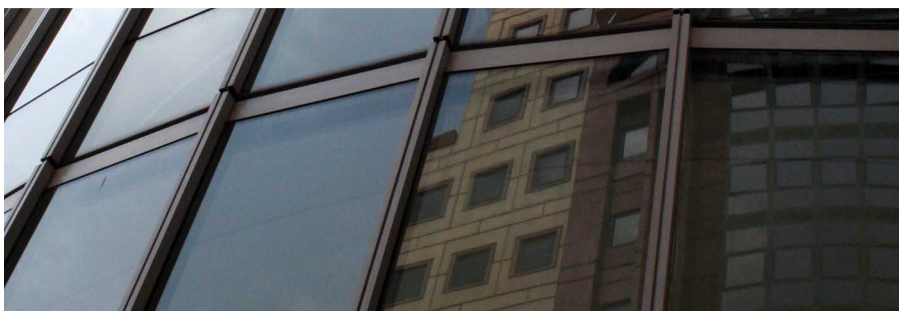


The cidb  
Quarterly Monitor:  
July 2008



THE ECONOMICS  
OF CONSTRUCTION  
IN SOUTH AFRICA

### **Acknowledgements:**

In addition to information obtained from the cidb Construction registers, the cidb Quarterly Monitor draws on the following external information sources:

- the Industry Insight Projects Database
- the BER Building Confidence Index; and
- the FNB/BER Civil Confidence Index

Their support is gratefully acknowledged.



## **cidb** QUARTERLY MONITOR ; JULY 2008

### 1. Introduction

The National Contractor Development Programme (NCDP) is a sector-specific intervention within the framework of South Africa's Accelerated and Shared Growth Initiative (AsgiSA). Led by the Minister of Public Works and the Provincial MECs, it is committed to the accelerated growth of the construction industry to meet rising national demand. Specifically, the NCDP is geared to address enhancing capacity and equity ownership across the different contracting categories and grades, as well as improved skills and performance in the delivery of capital works and maintenance across the public sector.

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 NCDP. This Quarterly Monitor covering the 3<sup>rd</sup> quarter 2007 to the 2<sup>nd</sup> quarter 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 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:

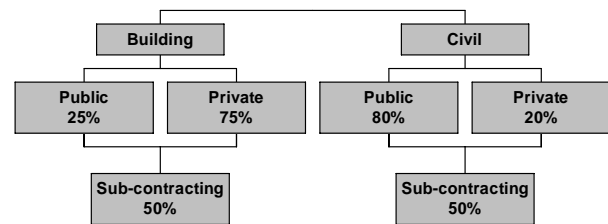
i) **Contracts Awarded:** Details of contracts awarded is obtained from the **cidb** iTender Register of Projects supported by the *Industry Insight* Project Database. The *Industry Insight* Project Database is considered to be about 60% or more accurate (and is constantly being improved). This data 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.

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

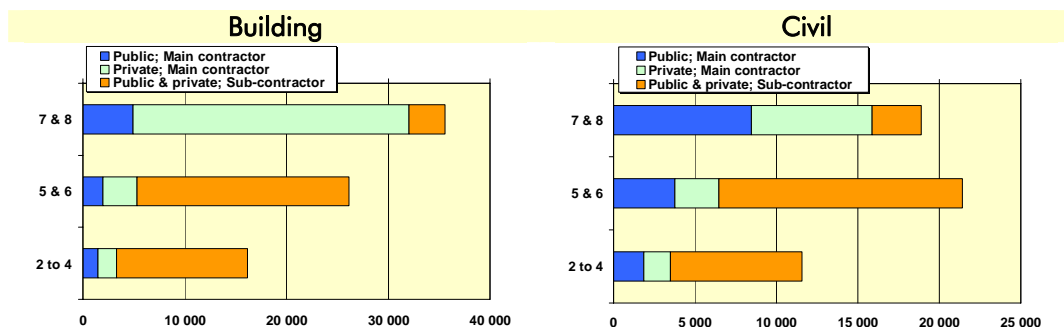
Most contractors would however target both public and private sector opportunities. Currently, public sector spend accounts for about 25% of total General Building activity and about 80% of Civil Engineering activity, although lower grade contractors, and in particular emerging contractors, would be more dependent of public sector contracts.

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) **Annual Turnover of Contractor Enterprises:** Although very dependent on the nature of work (e.g. roads, water supply and excavations), an important indicator in interpreting the cidb Quarterly Monitor in order to assess the sustainability of contractors is the ratio of the available work to the turnover per contractor – taking into account both public and private sector opportunities and sub-contracting opportunities. The average annual turnover of contractors per Grade is given in the adjacent table.

Contractor Grade	Average Annual Turnover (Rm pa)
7 & 8	108
5 & 6	13
2 to 4	2.2

- vi) **Competition / sustainability:** The cidb Quarterly Monitor then presents a “turnover ratio”, calculated as the average annual public sector awards per contractor normalised by the average annual turnover of the contractor (per class of works and per contractor grade per contractor). A turnover ratio of 1 (or 100%) would imply that a contractor could, on average, derive its total annual turnover only from public sector main contracts. A low turnover ratio indicates a highly competitive environment – which is likely to be an unsustainable environment.

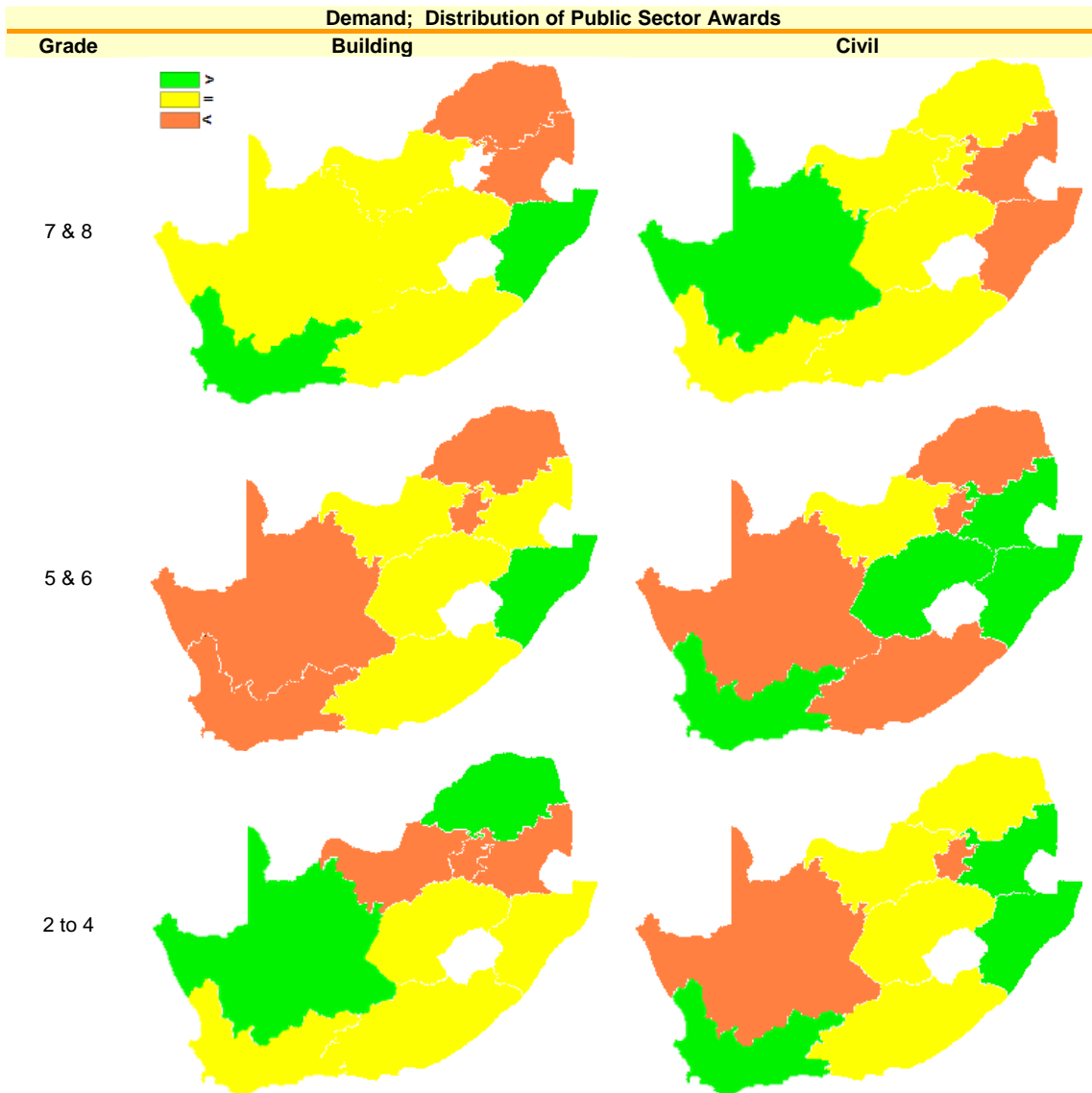
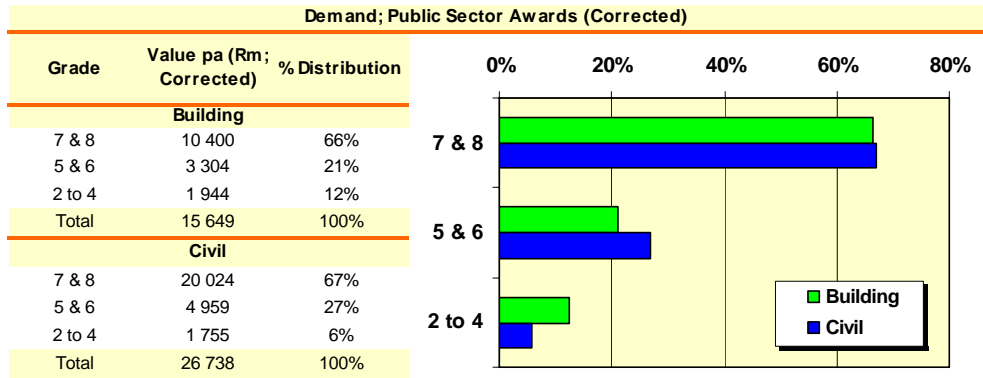
The cidb Quarterly Monitor also presents this information per province relative to the average turnover ratio (or competitiveness) for South Africa as a whole.

- vii) **Business Confidence:** The cidb Quarterly Monitor also presents the FNB/BER Building Confidence Index and the FNB/BER Civil Confidence Index for the country as a whole and covering public and private sector work is presented below. The Confidence Index represents the percentage of respondents rating the business conditions as satisfactory.
- viii) **Contractor Development:** This cidb Quarterly Monitor has been extended to include information on new registrations as well as contractors that have upgraded during the preceding 12 months. The information on upgrades considers only “compliant” applications (i.e. where the full financial and track record information has been provided), and also excludes new business enterprises (i.e. who do not have a previous track record at time of registration).

### 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 figure. The distribution in the public sector contracts awarded between the grades clearly reflects the infrastructure requirements of South Africa, but also reflects the distribution of public sector contracts to reflect contractor development priorities.

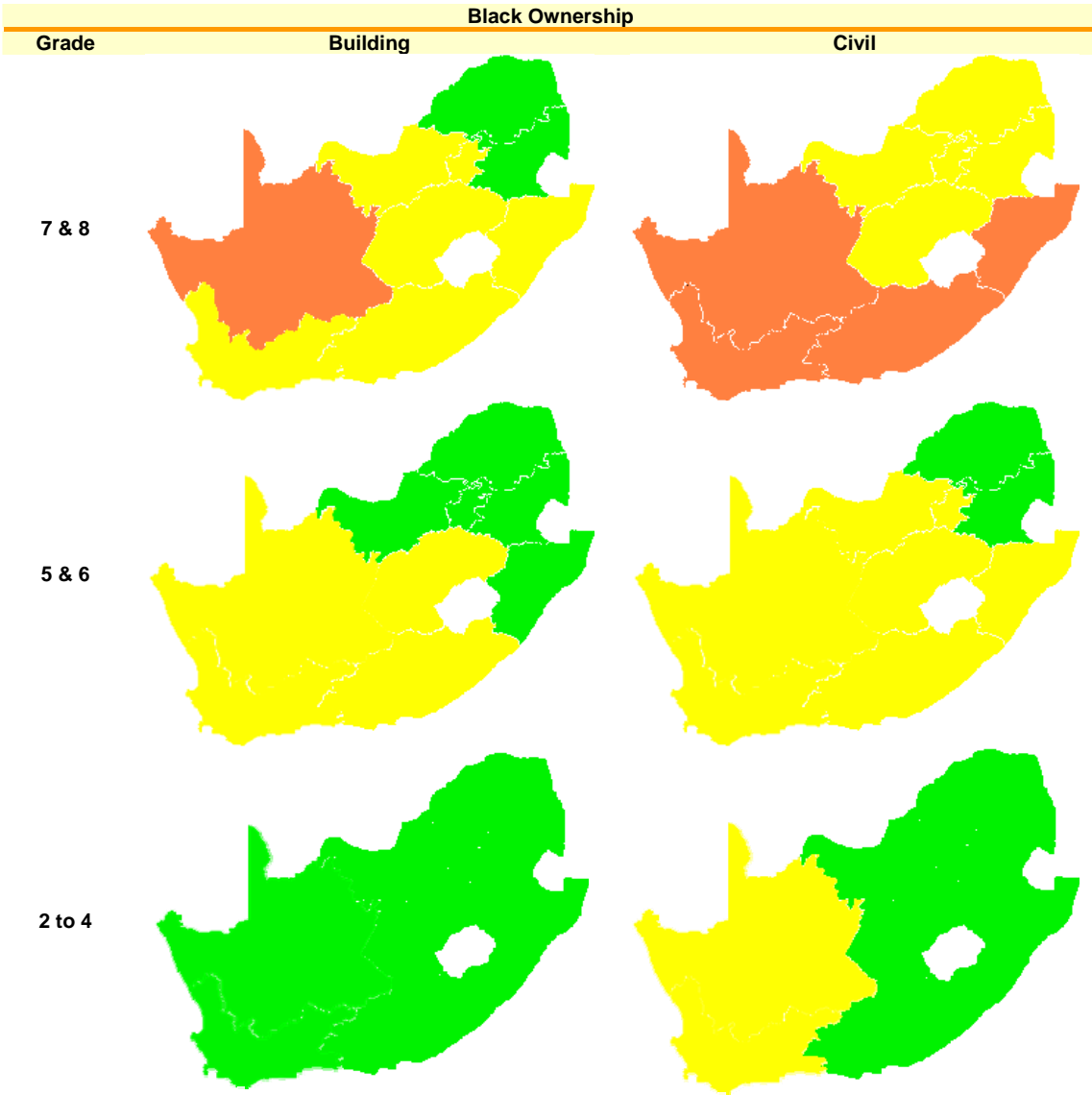
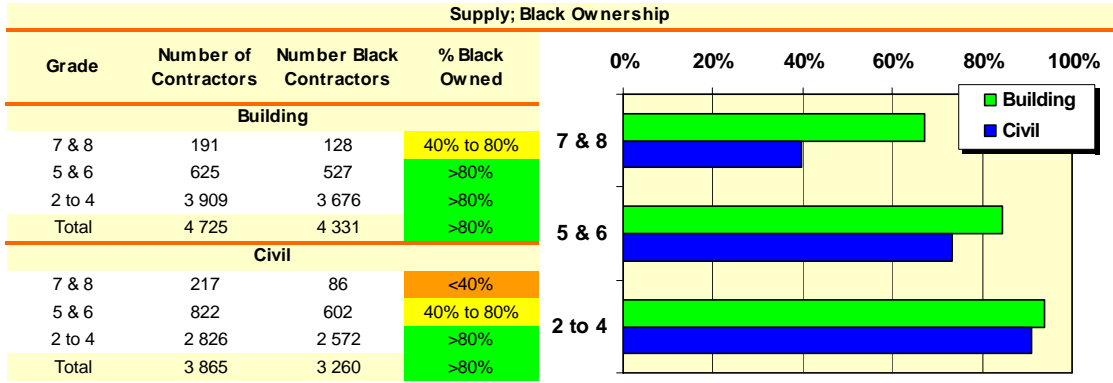
For the four quarters under review, it is noticeable that Limpopo has allocated a relatively high proportion of its General Building infrastructure spend to Grades 2 to 4 (around 27%)



**Supply; Black Ownership:** For South Africa as a whole (and in fact for every province in South Africa), 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 80% of all Grade 5 and 6 building contractors are black owned, while around 70% of all Grade 5 and 6 civil contractors are black owned.

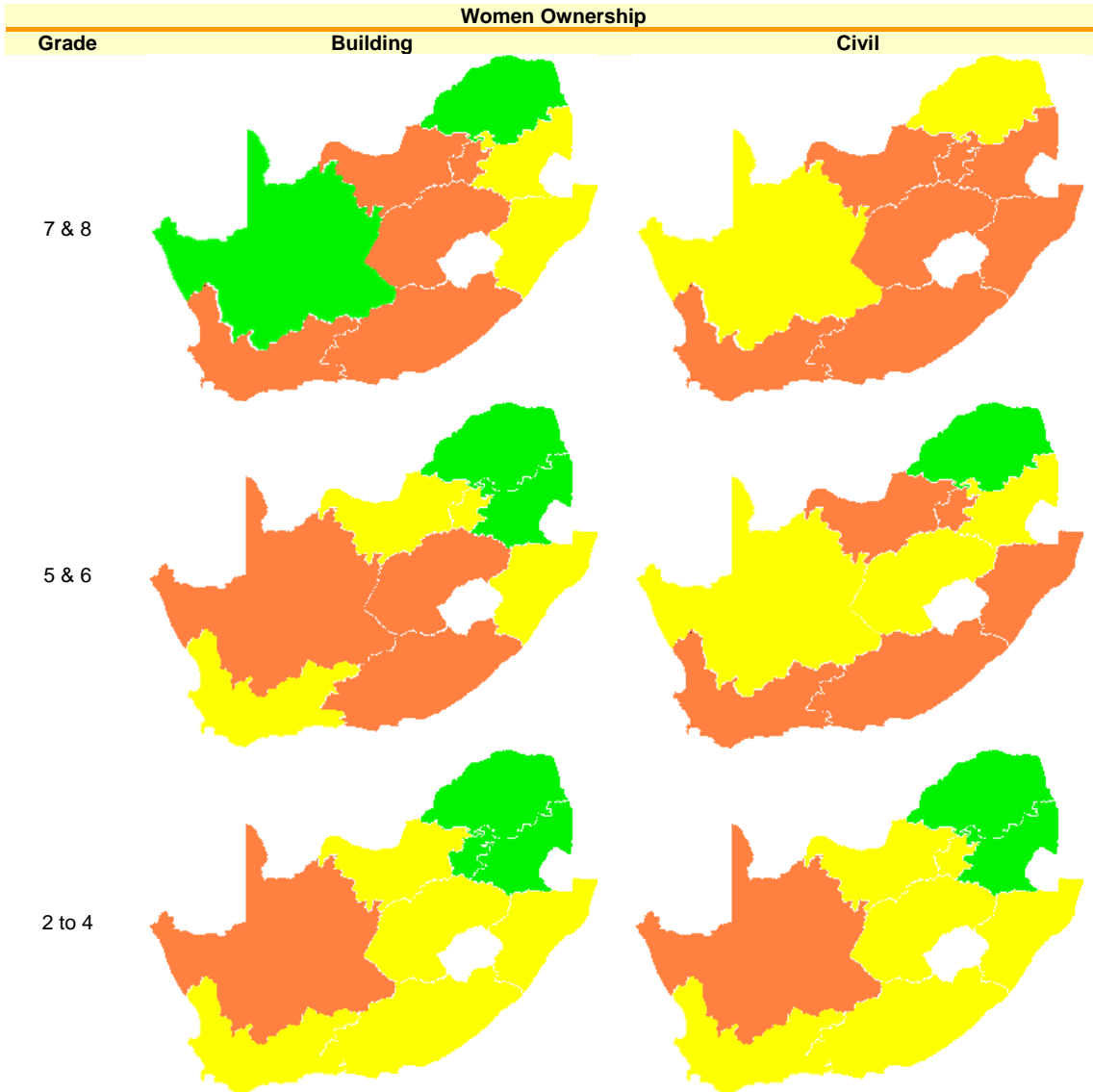
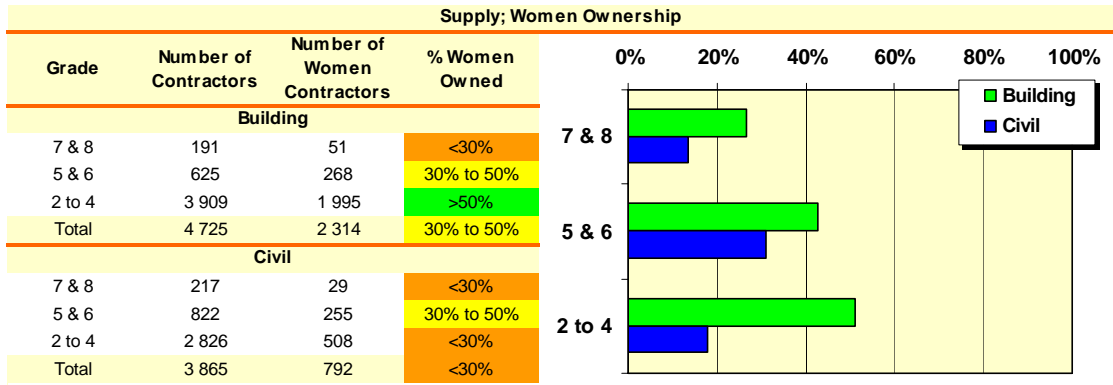
On a provincial basis, Limpopo and Mpumalanga have the highest proportion of black contractors across all grades and all classes of works (typically exceeding 80% black ownership).

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.



Key: See table above

**Supply; Women Ownership:** On average, around 40% of all Grade 3 and 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%.



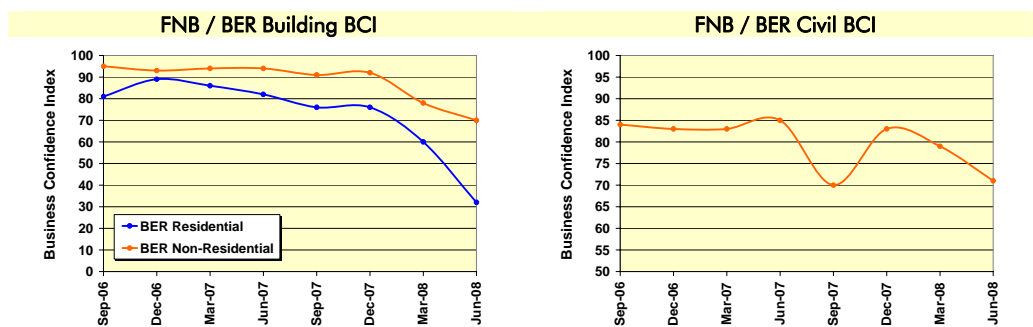
**Competition / Sustainability.** The average turnover ratio per contractor Grade and within various Classes of Works is shown in the adjacent table – from which it can be seen that, on average, building contractors in Grades 2 to 4 generate around 25% of their annual turnover from public sector main contracts. Similarly, on average, civil engineering contractors in Grades 2 to 4 generate around 50% of their annual turnover from public sector main contracts.

Expressed another way, on average, building contractors could expect a public sector main contract once every 4 years, and civil contractors once every 2 years – which illustrates the importance of the need for sub-contracting and for performance in a competitive environment.

A comparison of the turnover ratios within  $\pm 15\%$  of the national norm between the provinces is given in the attached figures. Specifically, for the four quarters under review and for General Building in Grades 2 to 4, it is seen that Free State, Gauteng, Mpumalanga and North West are more competitive than the remainder of the country. This reflects a slight shift compared to the previous Quarterly Monitor results.

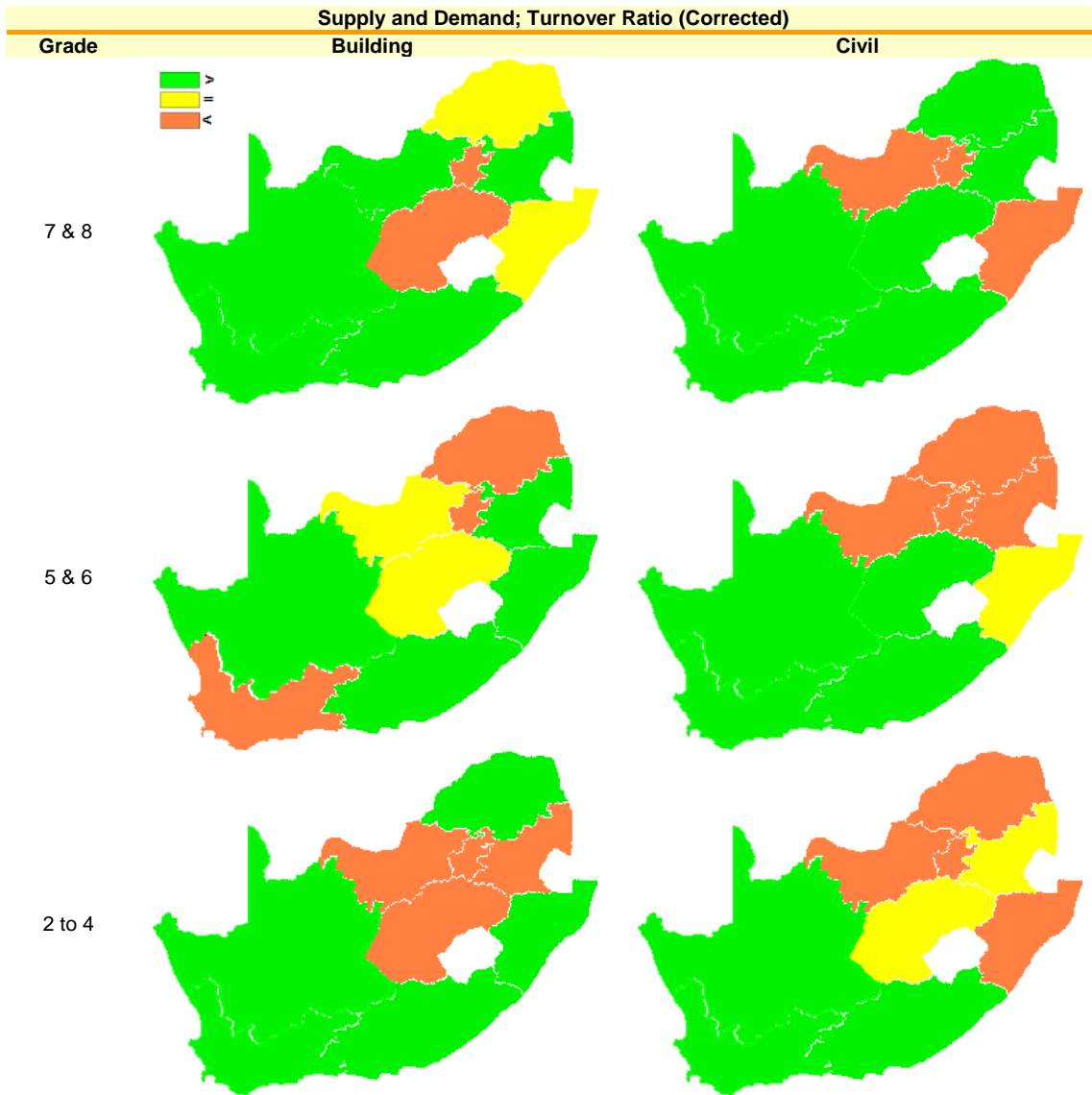
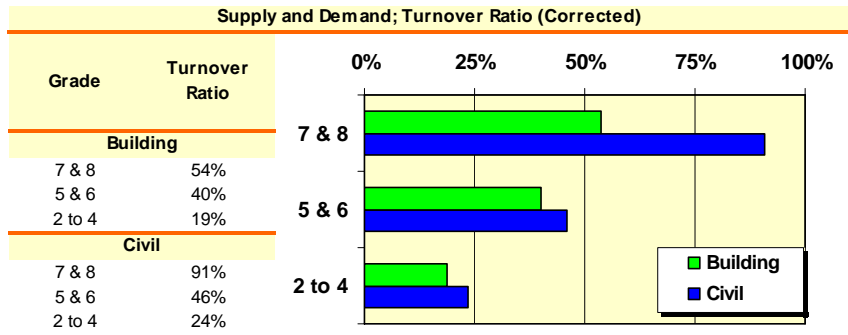
Within the Civil Engineering sector in Grades 2 to 4, Gauteng, KwaZulu Natal, Limpopo and North West are the most competitive.

**Business Confidence Index.** Another indicator of competitiveness is the Business Confidence Index. The BER Building Confidence Index and the FNB/BER Civil Confidence Index for the country as a whole and covering public and private sector work is presented below, where the index represents the percentage of respondents rating the business conditions as satisfactory.



Source: Bureau for Economic Research; <http://www.ber.ac.za>

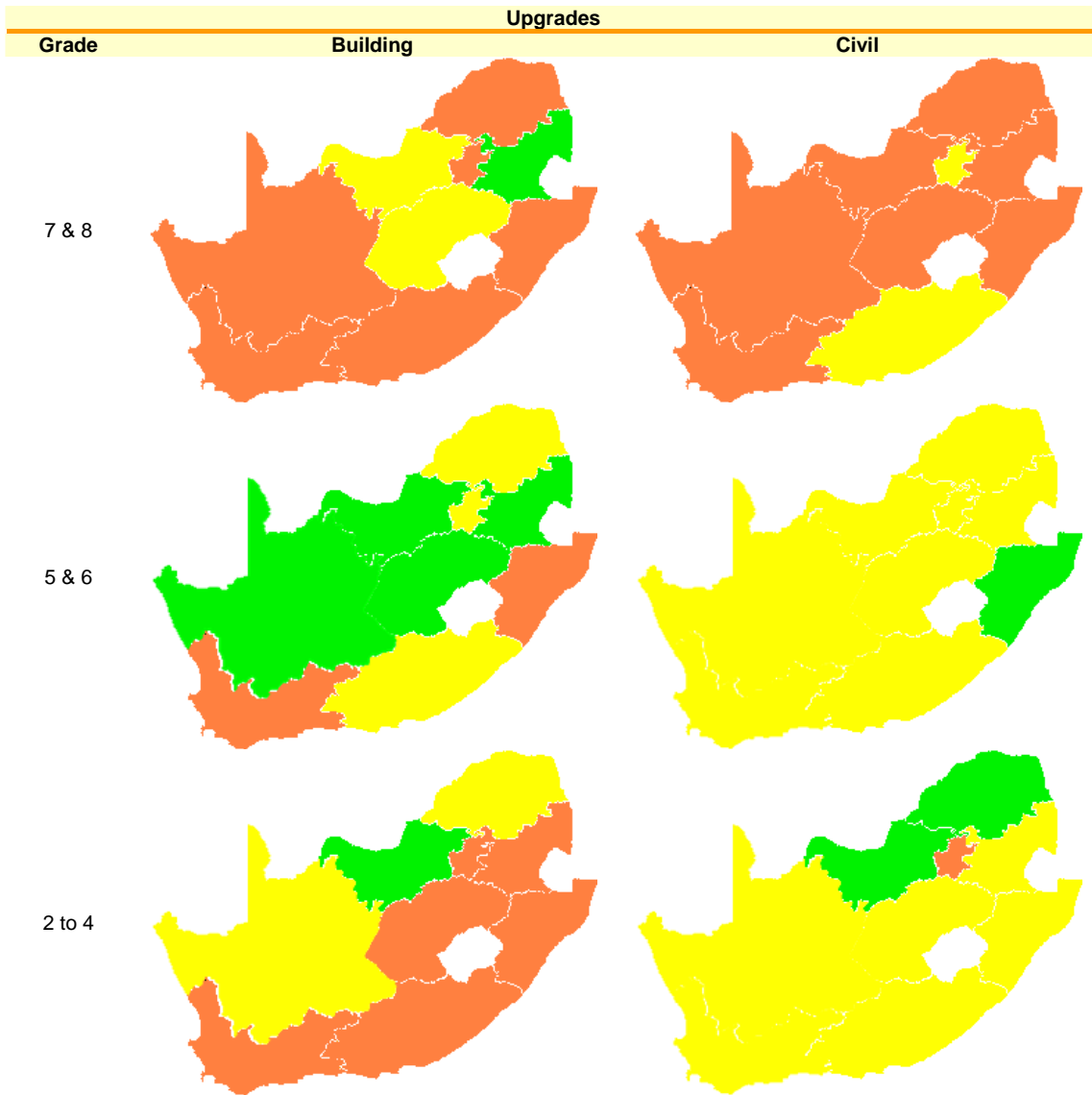
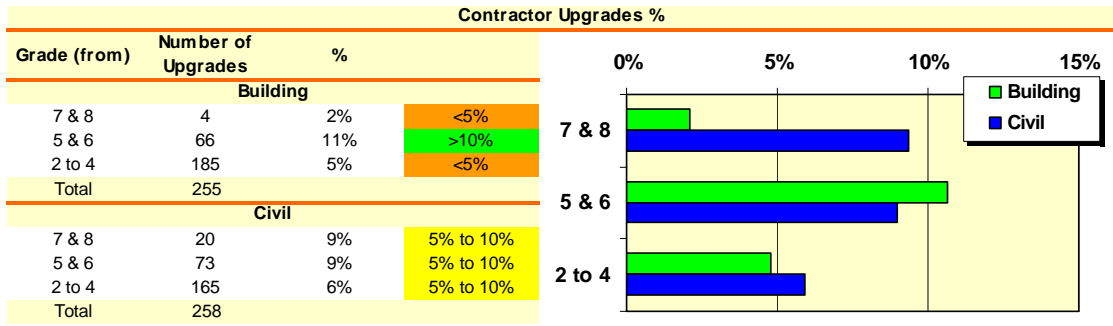
It can be seen from the above that business confidence in the building sector has again dropped sharply this last quarter – and hence competitiveness is increasing. (Note however that the public sector is not a major player in the residential sector.) Business confidence in the civil sector also dropped in the last quarter.



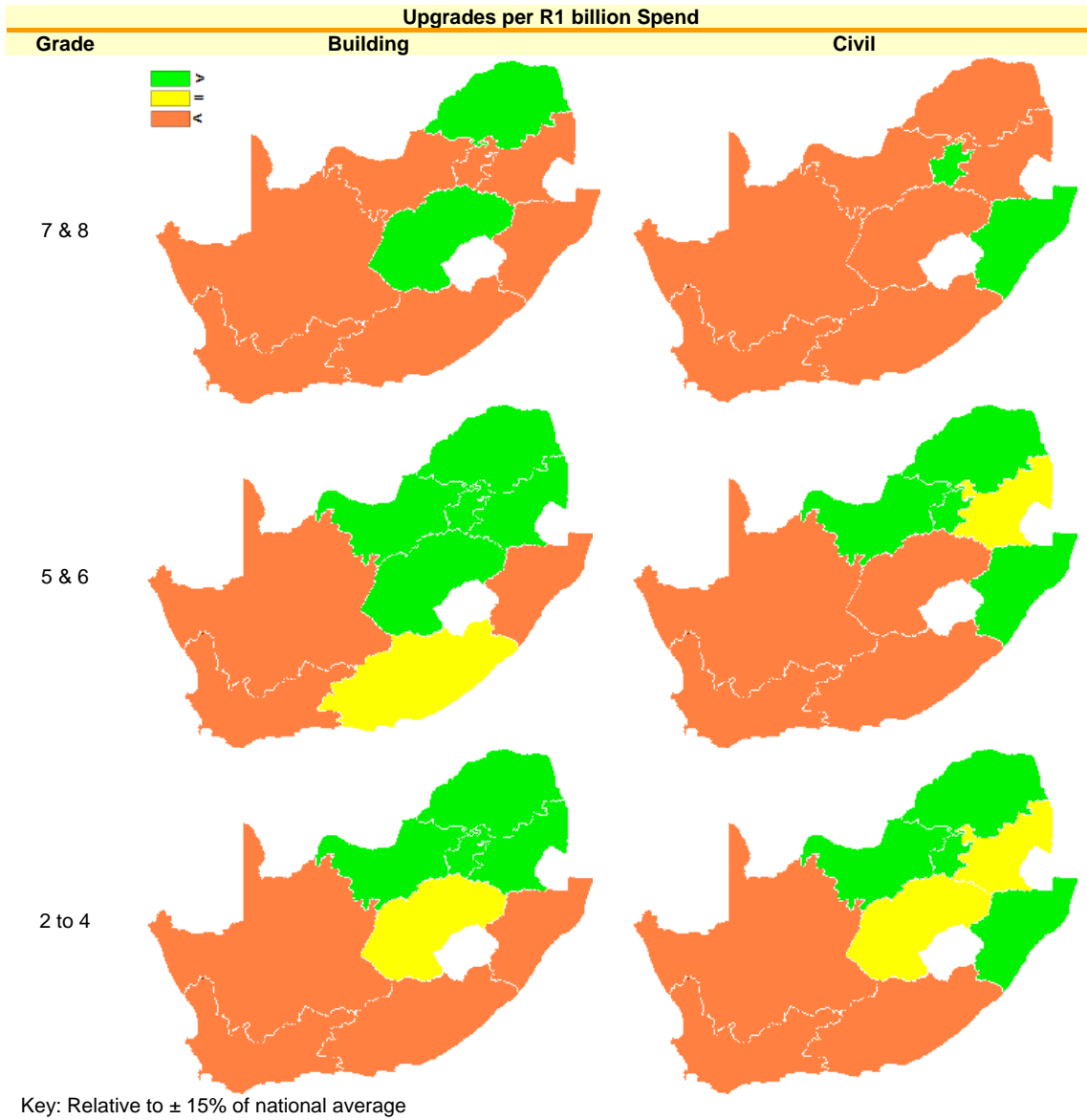
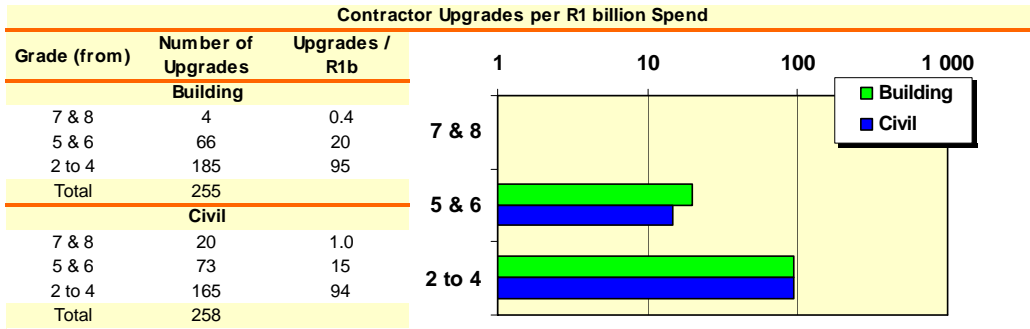
**Contractor Development:** Details of the upgrading of contractors in the building and civil sectors within the past four quarters is shown in the adjacent figure. On average, around 5% of Grade 2 to 4 contractors are upgrading per year, and around 10% in Grades 5 and 6 within the building sector.

A relatively large number of upgrades was observed in Grades 7 and 8 in the Civil Engineering sector in the four quarters under review – largely attributable to upgrades in Gauteng and in KwaZulu Natal.

An overview of contractor upgrading per province is given in the adjacent figures – and again it is seen that (broadly speaking), the highest upgrading of contractors is taking place in Grades 5 and 6. The lowest percentage of upgrades of General Building contractors in Grades 2 to 4 occurs in the Eastern Cape, Free State, Gauteng and Northern Cape.



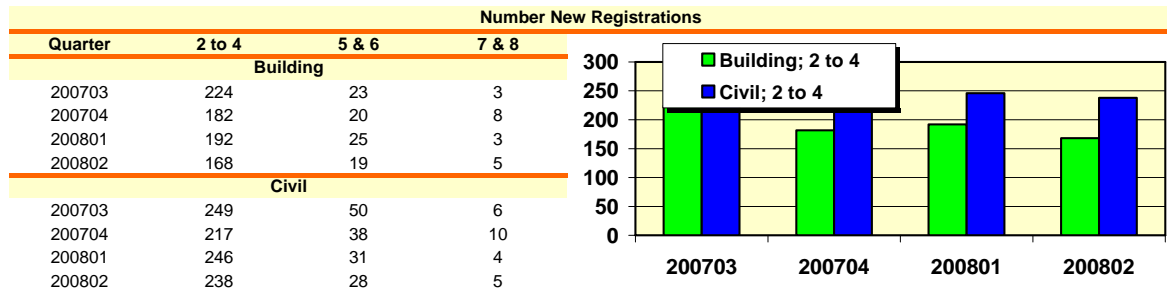
*Contractor Development (continued):* A useful indicator is the number of contractor upgrades per R1billion of public sector awards shown in the adjacent table and figures. Of interest is that the highest number of contractors per R1billion investment is directly (inversely) correlated with the contractor competitiveness in the province.



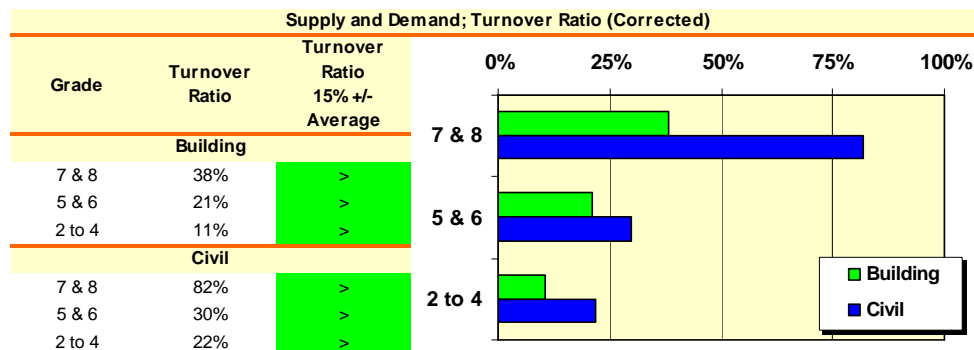
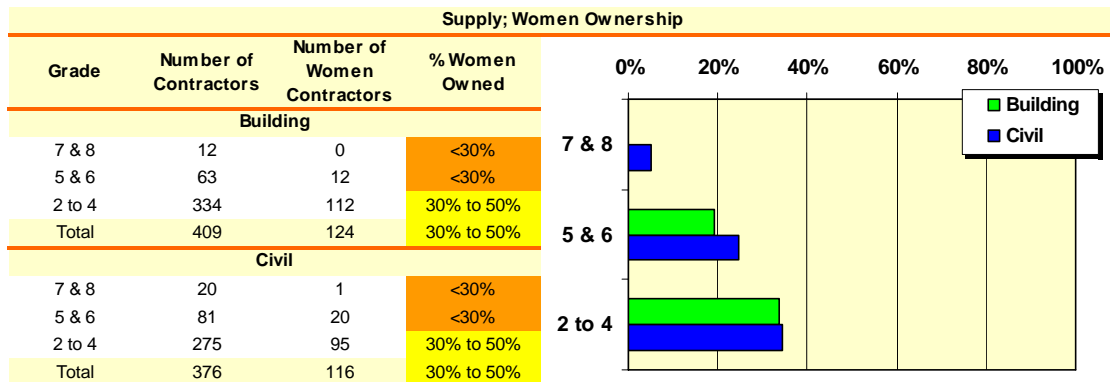
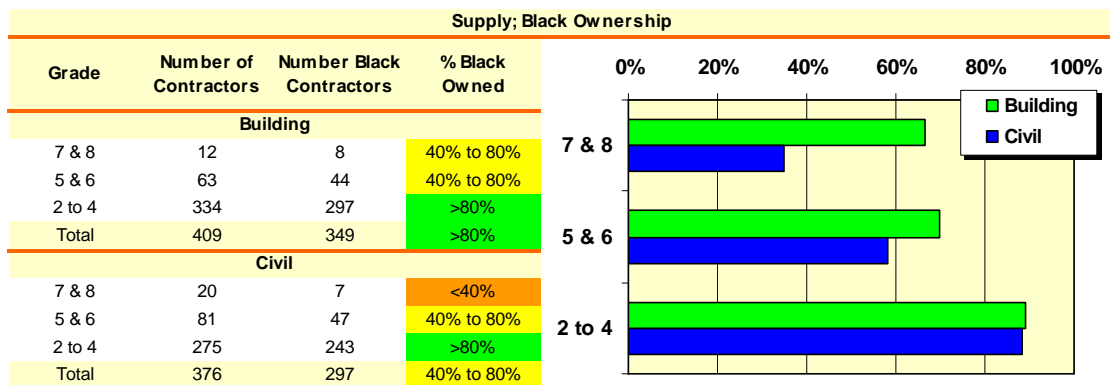
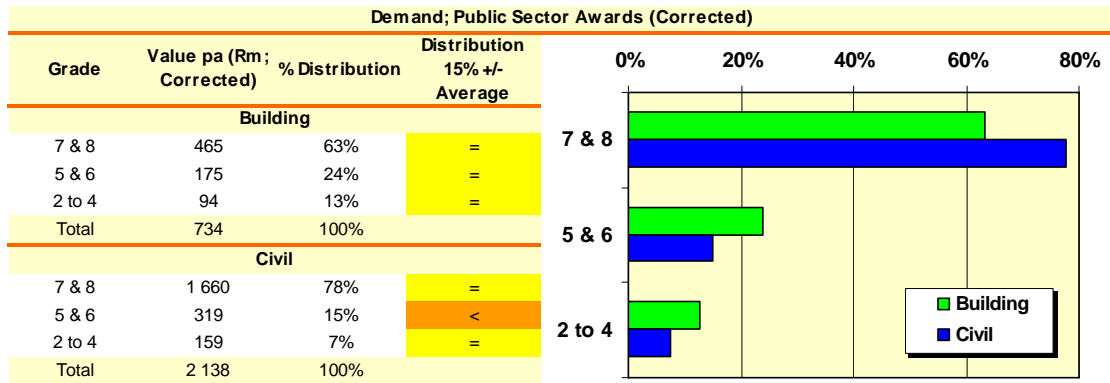
**Contractor Development (continued):** A comparison between the number of upgrades and the number of new registrations over the past four quarters is given in the adjacent table. Of interest is that the number of upgrades in Grades 5 & 6 and in 7 & 8 in both General Building and in Civil Engineering typically exceeds the number of new registrations. However, in Grades 2 to 4 the number of new registrations far exceeds the number of upgrades taking place – suggesting an unsustainable situation.

The number of new registrations per quarter in Grades 2 to 4 is shown below, which shows a constant flow of 200 or more new registrations per quarter in General Building and in Civil Engineering.

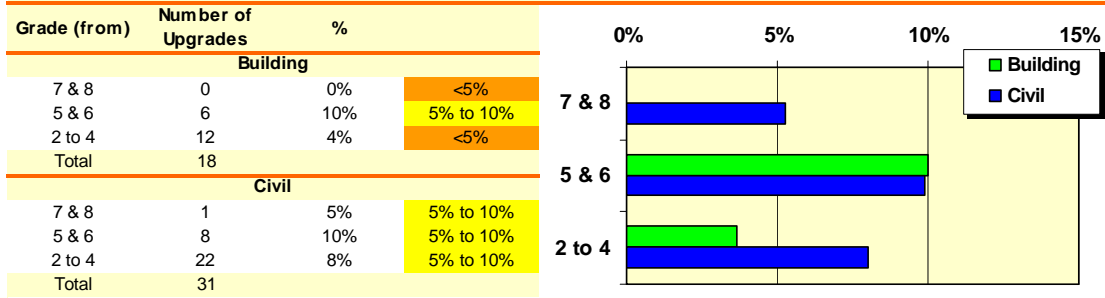
Upgrades & New Registrations			
	2 to 4	5 & 6	7 & 8
<b>Building</b>			
Upgrades (to)	68	136	49
New Reg.	766	87	19
<b>Civil</b>			
Upgrades (to)	56	146	51
New Reg.	950	147	25



#### 4. Eastern Cape

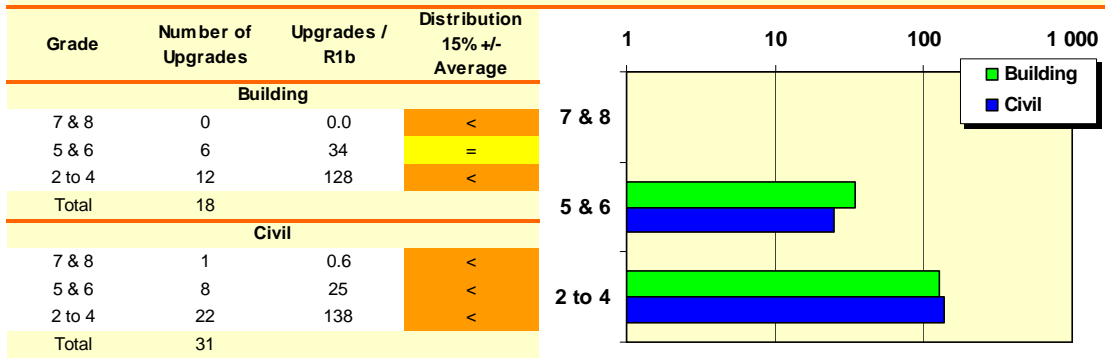


**Contractor Upgrades %**



Contractor Upgrades				
From/To	2 to 4	5 & 6	7 & 8	9
<b>Building</b>				
7 & 8			0	0
5 & 6		3	3	0
2 to 4	2	10	0	0
<b>Civil</b>				
7 & 8			1	0
5 & 6		6	2	0
2 to 4	7	14	1	0

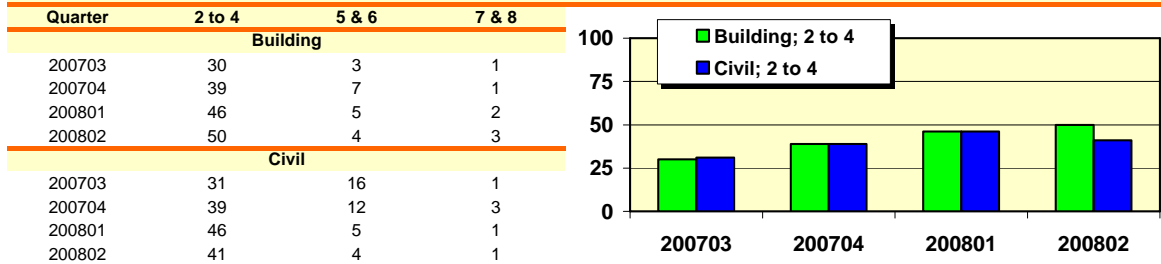
**Contractor Upgrades per R1 billion Spend**



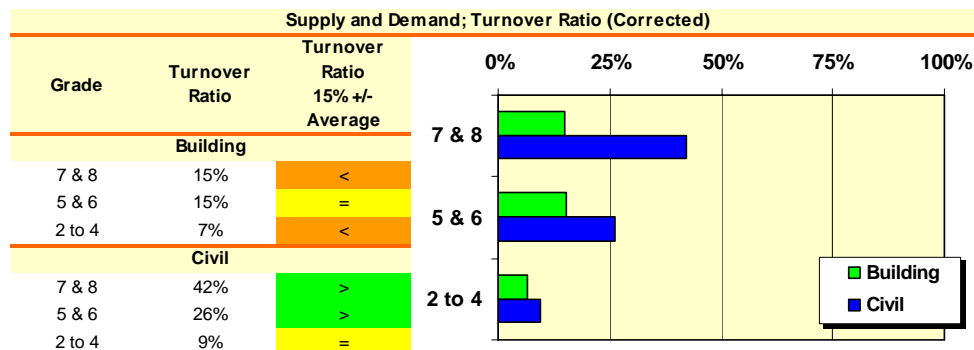
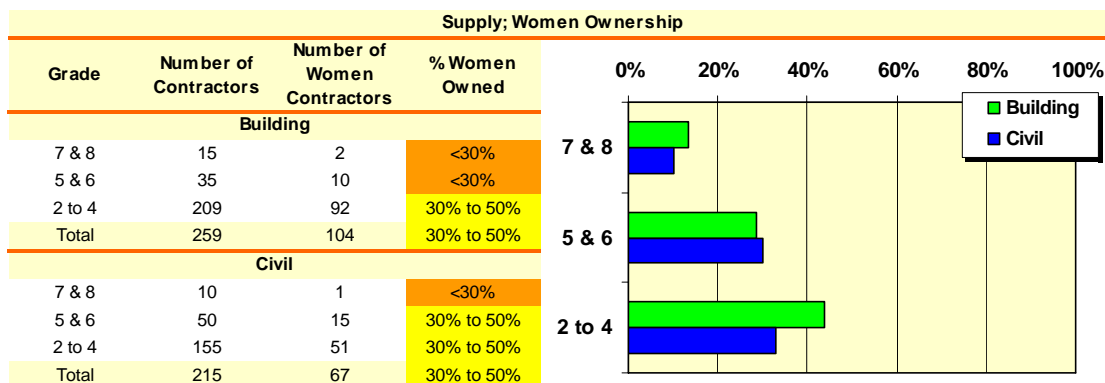
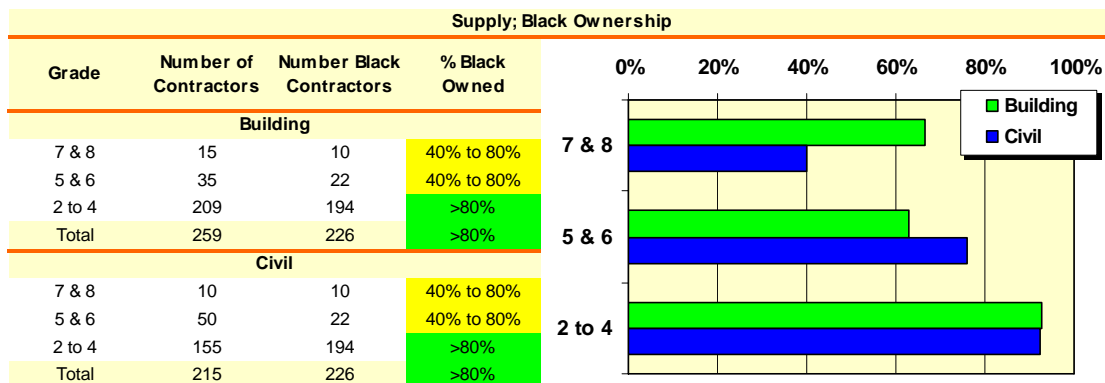
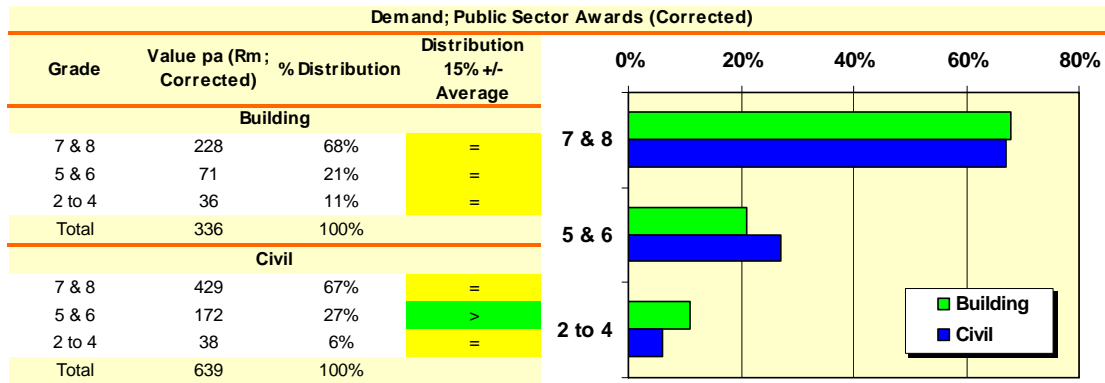
**Upgrades & New Registrations**

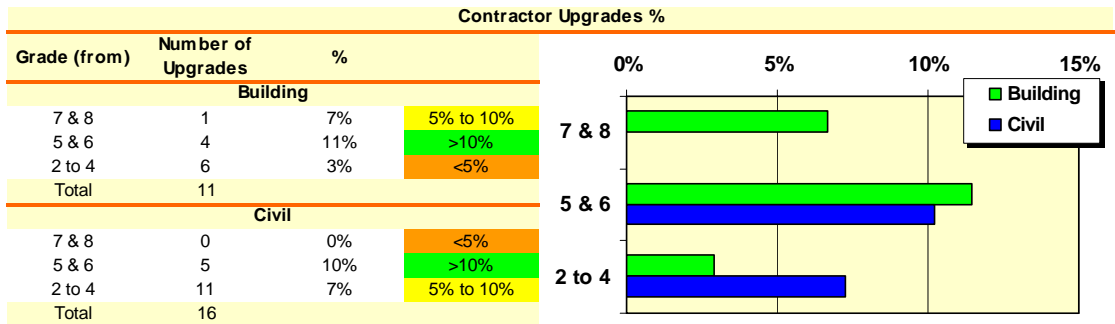
	2 to 4	5 & 6	7 & 8
<b>Building</b>			
Upgrades (to)	2	13	3
New Reg.	95	6	2
<b>Civil</b>			
Upgrades (to)	7	20	4
New Reg.	102	13	0

**Number New Registrations**



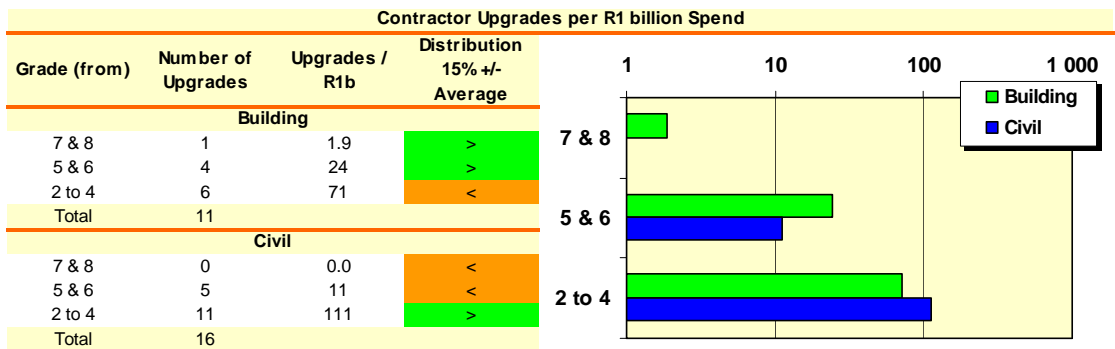
## 5. Free State





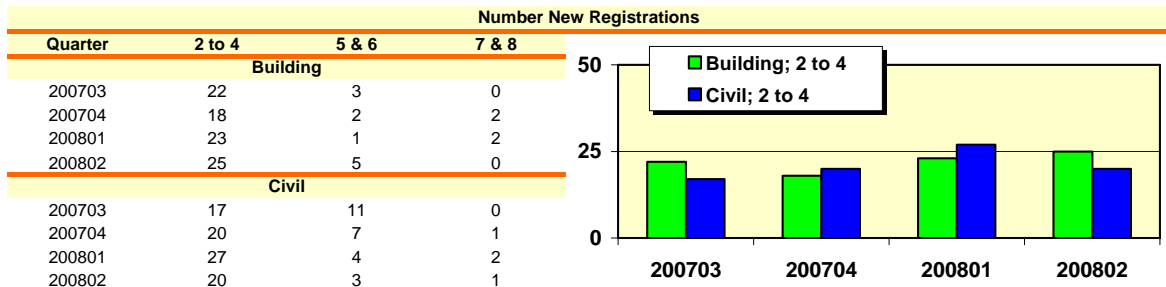
**Contractor Upgrades**

From/To	2 to 4	5 & 6	7 & 8	9
<b>Building</b>				
7 & 8			0	1
5 & 6		4	9	0
2 to 4	5	14	4	0
<b>Civil</b>				
7 & 8			4	3
5 & 6		5	12	0
2 to 4	3	20	2	0

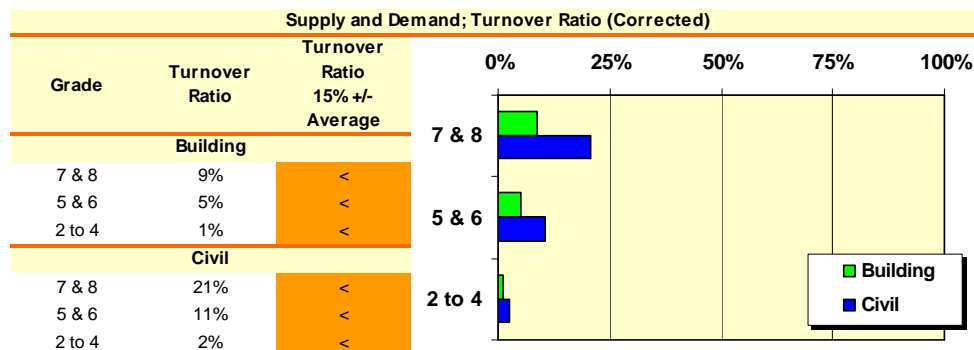
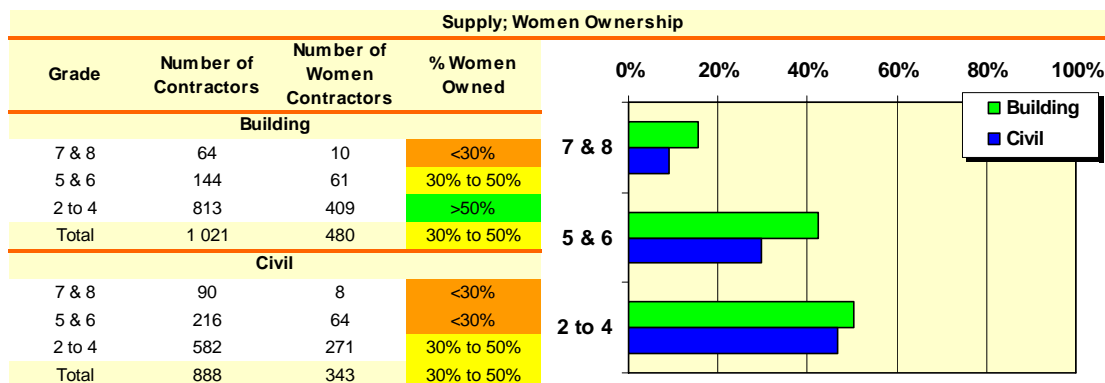
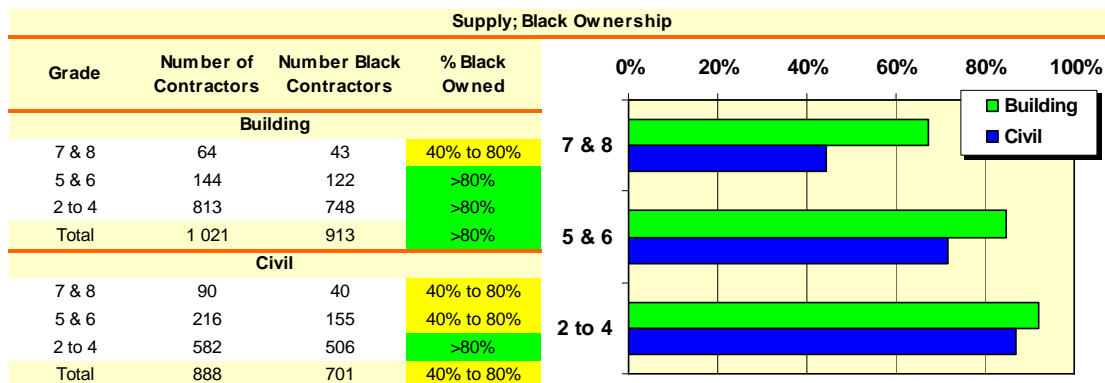
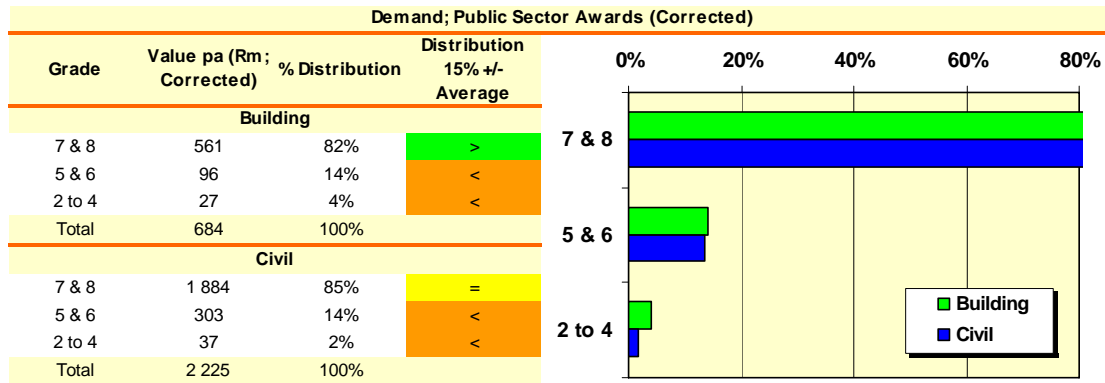


**Upgrades & New Registrations**

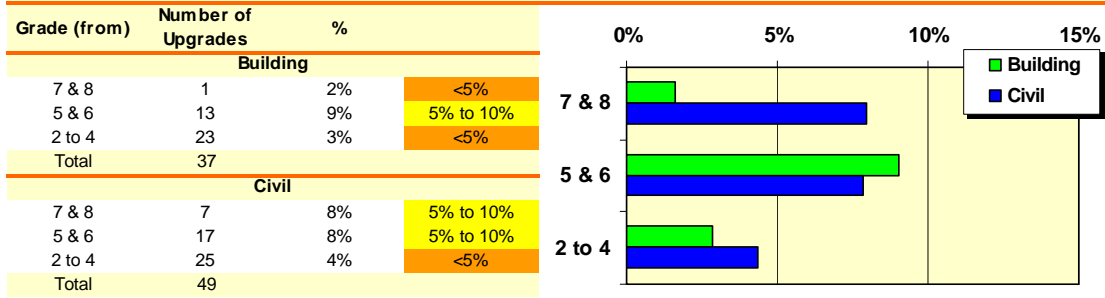
	2 to 4	5 & 6	7 & 8
<b>Building</b>			
Upgrades (to)	5	18	13
New Reg.	39	3	0
<b>Civil</b>			
Upgrades (to)	3	25	18
New Reg.	67	8	0



## 6. Gauteng

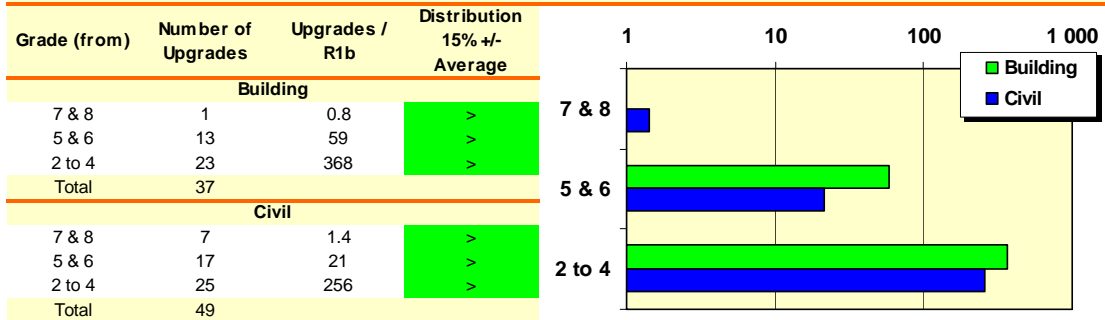


**Contractor Upgrades %**



Contractor Upgrades				
From/To	2 to 4	5 & 6	7 & 8	9
<b>Building</b>				
7 & 8			0	1
5 & 6		4	9	0
2 to 4	5	14	4	0
<b>Civil</b>				
7 & 8			4	3
5 & 6		5	12	0
2 to 4	3	20	2	0

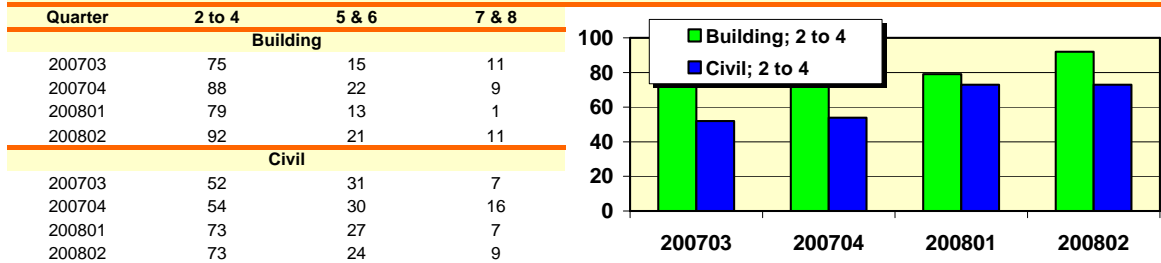
**Contractor Upgrades per R1 billion Spend**



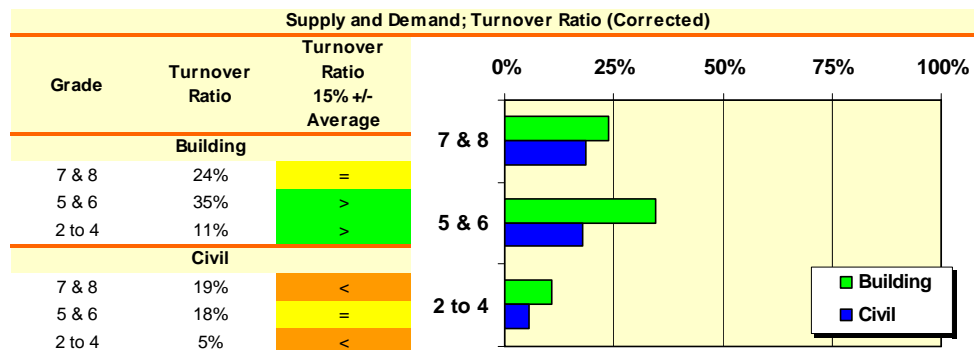
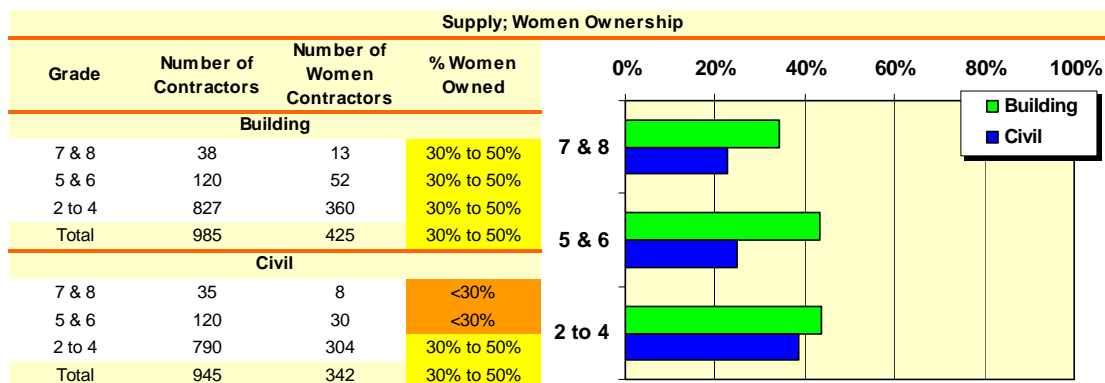
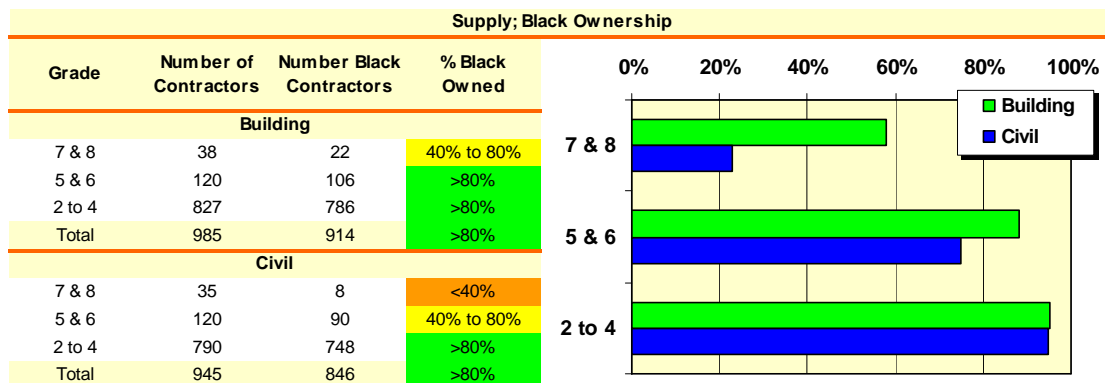
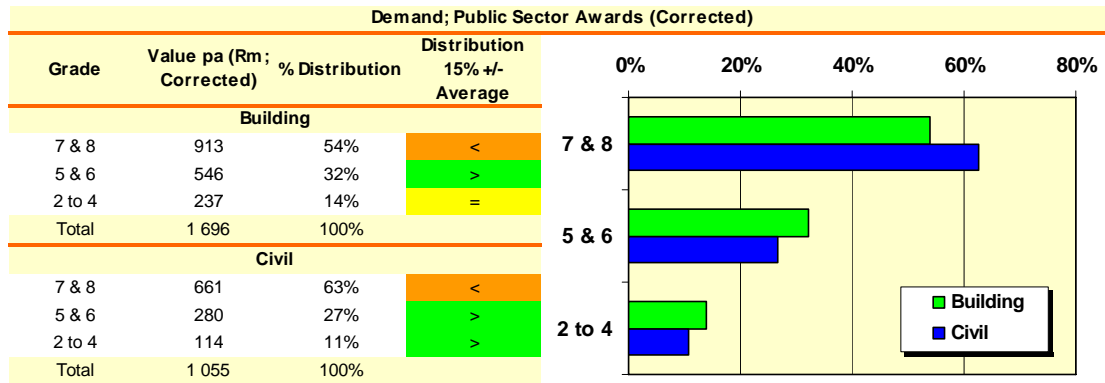
**Upgrades & New Registrations**

	2 to 4	5 & 6	7 & 8
<b>Building</b>			
Upgrades (to)	5	18	13
New Reg.	163	35	8
<b>Civil</b>			
Upgrades (to)	3	25	18
New Reg.	193	59	17

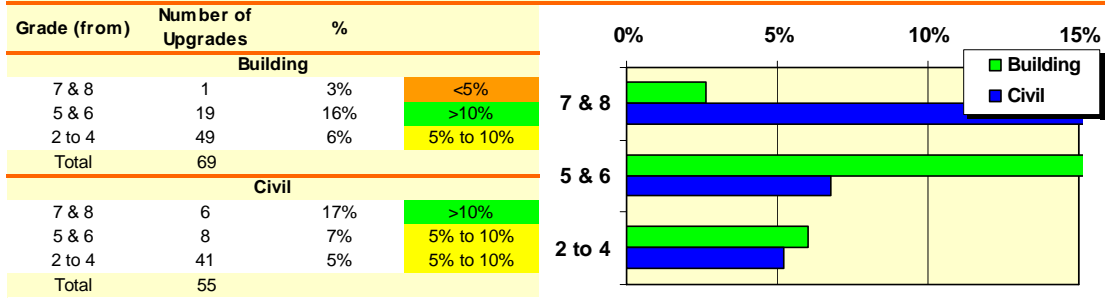
**Number New Registrations**



## 7. KwaZulu Natal



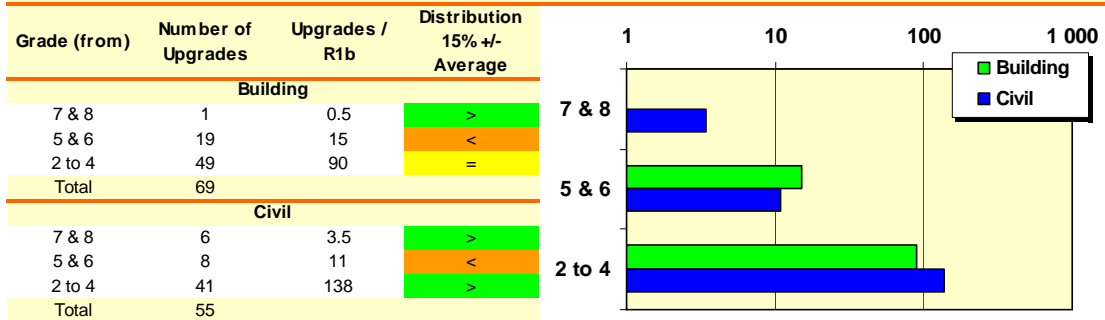
**Contractor Upgrades %**



**Contractor Upgrades**

From/To	2 to 4	5 & 6	7 & 8	9
<b>Building</b>				
7 & 8			1	0
5 & 6		7	12	0
2 to 4	18	30	1	0
<b>Civil</b>				
7 & 8			5	1
5 & 6		5	3	0
2 to 4	18	23	0	0

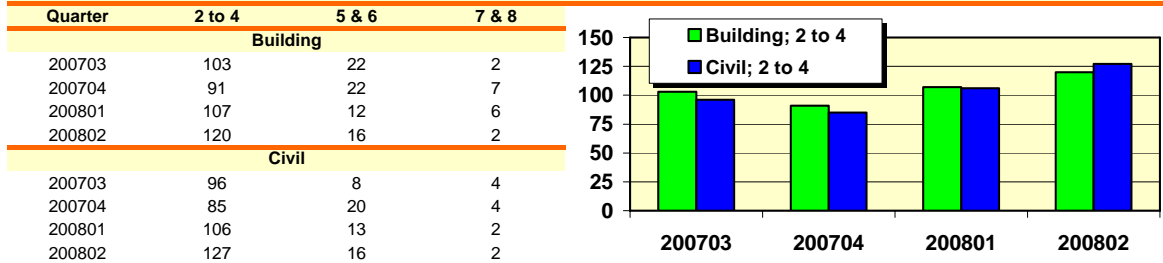
**Contractor Upgrades per R1 billion Spend**



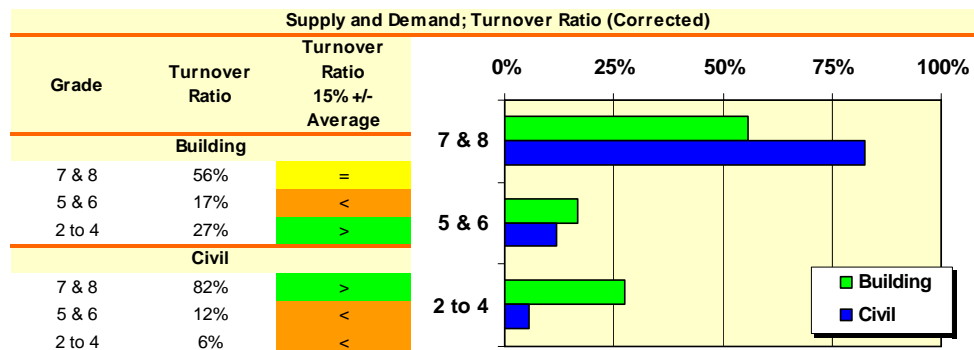
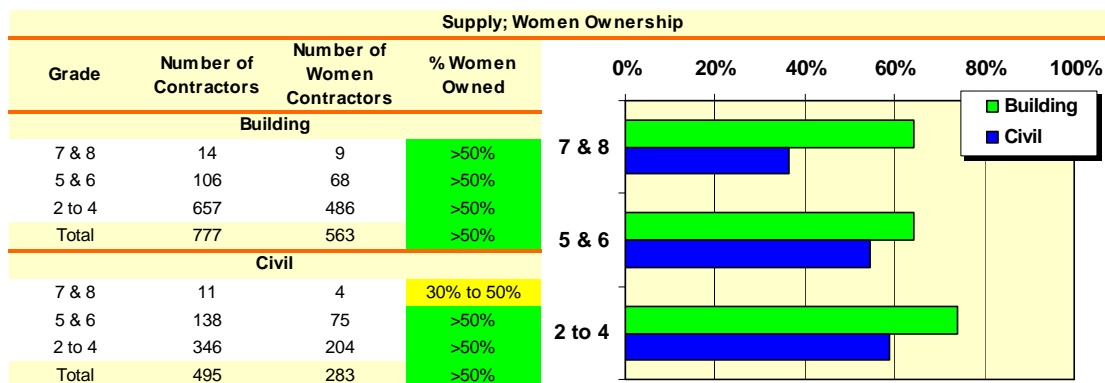
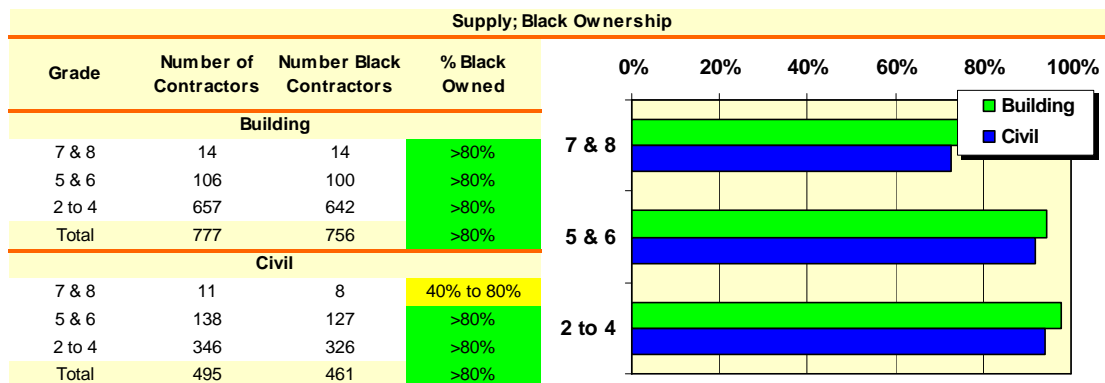
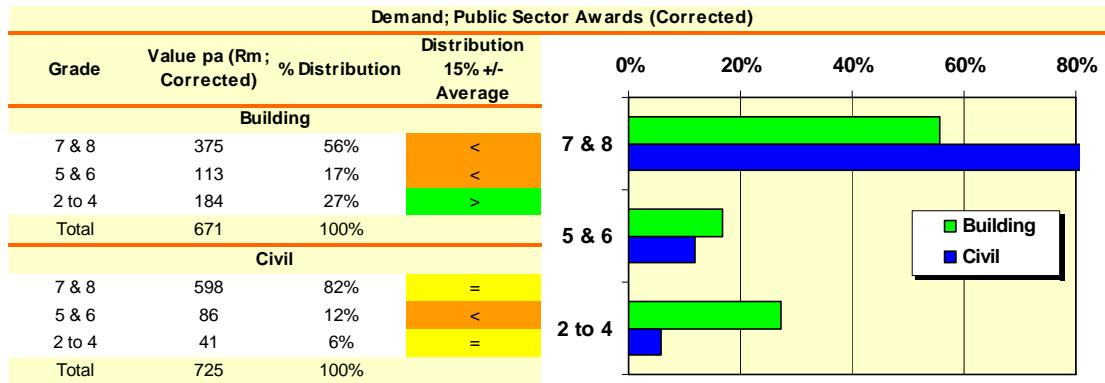
**Upgrades & New Registrations**

	2 to 4	5 & 6	7 & 8
<b>Building</b>			
Upgrades (to)	18	37	14
New Reg.	163	13	1
<b>Civil</b>			
Upgrades (to)	18	28	8
New Reg.	226	15	1

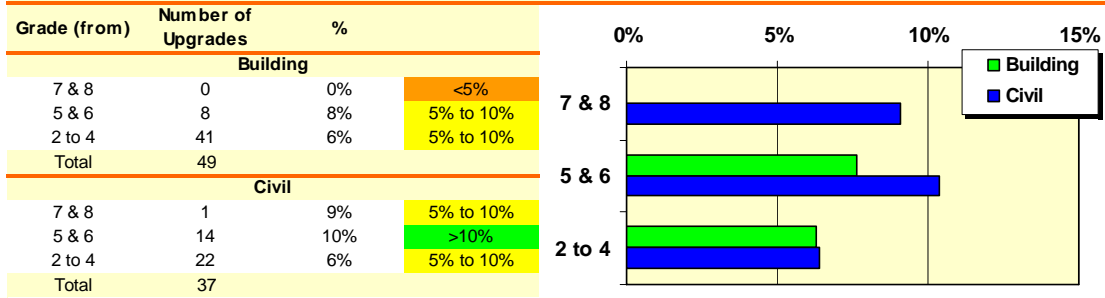
**Number New Registrations**



## 8. Limpopo



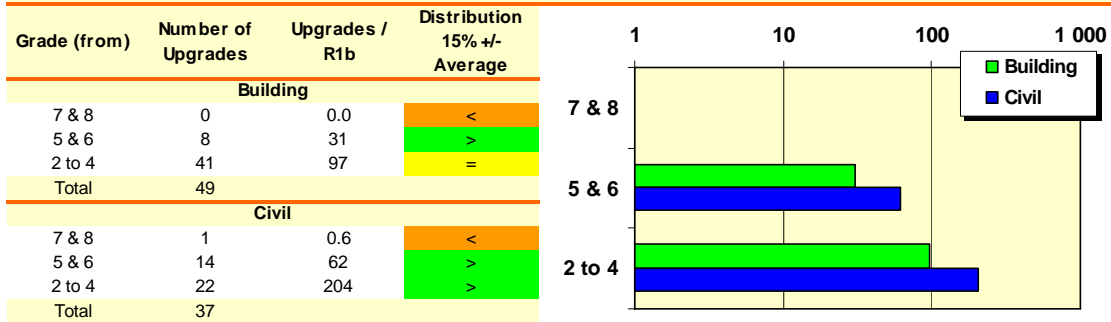
**Contractor Upgrades %**



**Contractor Upgrades**

From/To	2 to 4	5 & 6	7 & 8	9
<b>Building</b>				
7 & 8			0	0
5 & 6		5	3	0
2 to 4	13	25	3	0
<b>Civil</b>				
7 & 8			1	0
5 & 6		11	3	0
2 to 4	6	16	0	0

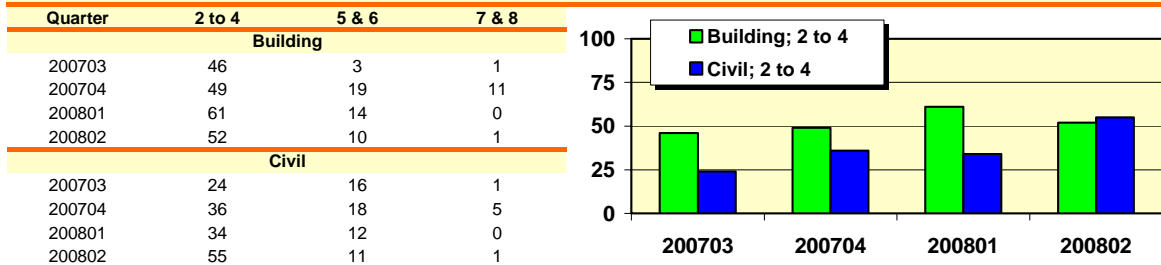
**Contractor Upgrades per R1 billion Spend**



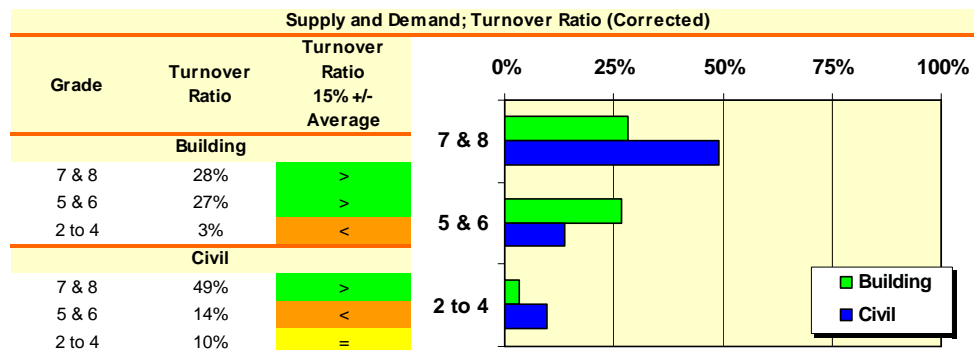
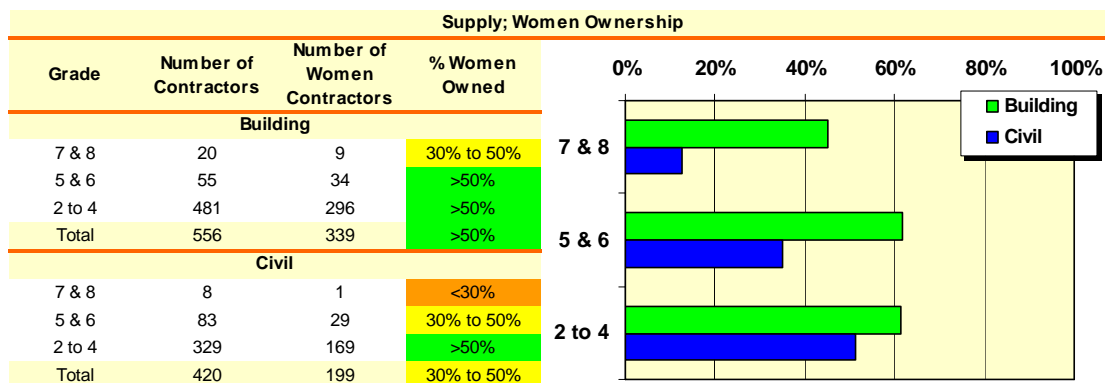
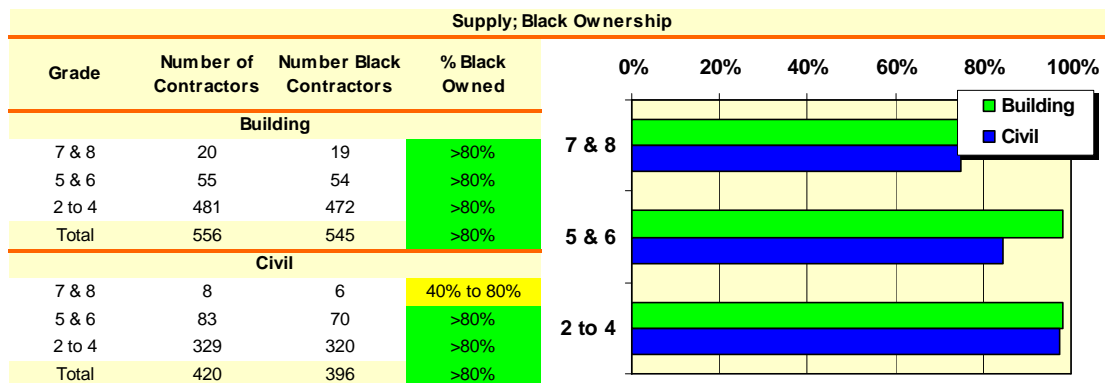
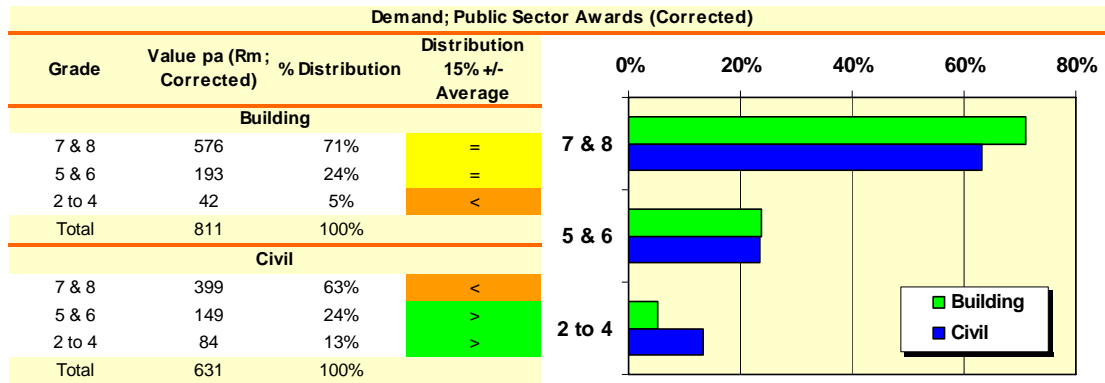
**Upgrades & New Registrations**

	2 to 4	5 & 6	7 & 8
<b>Building</b>			
Upgrades (to)	13	30	6
New Reg.	75	4	1
<b>Civil</b>			
Upgrades (to)	6	27	4
New Reg.	111	18	2

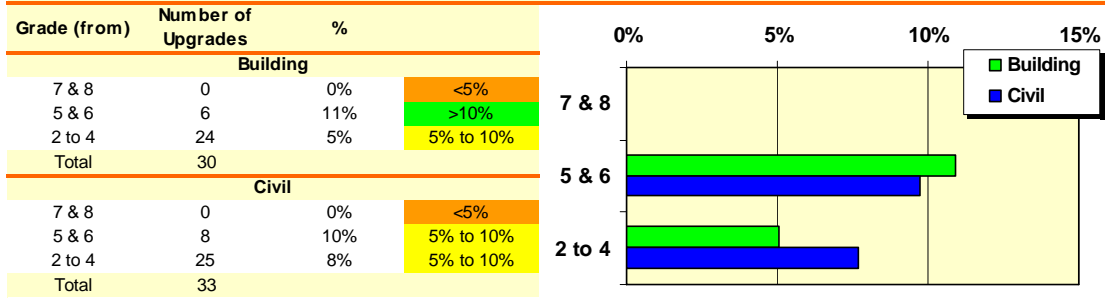
**Number New Registrations**



## 9. Mpumalanga



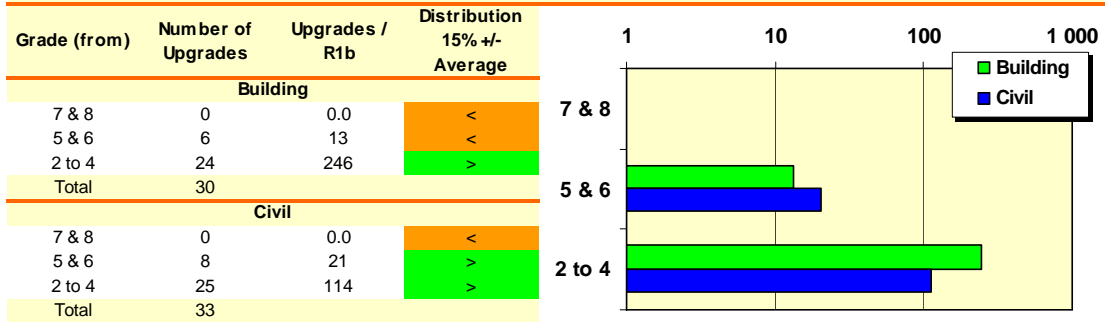
**Contractor Upgrades %**



**Contractor Upgrades**

From/To	2 to 4	5 & 6	7 & 8	9
<b>Building</b>				
7 & 8			0	0
5 & 6		2	4	0
2 to 4	11	12	1	0
<b>Civil</b>				
7 & 8			0	0
5 & 6		7	1	0
2 to 4	11	13	1	0

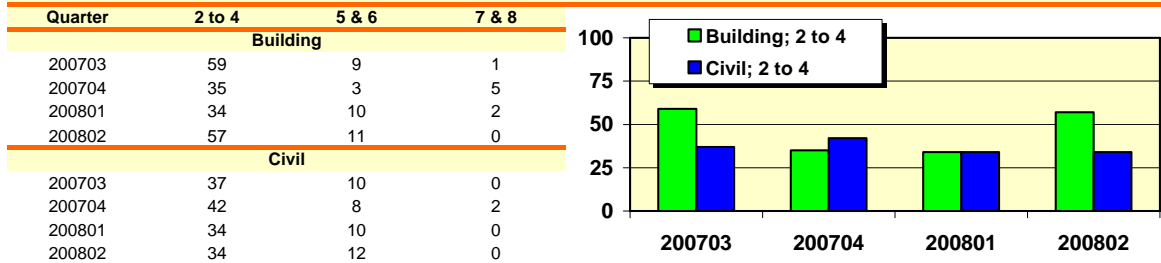
**Contractor Upgrades per R1 billion Spend**



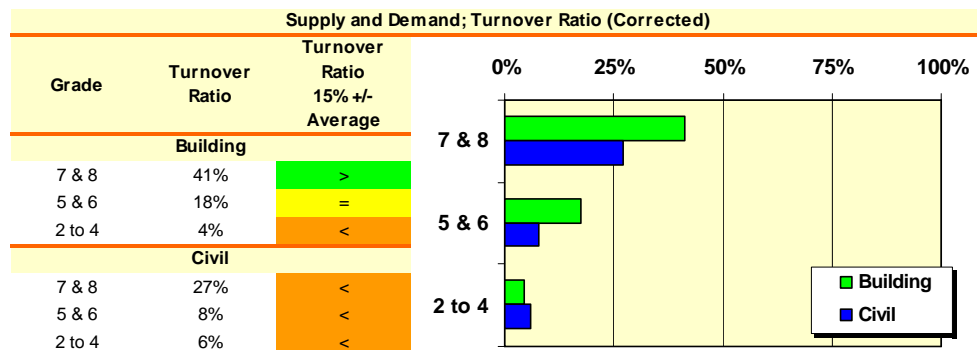
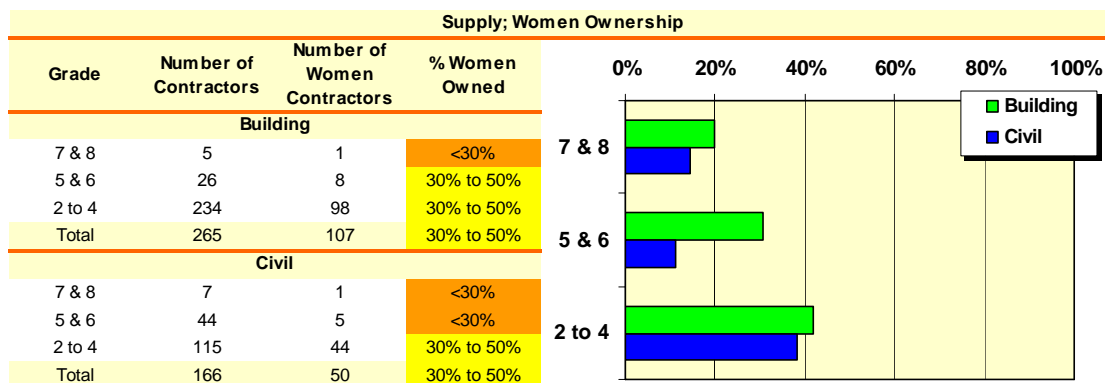
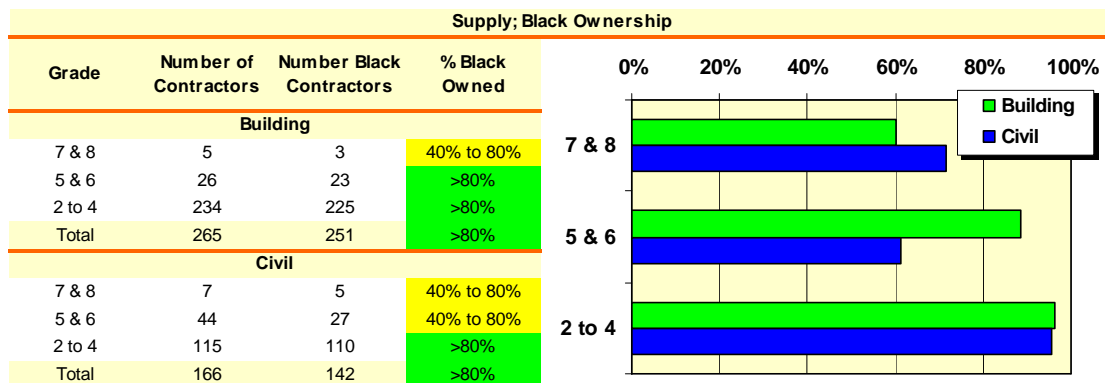
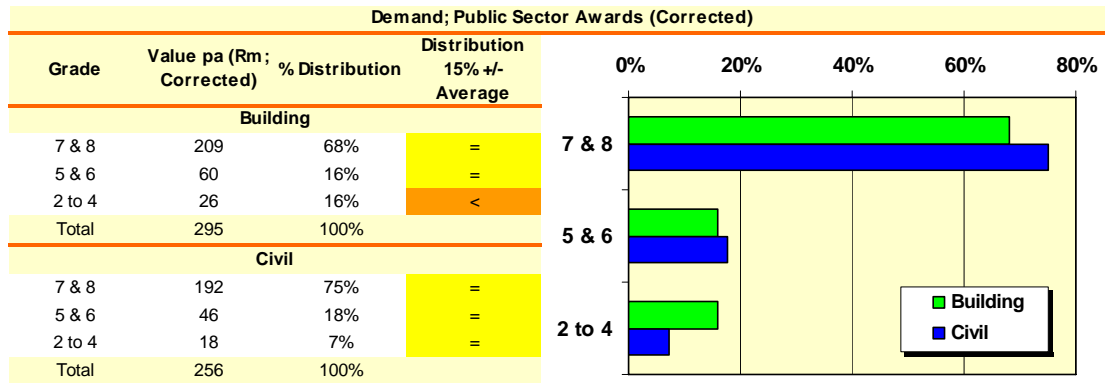
**Upgrades & New Registrations**

	2 to 4	5 & 6	7 & 8
<b>Building</b>			
Upgrades (to)	11	14	5
New Reg.	93	12	2
<b>Civil</b>			
Upgrades (to)	11	20	2
New Reg.	111	15	0

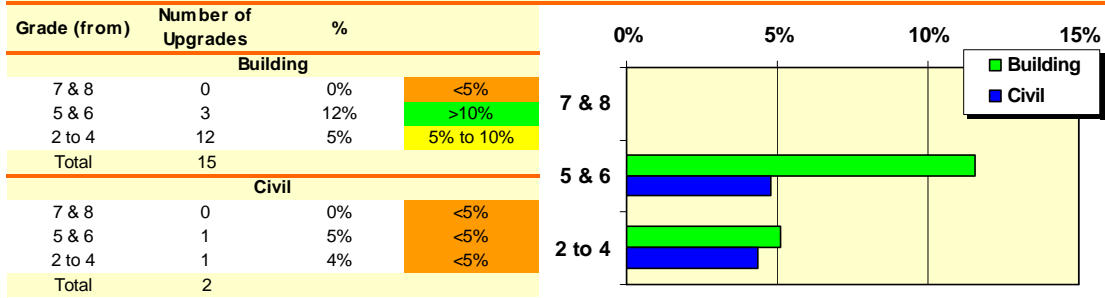
**Number New Registrations**



## 10. North West



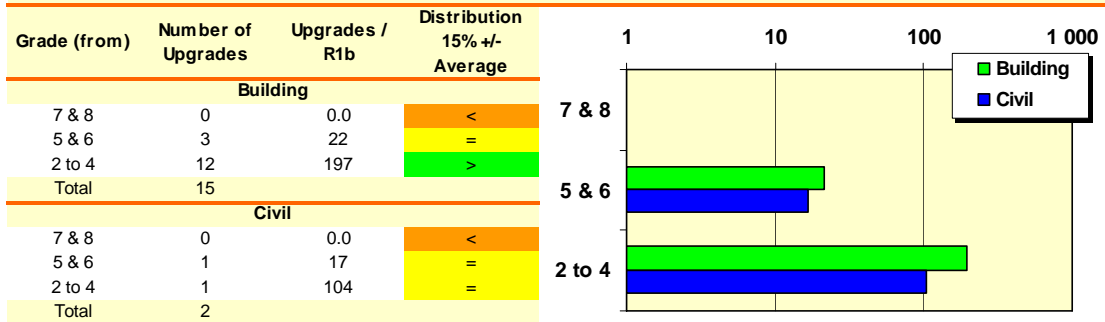
**Contractor Upgrades %**



**Contractor Upgrades**

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

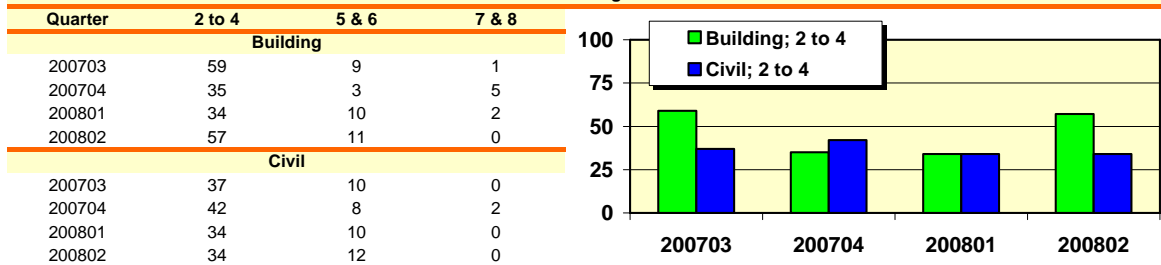
**Contractor Upgrades per R1 billion Spend**



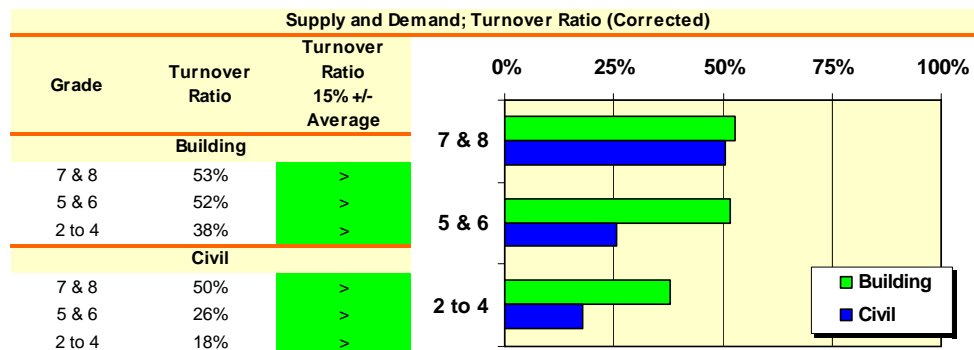
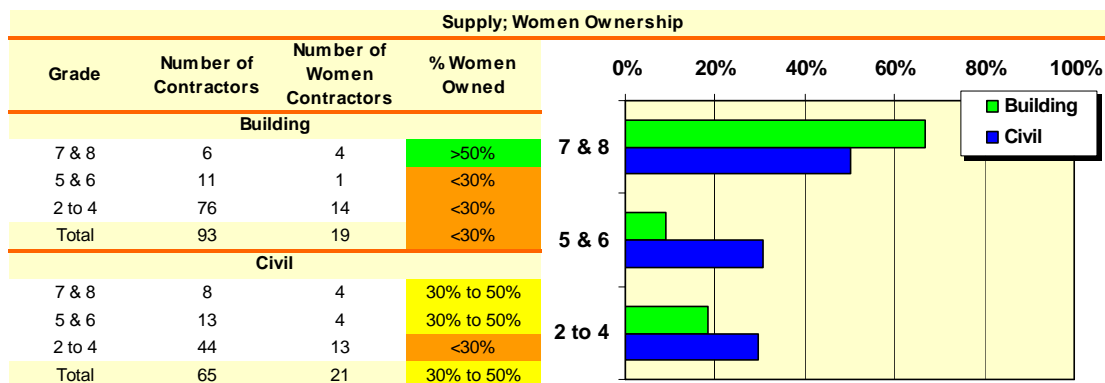
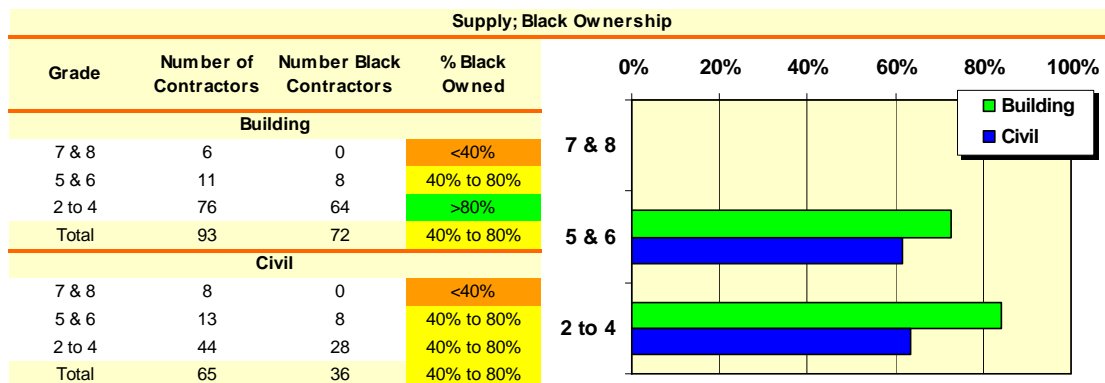
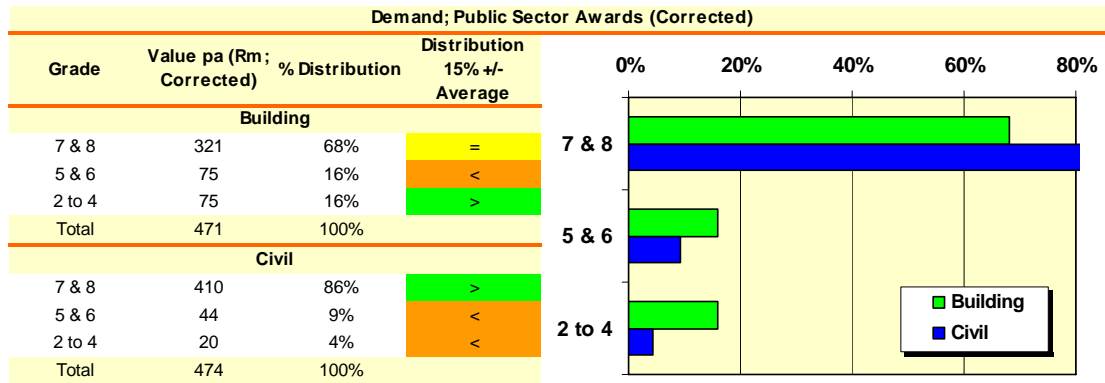
**Upgrades & New Registrations**

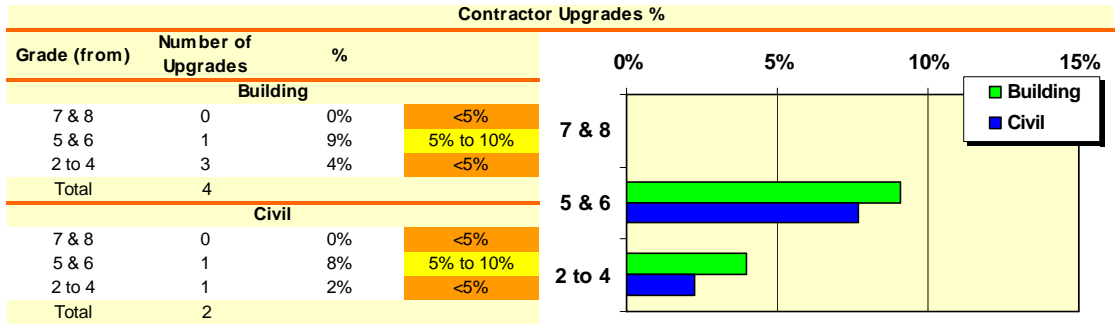
	2 to 4	5 & 6	7 & 8
<b>Building</b>			
Upgrades (to)	6	6	3
New Reg.	36	3	2
<b>Civil</b>			
Upgrades (to)	1	1	0
New Reg.	41	7	1

**Number New Registrations**



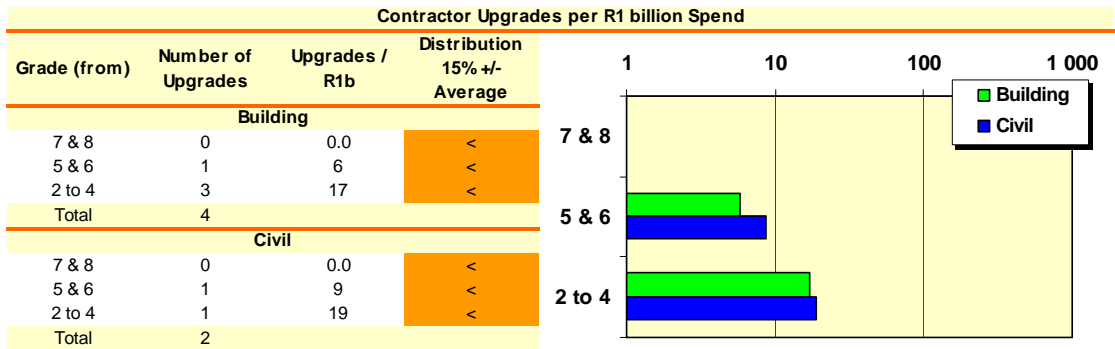
## 10. Northern Cape





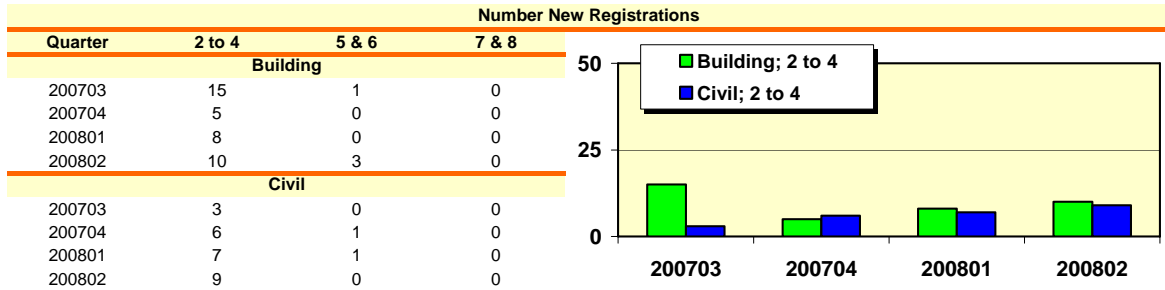
**Contractor Upgrades**

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

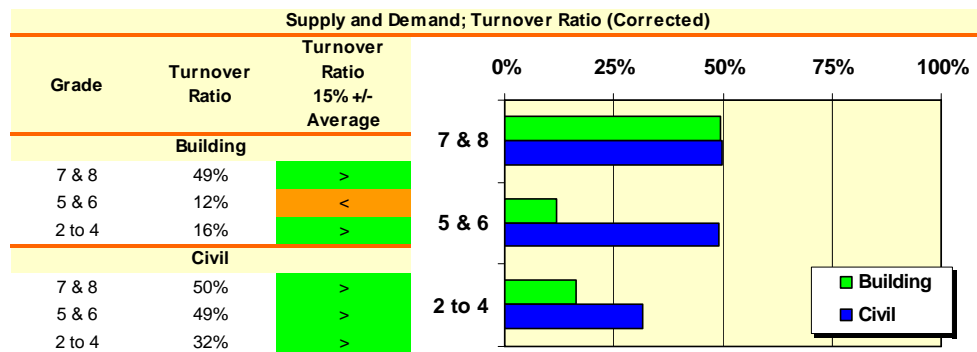
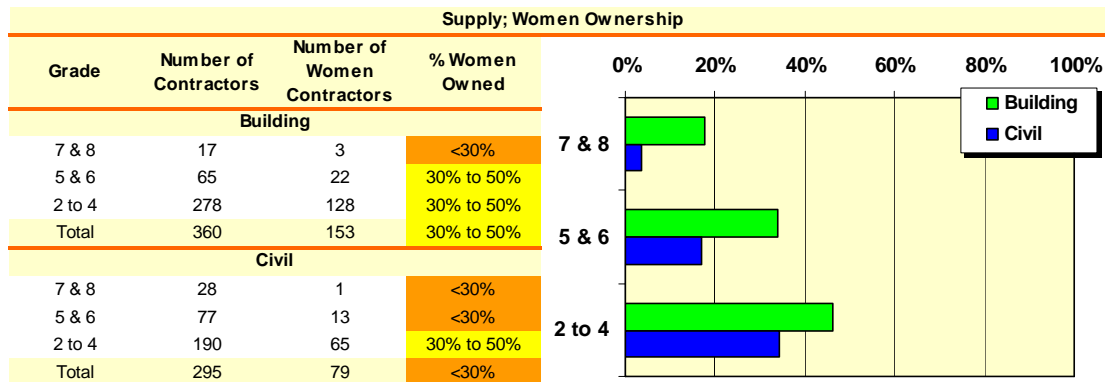
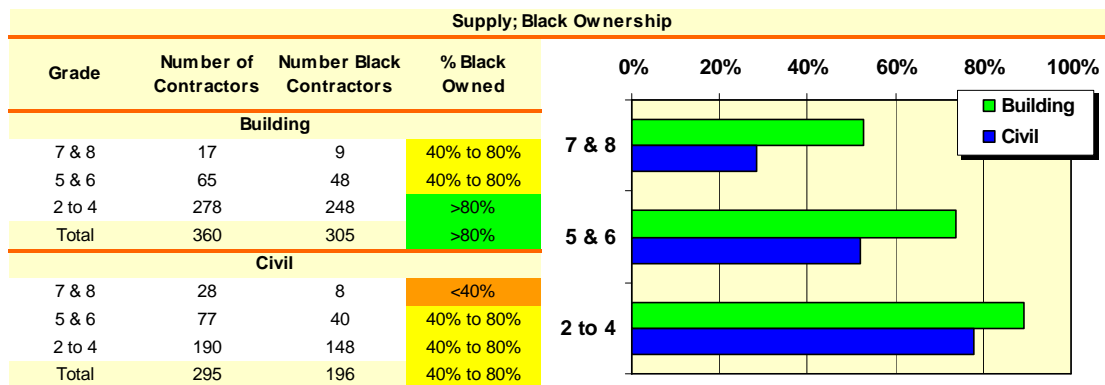
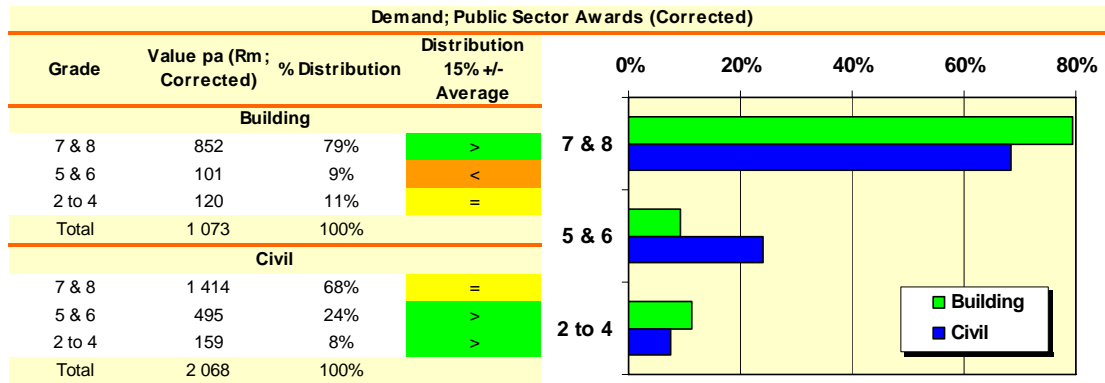


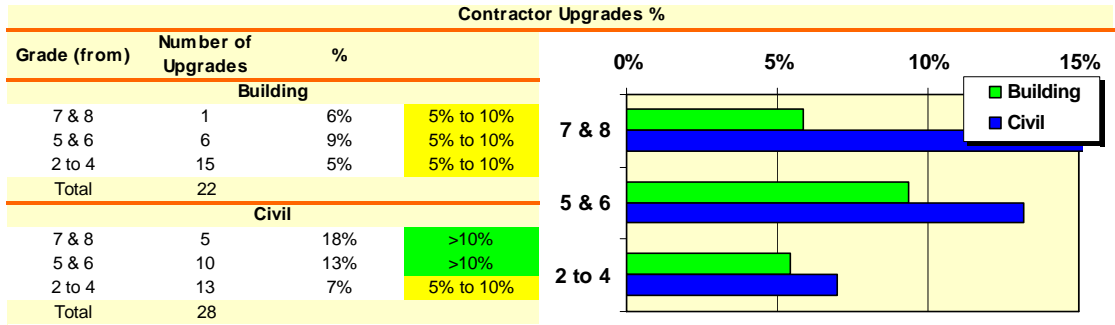
**Upgrades & New Registrations**

	2 to 4	5 & 6	7 & 8
<b>Building</b>			
Upgrades (to)	3	1	0
New Reg.	23	0	0
<b>Civil</b>			
Upgrades (to)	1	1	0
New Reg.	18	1	1



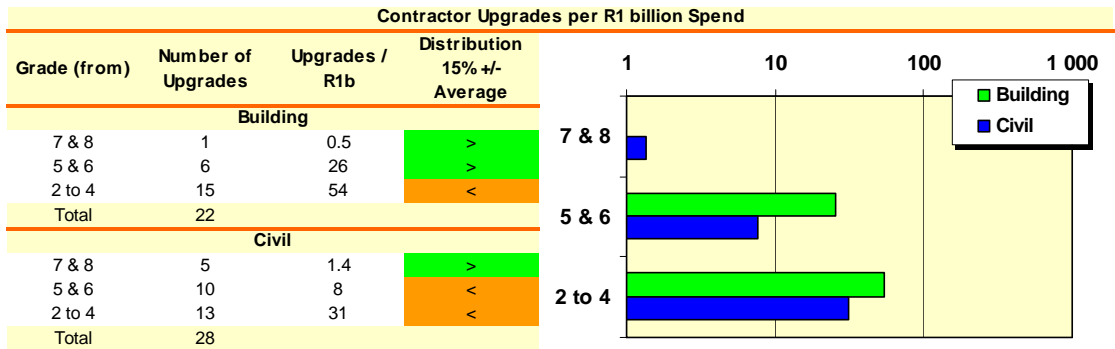
## 11. Western Cape





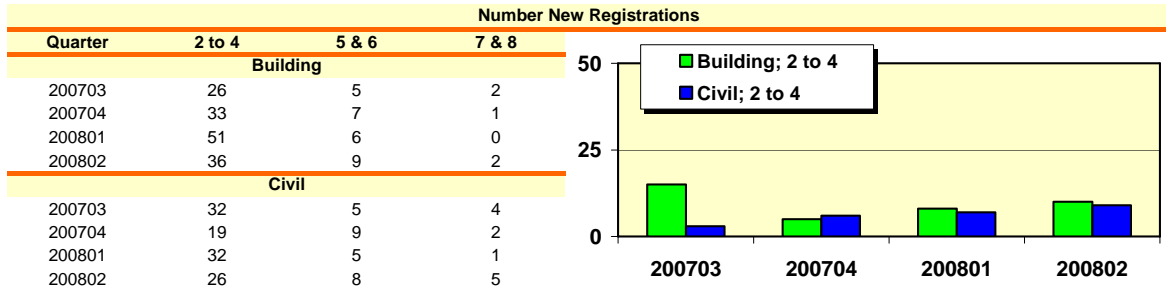
**Contractor Upgrades**

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



**Upgrades & New Registrations**

	2 to 4	5 & 6	7 & 8
<b>Building</b>			
Upgrades (to)	8	11	2
New Reg.	79	11	3
<b>Civil</b>			
Upgrades (to)	5	13	9
New Reg.	81	11	3







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