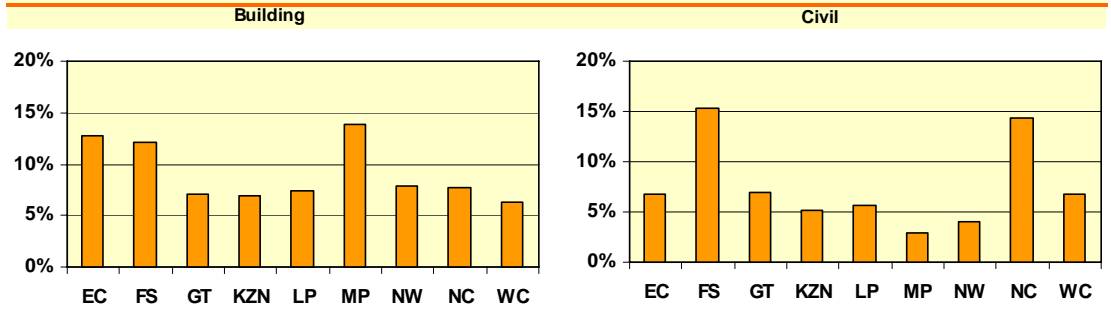
Grade (from)	Number of Upgrades	%	
Building			
7 & 8	7	3%	<5%
5 & 6	66	8%	5% to 10%
2 to 4	238	6%	5% to 10%
Total	311		
Civil			
7 & 8	8	3%	<5%
5 & 6	63	6%	5% to 10%
2 to 4	206	7%	5% to 10%
Total	277		



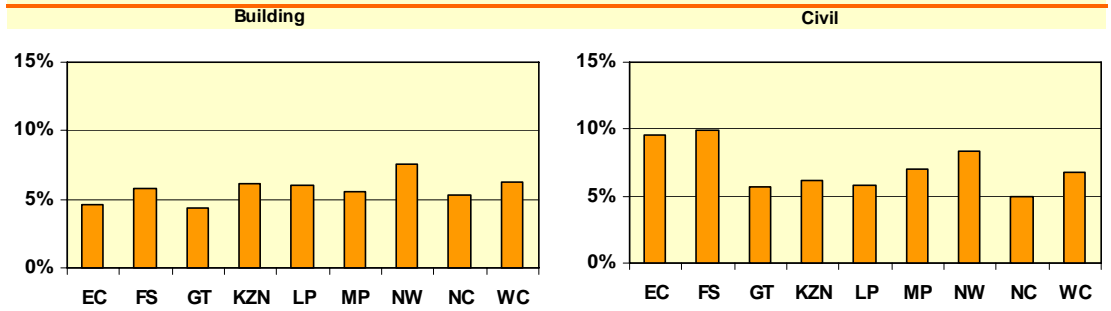
Grades 7 & 8



Grades 5 & 6



Grades 2 to 4



Contractor Development (continued): An analysis of upgrades is given in the adjacent table, from which it can be seen that, say, five General Building contractors have upgrade from within Grades 2 to 4 to within Grades 7 and 8 within the last four quarters! An analysis of these upgrades is given below:

From Grade	To Grade	Reason for Upgrade
3	7	Increase in reportable track record (largest contract value undertaken) and in employable capital
4	7	Increase in reportable track record
4	7	Increase in reportable track record
4	7	Increase in reportable employable capital
4	7	Increase in reportable employable capital / NAV

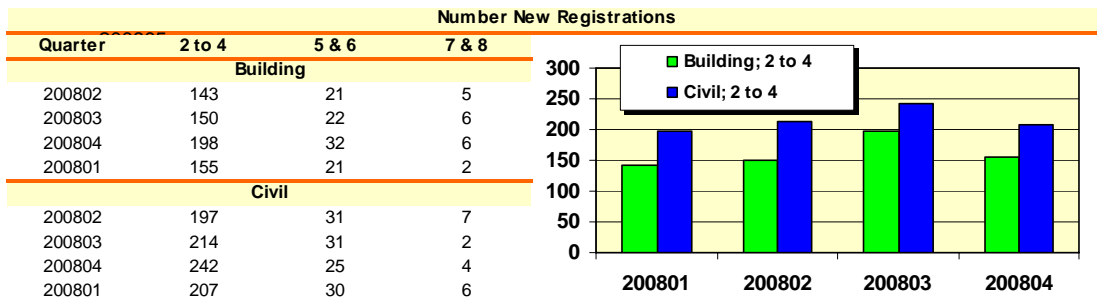
In all but one of the above cases, the growth in contractor upgrading has taken place over a period of about two years.

Also included in the adjacent table is a comparison between the number of upgrades and the number of new registrations over the past four quarters. Of interest is that the number of new entrants within Grades 2 to 4 over the past few quarters far exceeds the number of upgrades – suggesting an unsustainable situation.

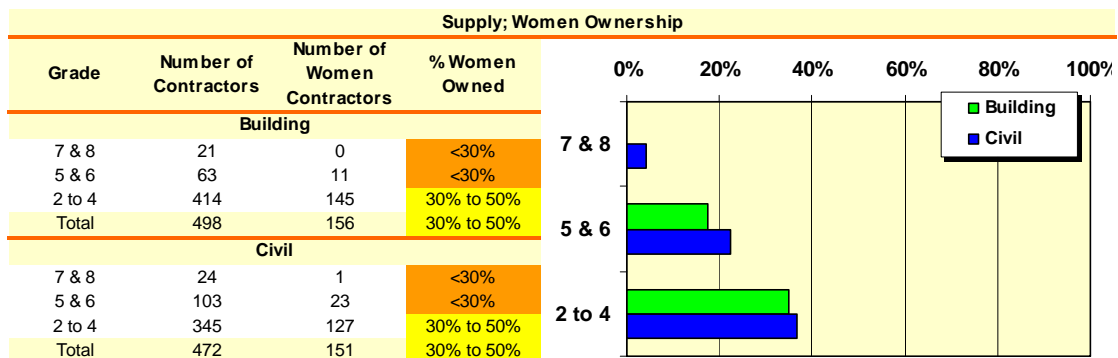
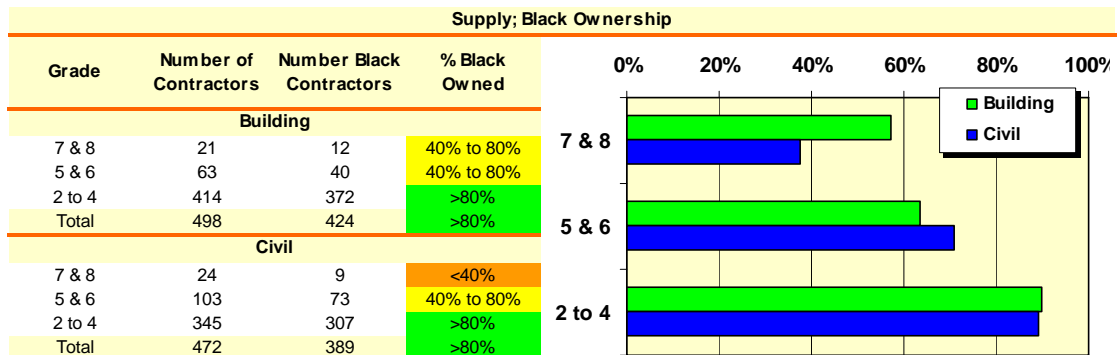
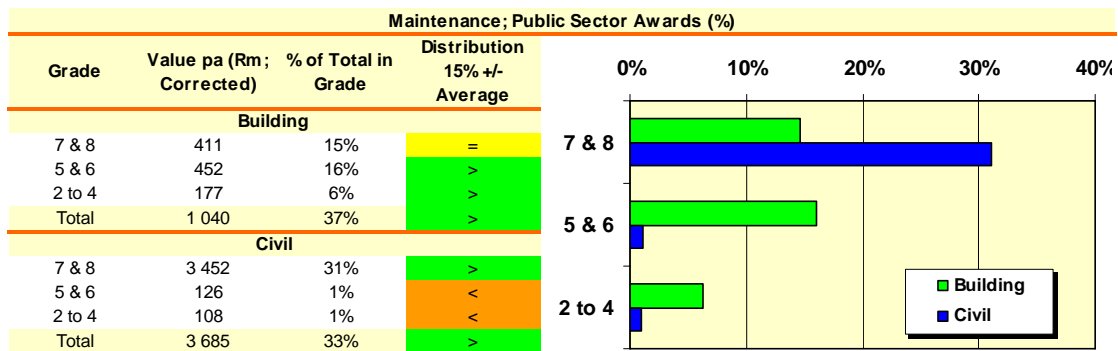
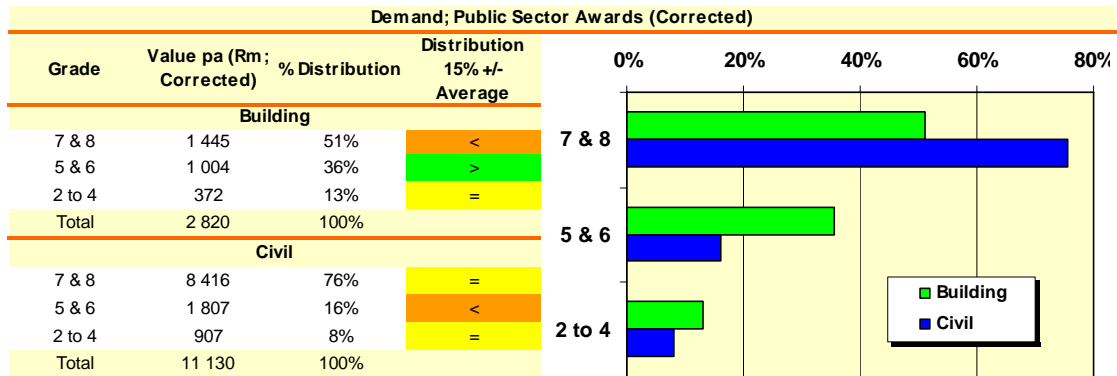
The number of new registrations per quarter in Grades 2 to 4 is shown in the adjacent figure, which shows a constant flow of around 150 to 250 new registrations per quarter in the building and civil sectors.

Contractor Upgrades				
From/To	2 to 4	5 & 6	7 & 8	9
Building				
7 & 8			5	2
5 & 6		30	36	0
2 to 4	158	75	5	0
Civil				
7 & 8			6	2
5 & 6		33	28	2
2 to 4	122	81	3	0

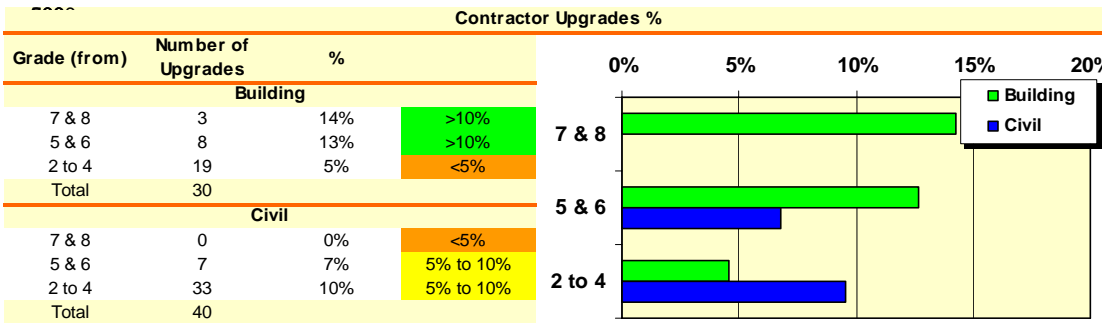
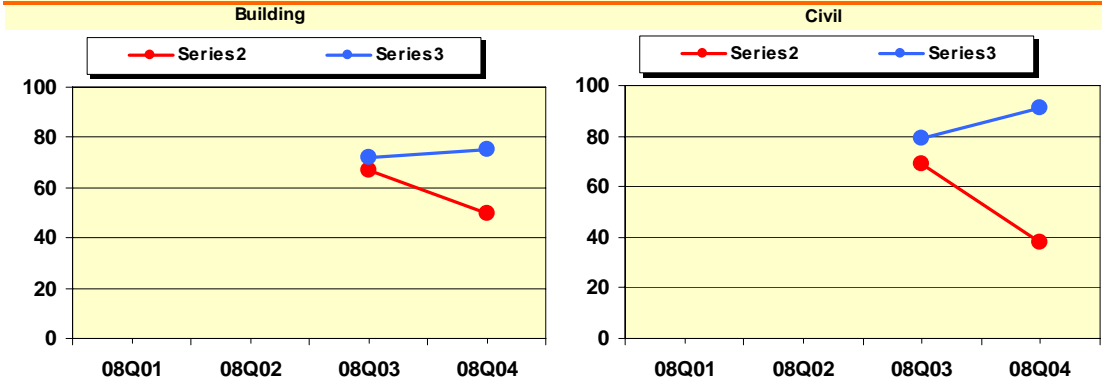
Upgrades & New Registrations			
	2 to 4	5 & 6	7 & 8
Building			
Upgrades (to)	158	105	46
New Reg.	646	96	19
Civil			
Upgrades (to)	122	114	37
New Reg.	860	117	19



4. Eastern Cape

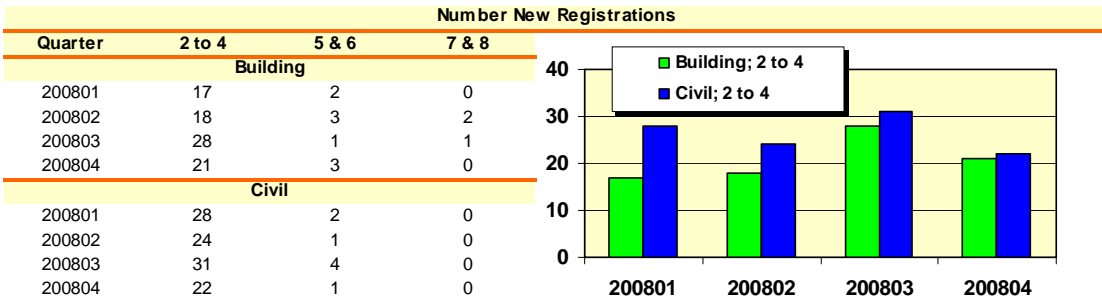


Insufficient Demand for Work per Grade / Business Confidence Index (BCI)

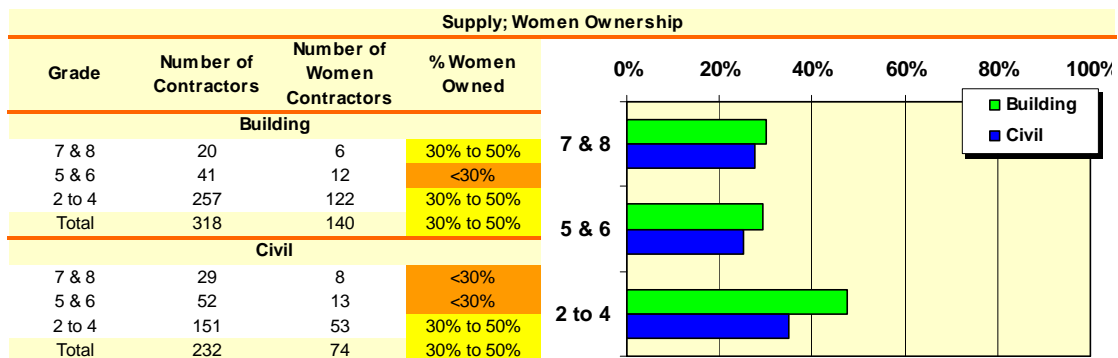
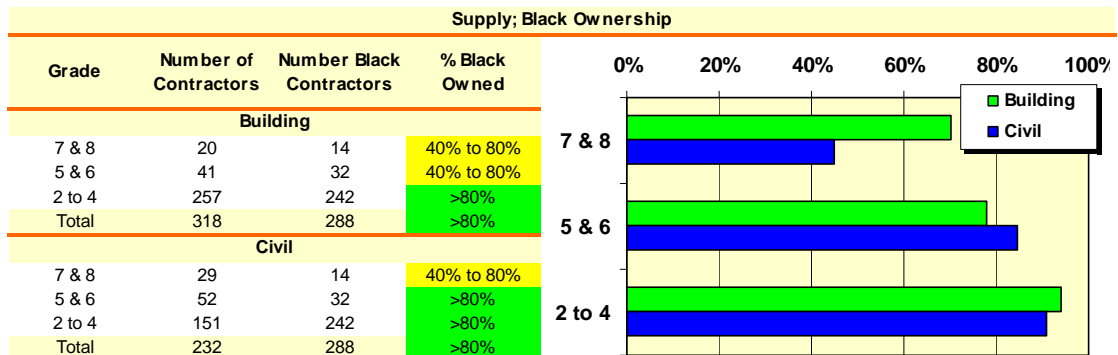
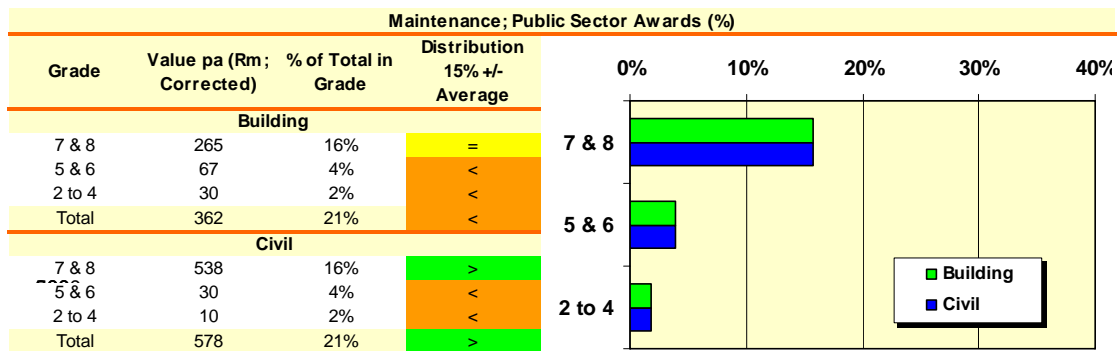
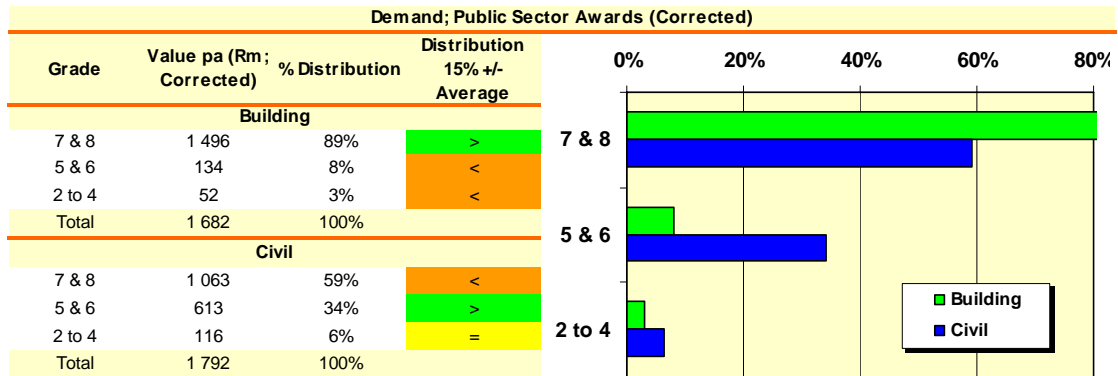


From/To	2 to 4	5 & 6	7 & 8	9
Building				
7 & 8			3	0
5 & 6		2	6	0
2 to 4	12	7	0	0
Civil				
7 & 8			0	0
5 & 6		2	4	1
2 to 4	21	12	0	0

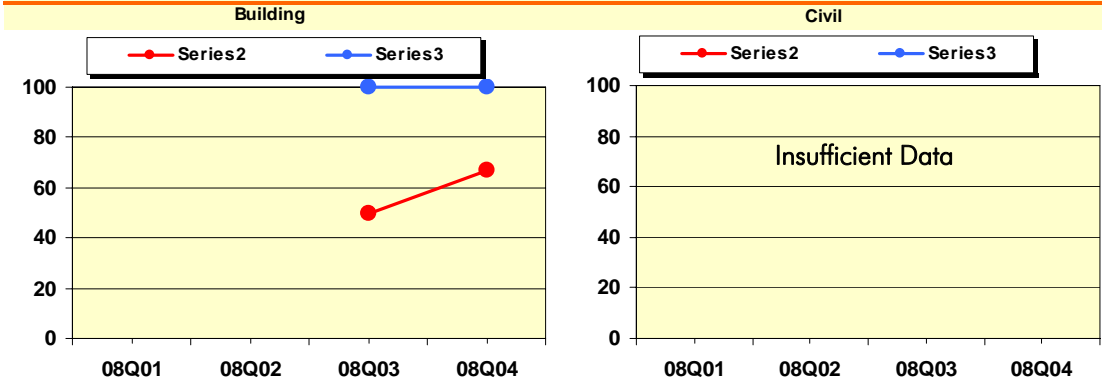
	2 to 4	5 & 6	7 & 8
Building			
Upgrades (to)	12	9	9
New Reg.	84	9	3
Civil			
Upgrades (to)	21	14	4
New Reg.	105	8	0



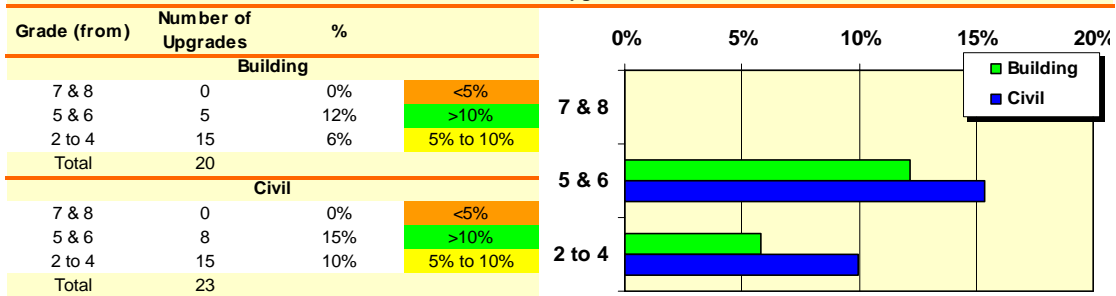
5. Free State



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



Contractor Upgrades %



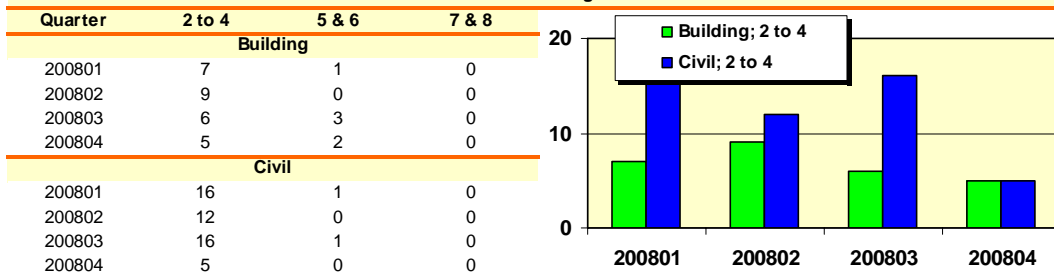
Contractor Upgrades

From/To	2 to 4	5 & 6	7 & 8	9
Building				
7 & 8			1	1
5 & 6		6	8	0
2 to 4	23	12	2	0
Civil				
7 & 8			2	0
5 & 6		6	12	0
2 to 4	15	17	2	0

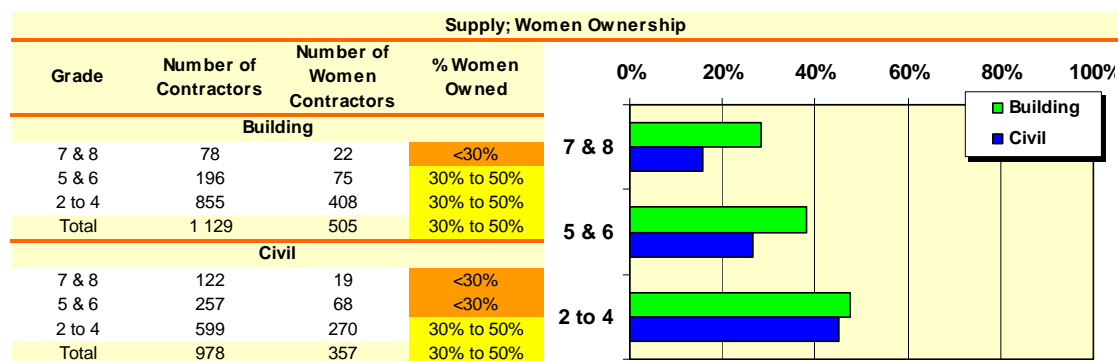
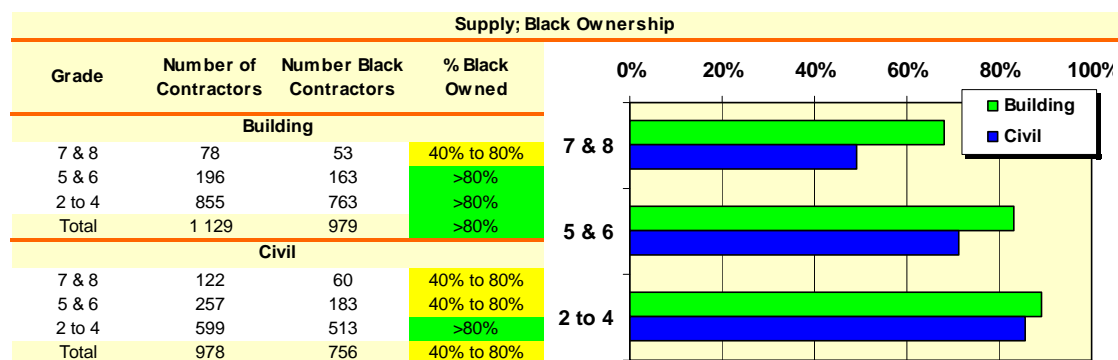
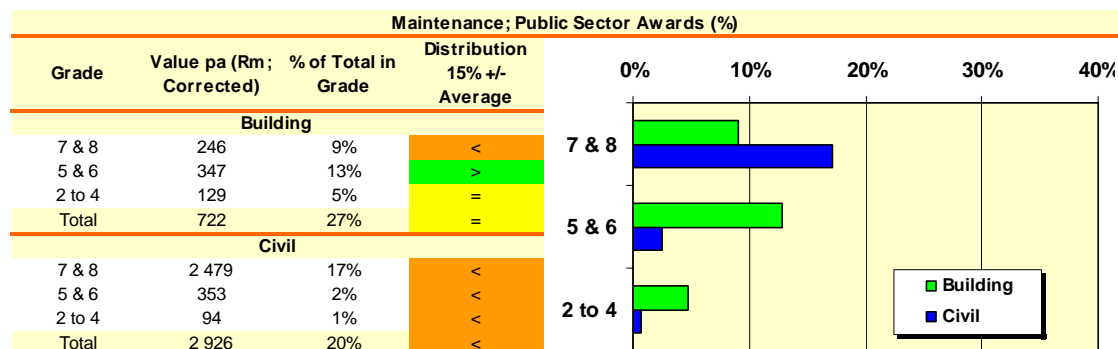
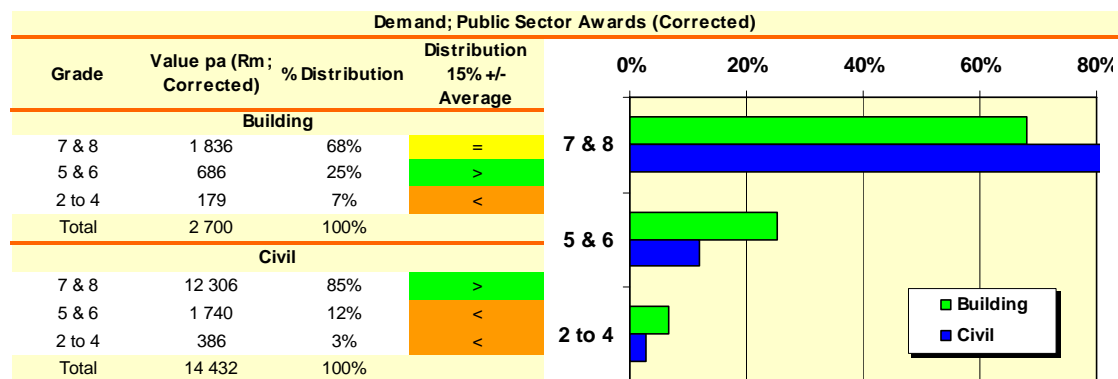
Upgrades & New Registrations

	2 to 4	5 & 6	7 & 8
Building			
Upgrades (to)	23	18	11
New Reg.	27	6	0
Civil			
Upgrades (to)	15	23	16
New Reg.	49	2	0

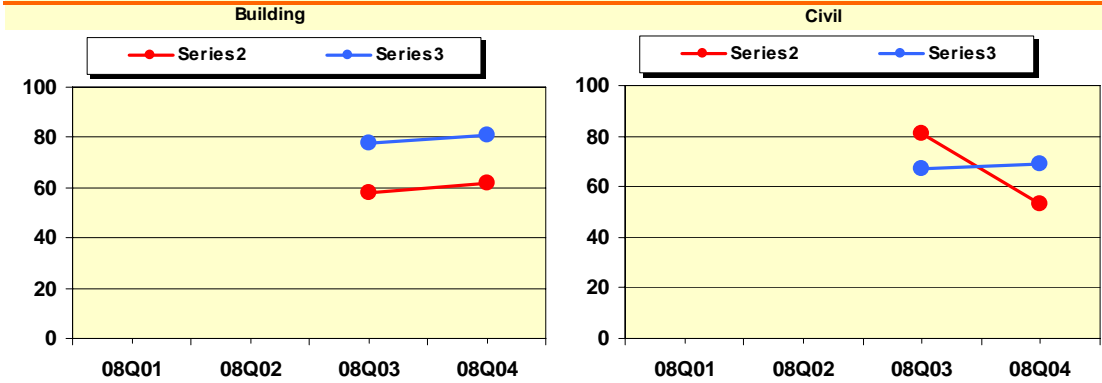
Number New Registrations



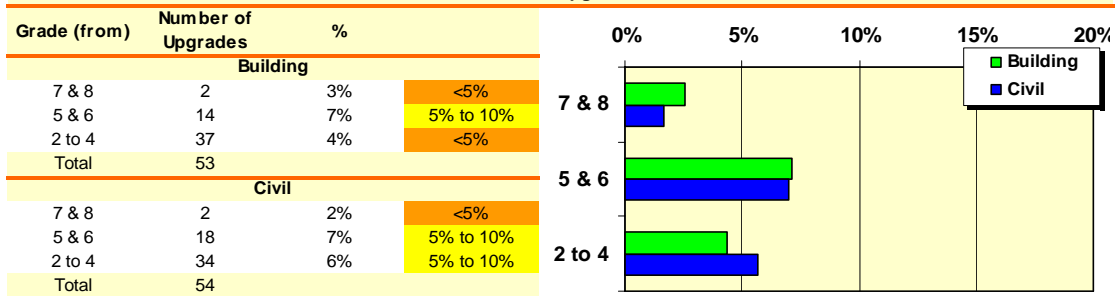
6. Gauteng



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



Contractor Upgrades %



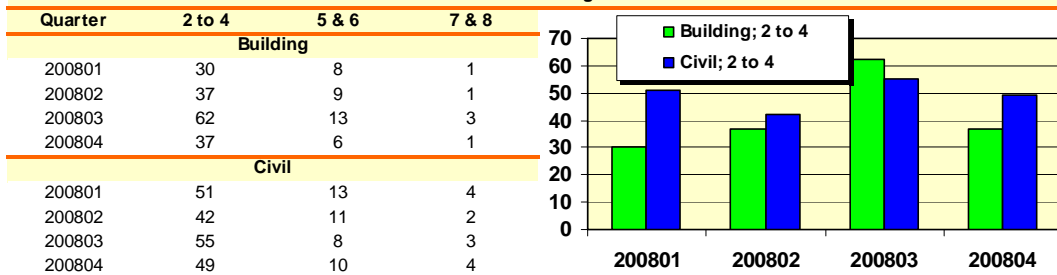
Contractor Upgrades

From/To	2 to 4	5 & 6	7 & 8	9
Building				
7 & 8			1	1
5 & 6		6	8	0
2 to 4	23	12	2	0
Civil				
7 & 8			2	0
5 & 6		6	12	0
2 to 4	15	17	2	0

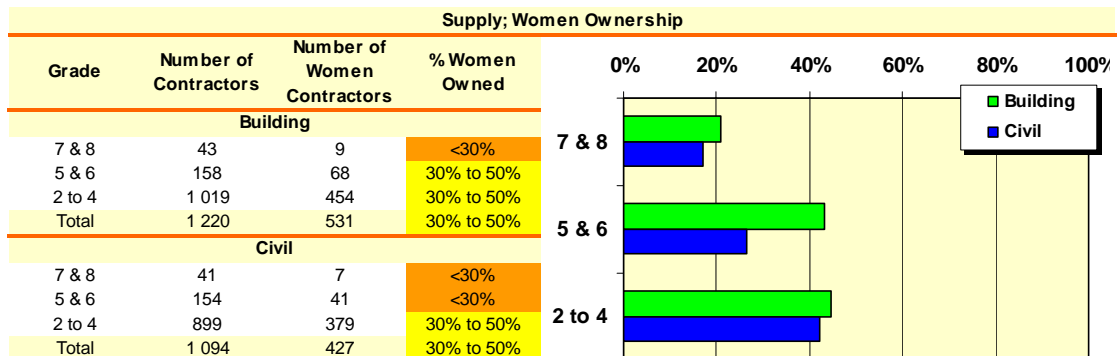
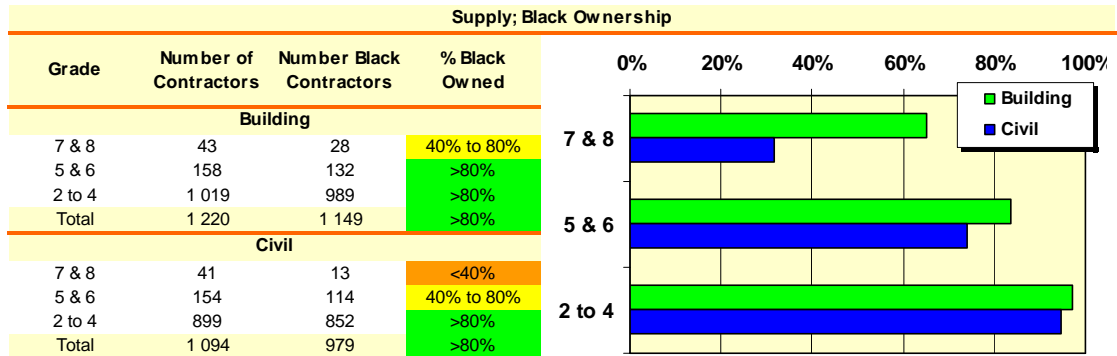
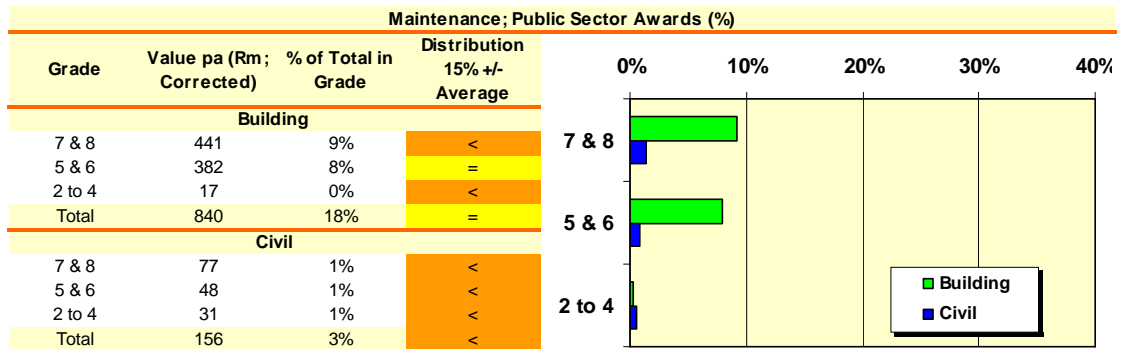
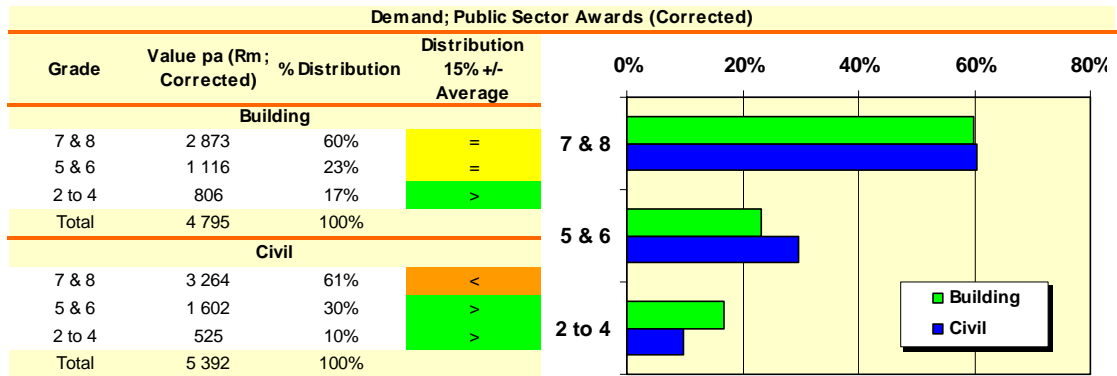
Upgrades & New Registrations

	2 to 4	5 & 6	7 & 8
Building			
Upgrades (to)	23	18	11
New Reg.	166	36	6
Civil			
Upgrades (to)	15	23	16
New Reg.	197	42	13

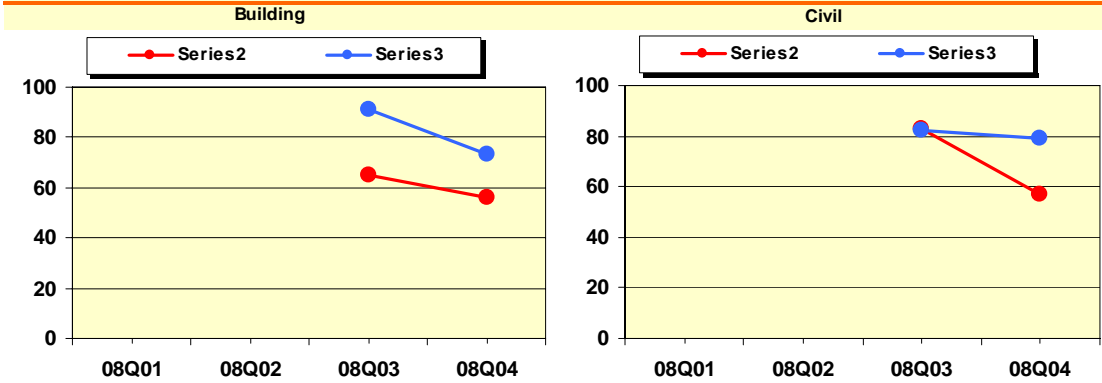
Number New Registrations



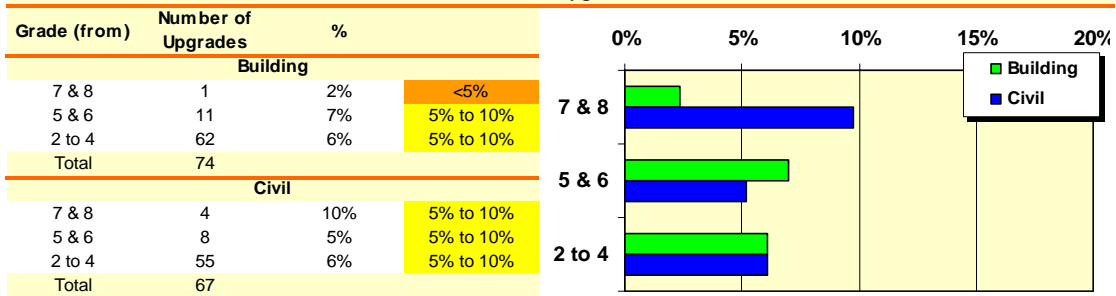
7. KwaZulu Natal



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



Contractor Upgrades %



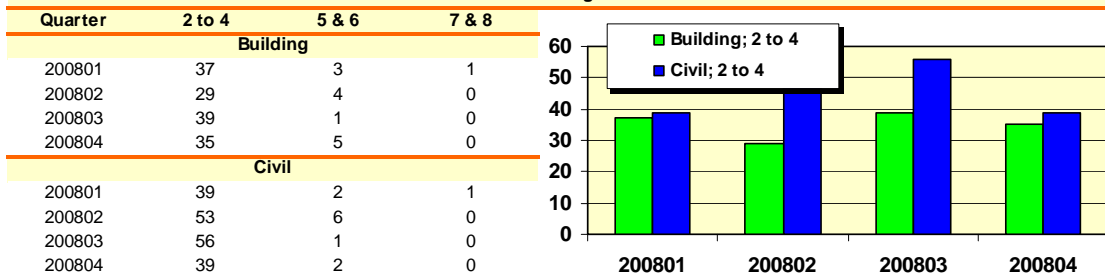
Contractor Upgrades

From/To	2 to 4	5 & 6	7 & 8	9
Building				
7 & 8			1	0
5 & 6		5	6	0
2 to 4	45	16	1	0
Civil				
7 & 8			3	1
5 & 6		5	2	1
2 to 4	40	15	0	0

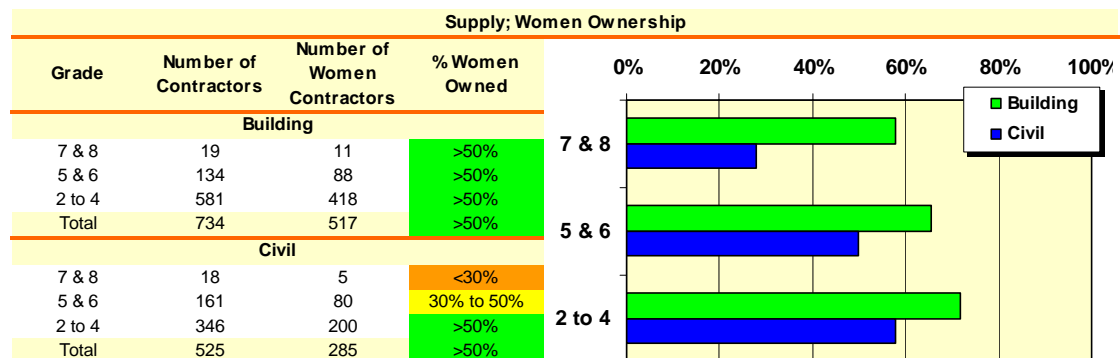
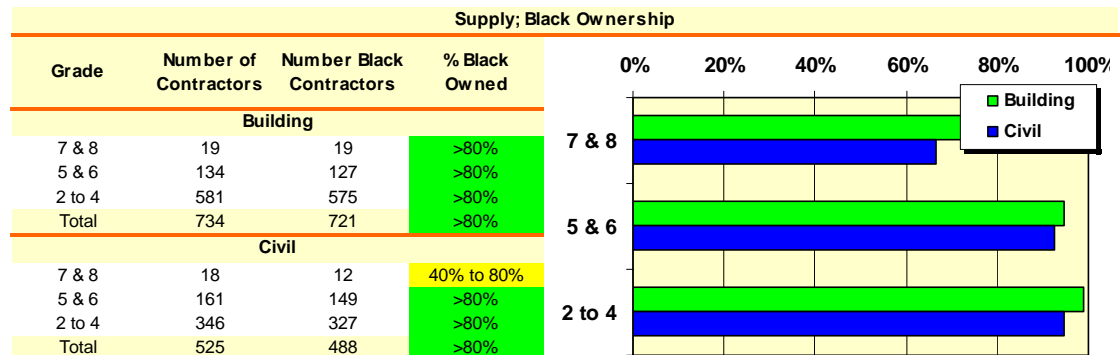
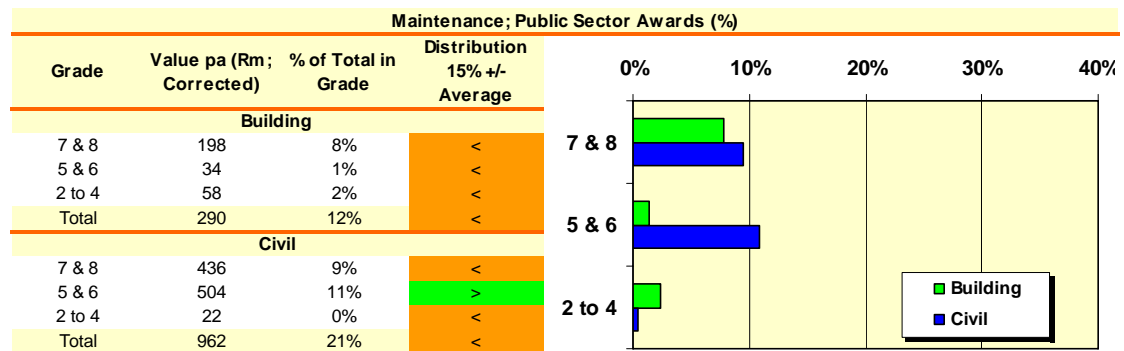
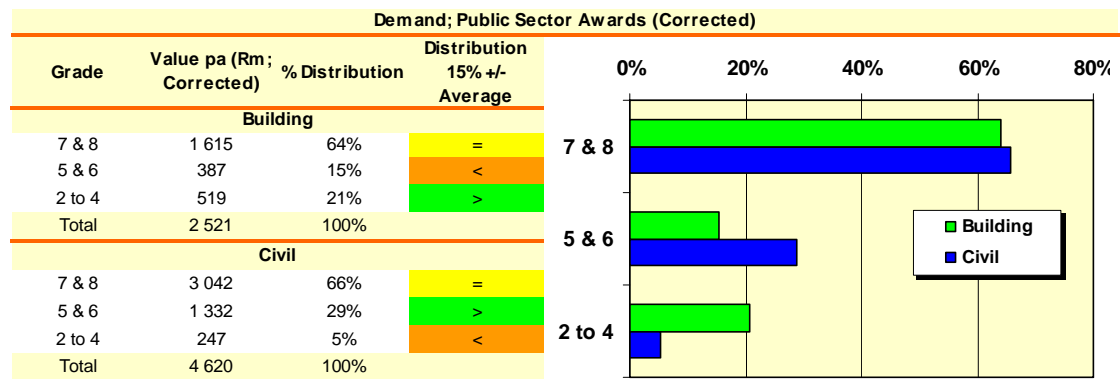
Upgrades & New Registrations

	2 to 4	5 & 6	7 & 8
Building			
Upgrades (to)	45	21	8
New Reg.	140	13	1
Civil			
Upgrades (to)	40	20	5
New Reg.	187	11	1

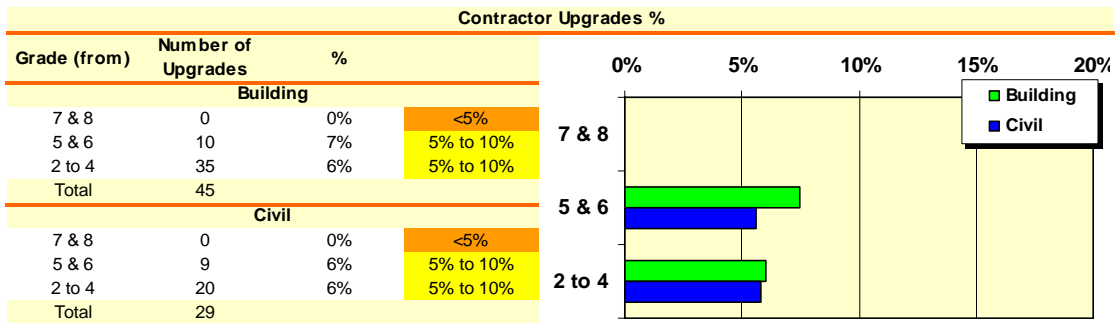
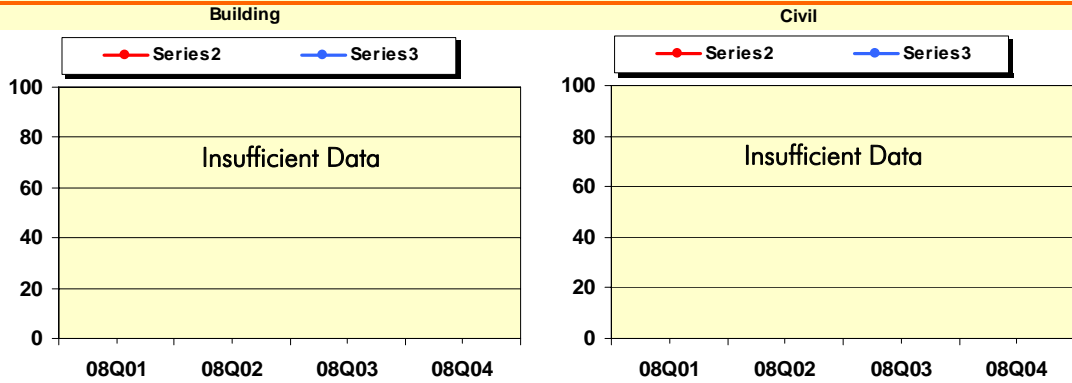
Number New Registrations



8. Limpopo



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

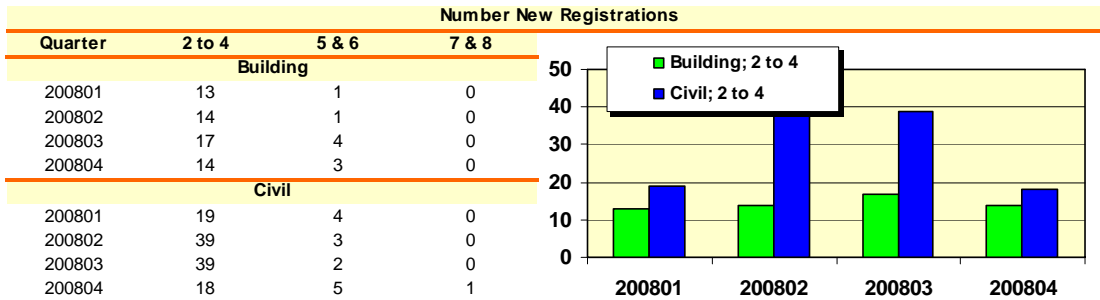


Contractor Upgrades

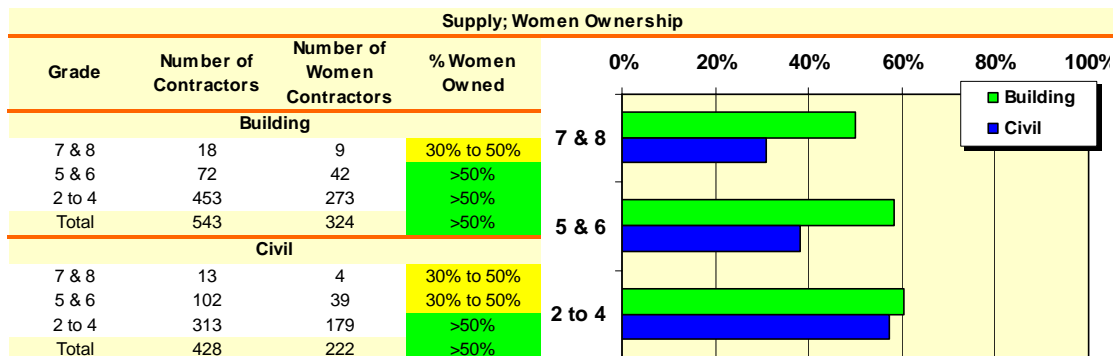
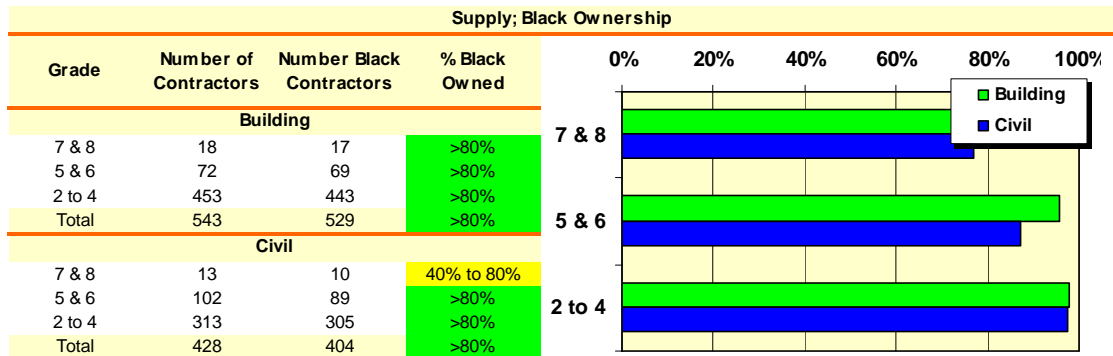
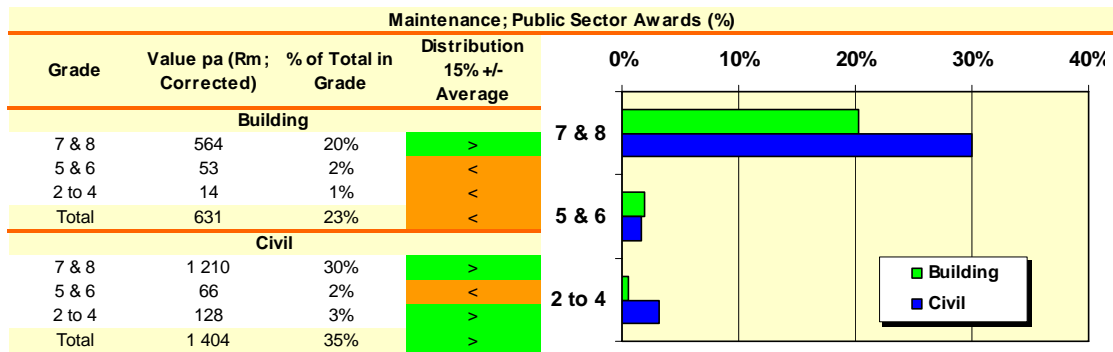
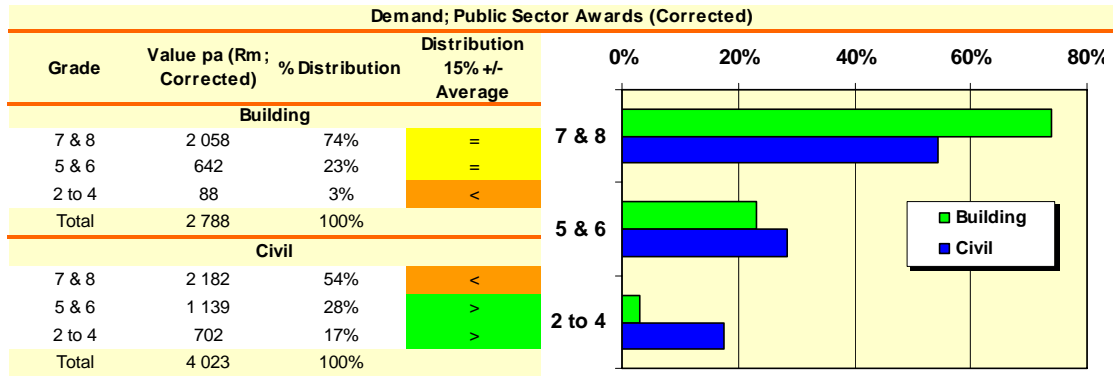
From/To	2 to 4	5 & 6	7 & 8	9
Building				
7 & 8			0	0
5 & 6		7	3	0
2 to 4	21	14	0	0
Civil				
7 & 8			0	0
5 & 6		7	2	0
2 to 4	7	13	0	0

Upgrades & New Registrations

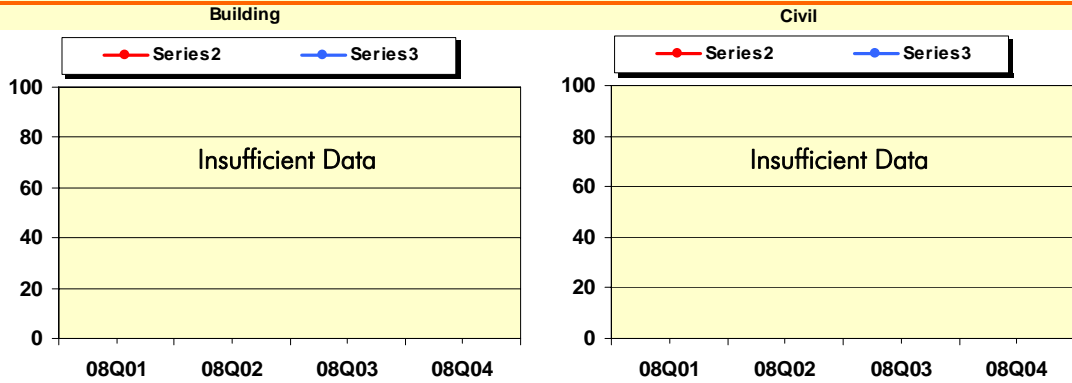
	2 to 4	5 & 6	7 & 8
Building			
Upgrades (to)	21	21	3
New Reg.	58	9	0
Civil			
Upgrades (to)	7	20	2
New Reg.	115	14	1



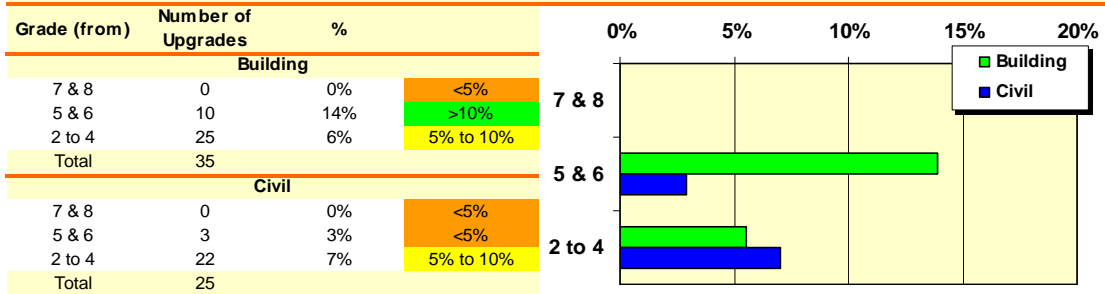
9. Mpumalanga



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



Contractor Upgrades %



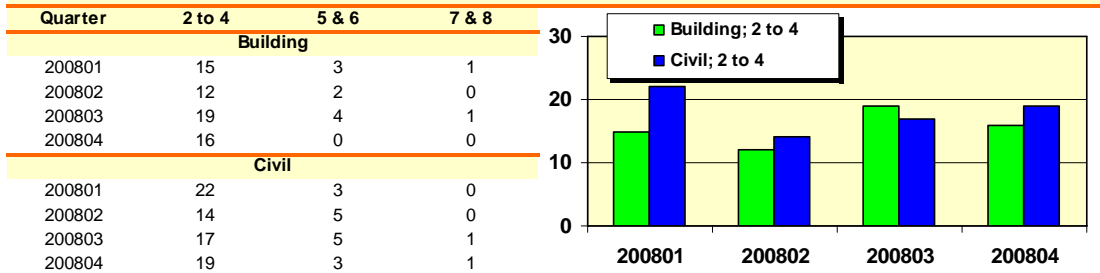
Contractor Upgrades

From/To	2 to 4	5 & 6	7 & 8	9
Building				
7 & 8			0	0
5 & 6		5	5	0
2 to 4	12	12	1	0
Civil				
7 & 8			0	0
5 & 6		2	1	0
2 to 4	12	10	0	0

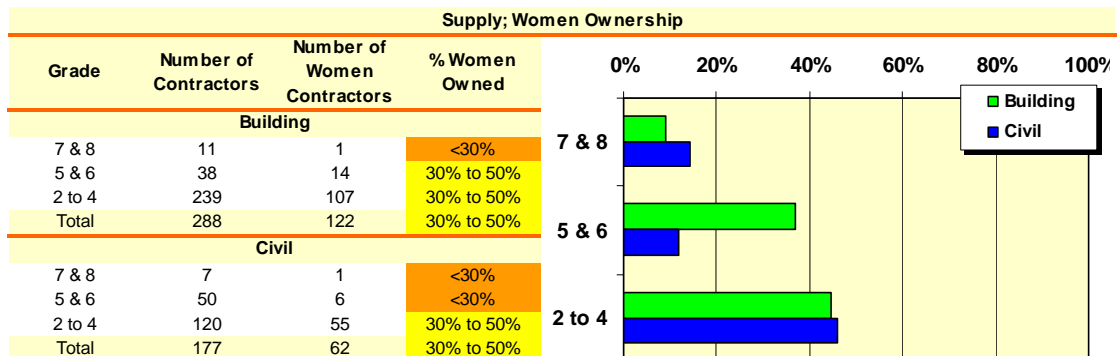
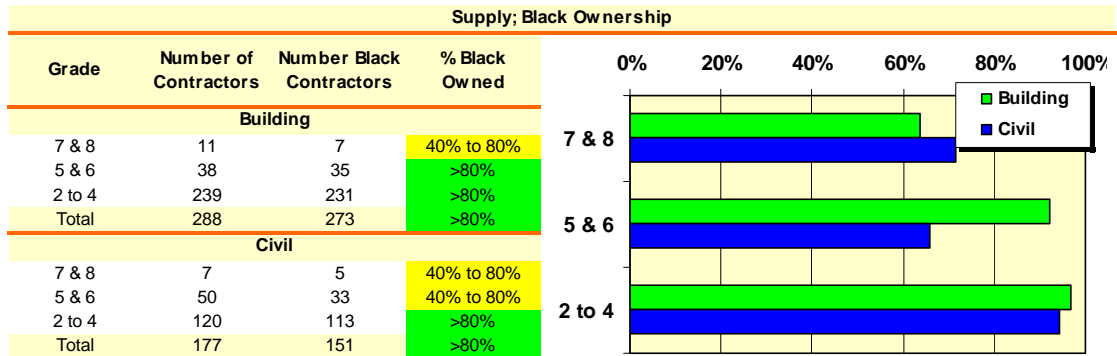
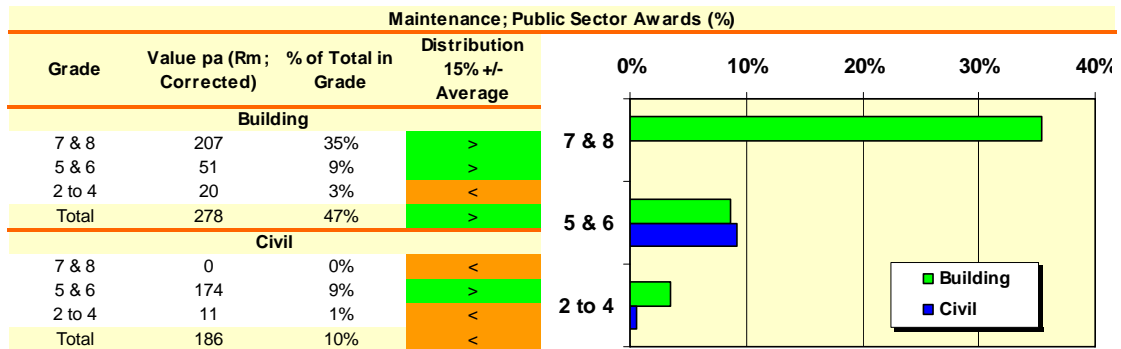
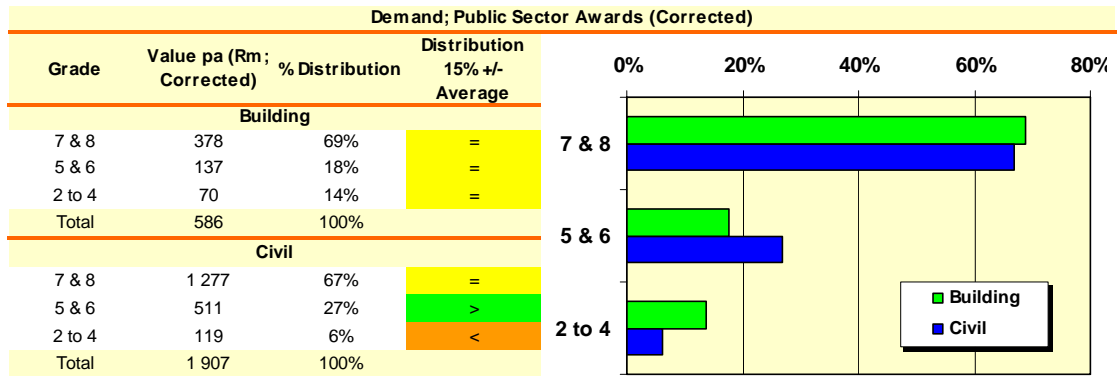
Upgrades & New Registrations

	2 to 4	5 & 6	7 & 8
Building			
Upgrades (to)	12	17	6
New Reg.	62	9	2
Civil			
Upgrades (to)	12	12	1
New Reg.	72	16	2

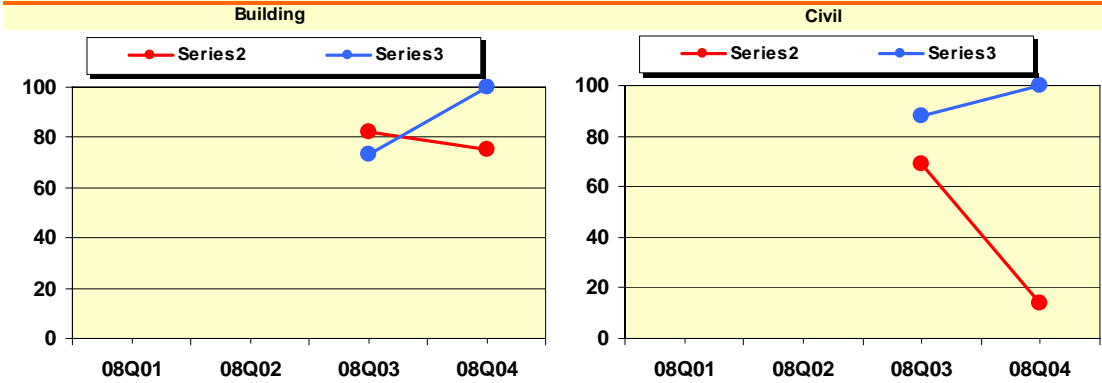
Number New Registrations



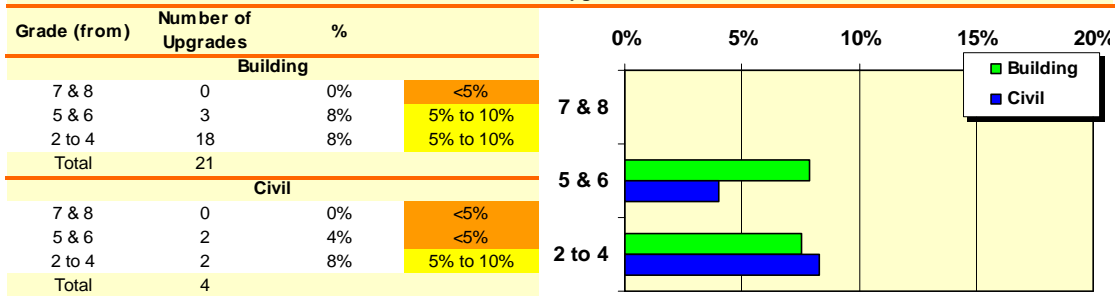
10. North West



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



Contractor Upgrades %



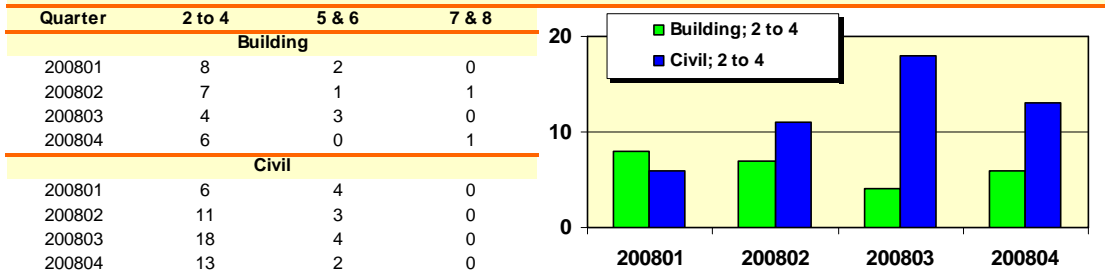
Contractor Upgrades

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

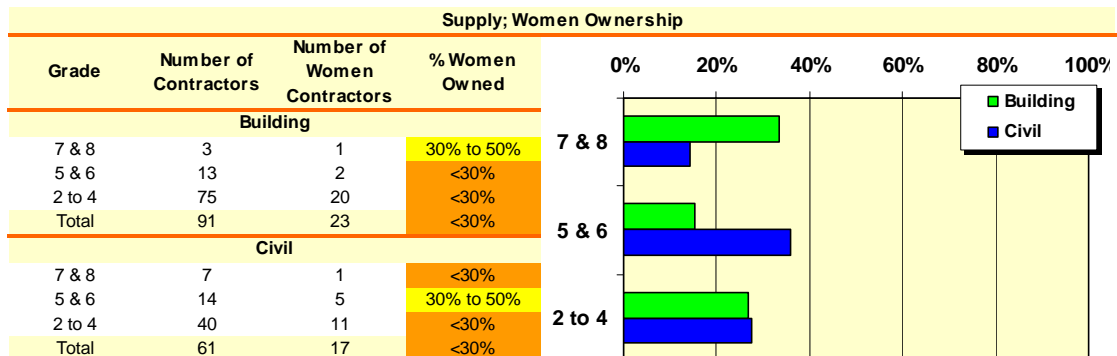
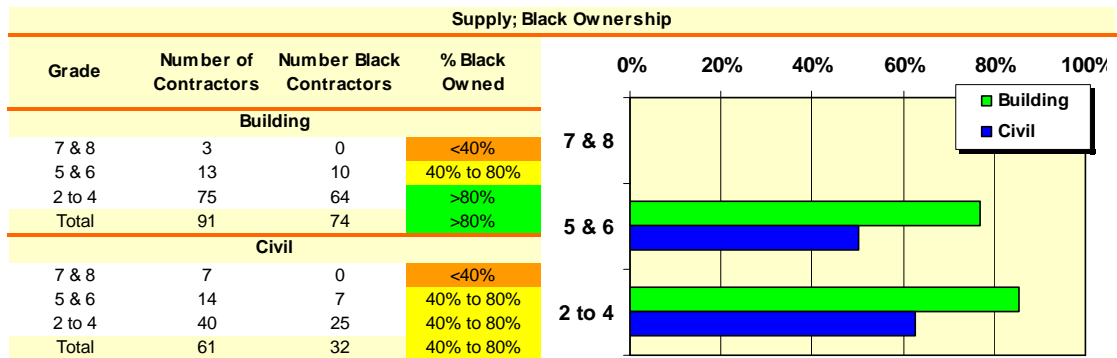
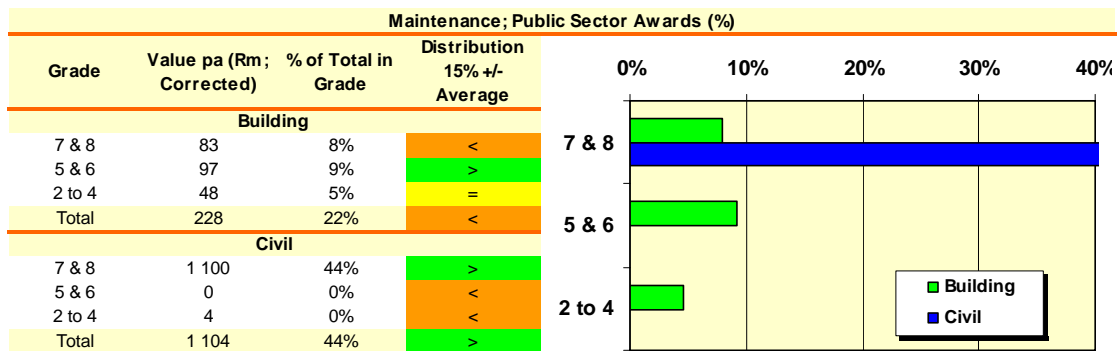
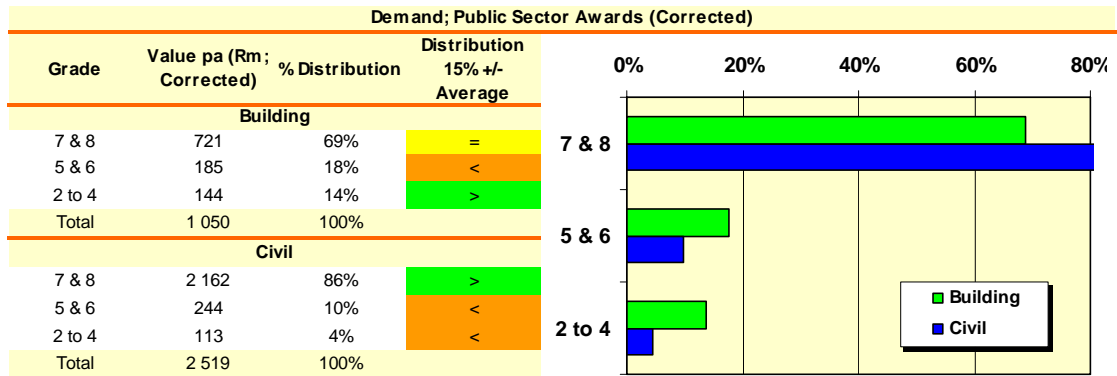
Upgrades & New Registrations

	2 to 4	5 & 6	7 & 8
Building			
Upgrades (to)	13	6	2
New Reg.	25	6	2
Civil			
Upgrades (to)	1	2	1
New Reg.	48	13	0

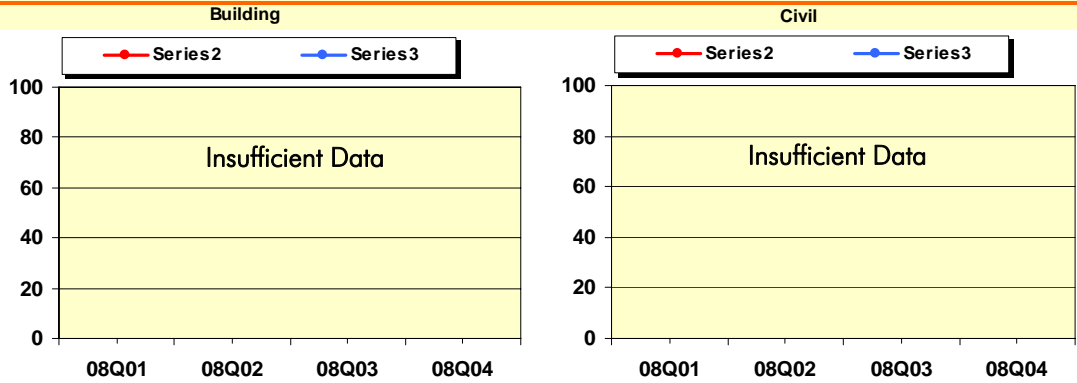
Number New Registrations



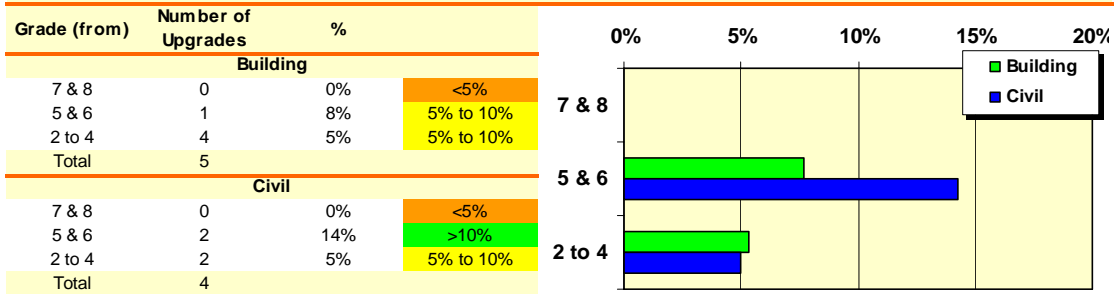
10. Northern Cape



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



Contractor Upgrades %



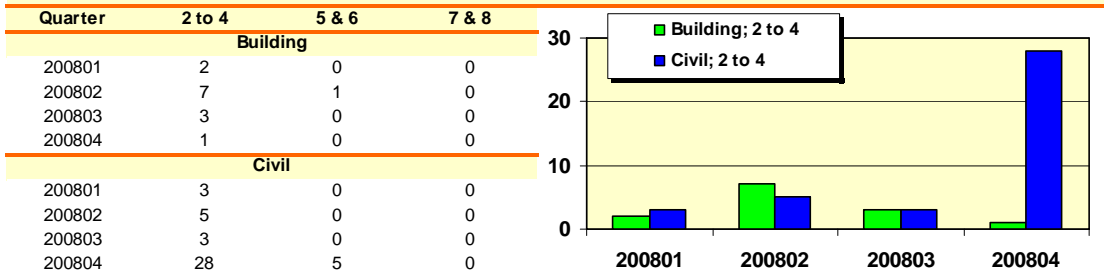
Contractor Upgrades

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

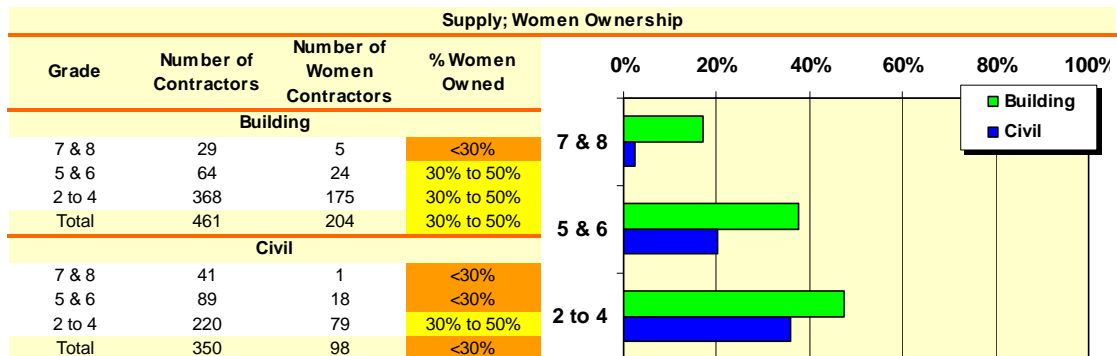
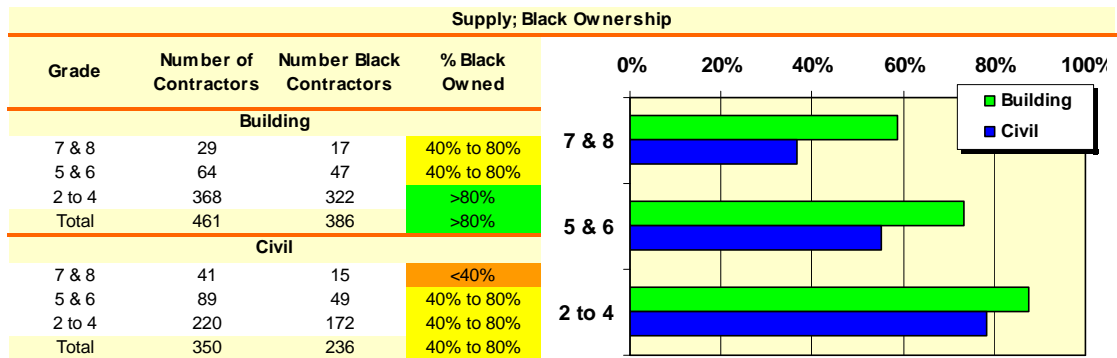
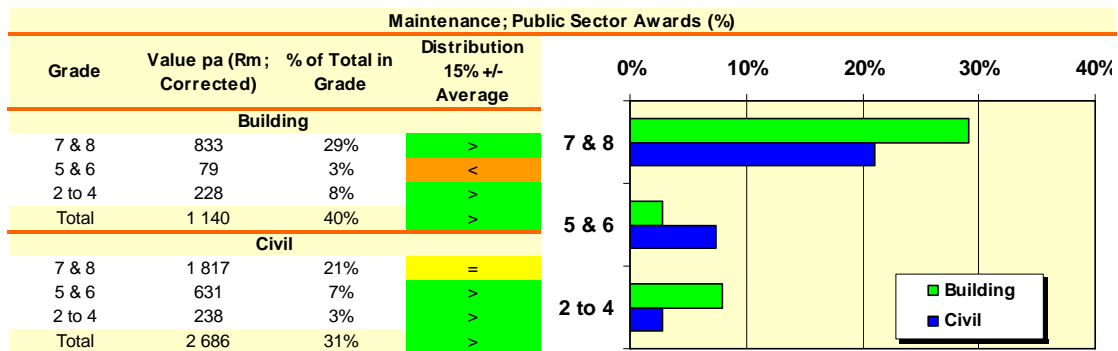
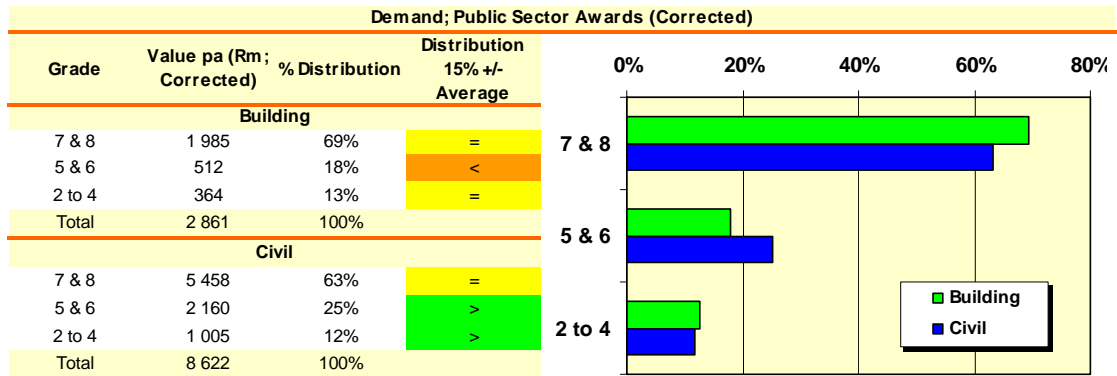
Upgrades & New Registrations

	2 to 4	5 & 6	7 & 8
Building			
Upgrades (to)	3	2	0
New Reg.	13	1	0
Civil			
Upgrades (to)	1	2	1
New Reg.	39	5	0

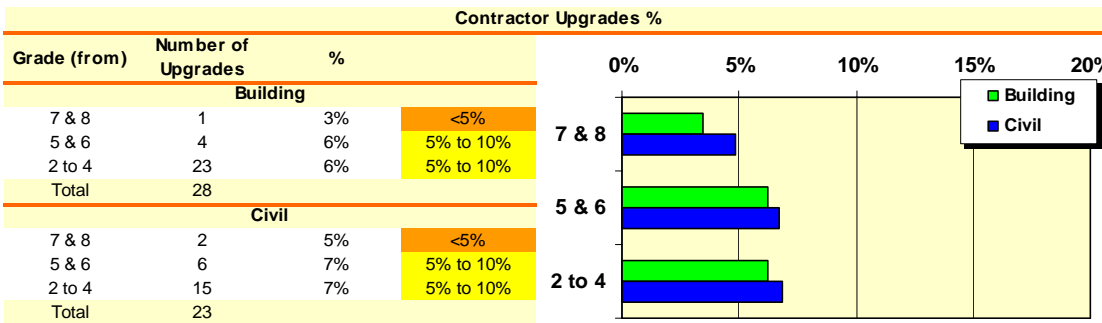
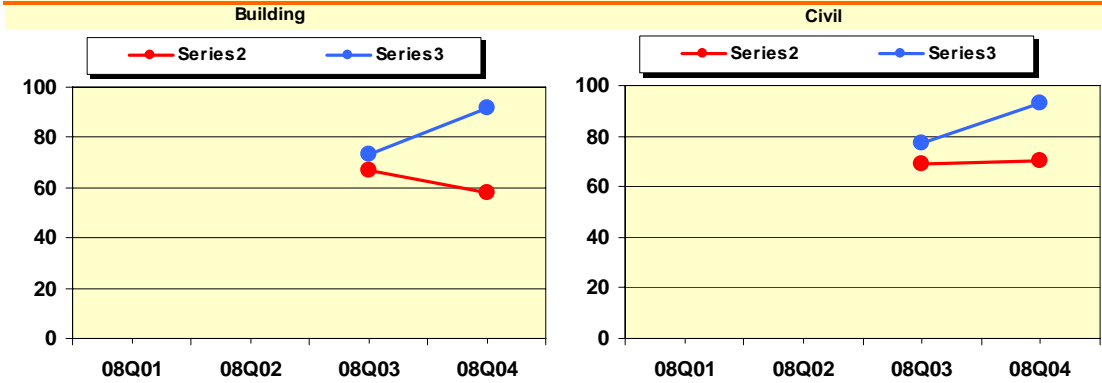
Number New Registrations



11. Western Cape

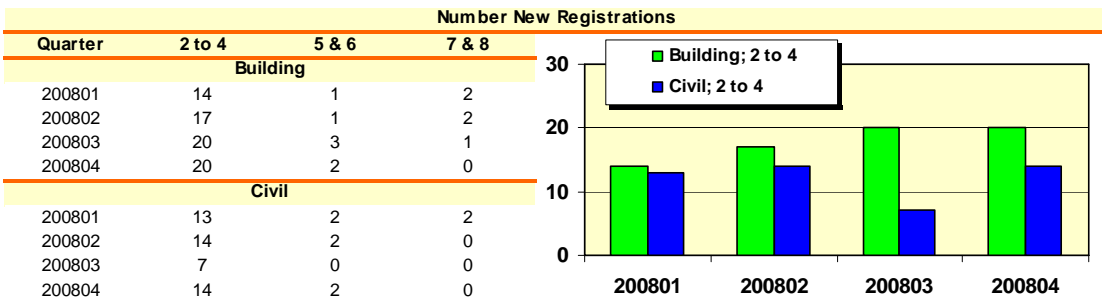


Insufficient Demand for Work per Grade / Business Confidence Index (BCI)



Contractor Upgrades				
From/To	2 to 4	5 & 6	7 & 8	9
Building				
7 & 8			0	1
5 & 6		0	4	0
2 to 4	20	3	0	0
Civil				
7 & 8			1	1
5 & 6		5	1	0
2 to 4	10	5	0	0

Upgrades & New Registrations			
	2 to 4	5 & 6	7 & 8
Building			
Upgrades (to)	20	3	4
New Reg.	71	7	5
Civil			
Upgrades (to)	10	10	2
New Reg.	48	6	2



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