

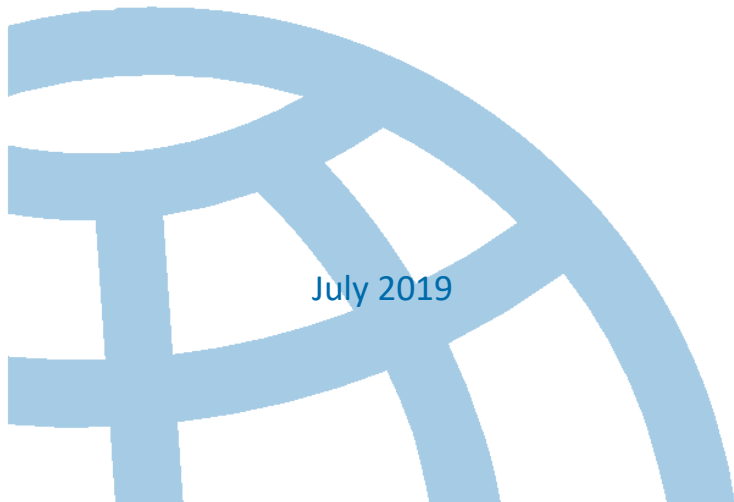


International Federation of Consulting Engineers
The Global Voice of Consulting Engineers

FIDIC Multilateral
Development Bank contracts
campaign

FIDIC Briefing Note

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Dr Nelson Ogunshakin OBE
Chief Executive Officer, FIDIC

Foreword

There is a growing need for countries to invest in both social and economic infrastructure at a sustainable level. A recent study has revealed that global infrastructure investment needs to be \$94 trillion between 2016 and 2040, which is 19% higher than the current trend.

FIDIC has undertaken and succeeded with its proactive advocacy initiative programme that engaged with multilateral development banks, financiers, investors, insurers and private and public clients to ensure that FIDIC standard procurement contracts to secure delivery of infrastructure efficient and effective.

This standard contract document forms part of a suite of documents and a wider campaign to improve conditions for members firm and clients in the delivery of infrastructure projects.

The FIDIC community

FIDIC has secured a major agreement with The World Bank (WB), and Inter-American Development Bank (IDB) that will see the regional funding organisation adopt the use of FIDIC standard contracts for the next five years.

The licencing agreement signed with multi-lateral banks is a major win, a landmark achievements and good evidence of the value proposition for FIDIC member association, member firms and stakeholders associated with FIDIC.

Under the terms of this agreement, FIDIC has granted both WB and IDB, the leading source for development financing in the World, Latin America and the Caribbean, a non-exclusive licence to refer to FIDIC contracts for projects they finance, and the documents will be used as part of these multilateral bank's standard procurement bidding documents.

Member associations

The endorsement and adoption of the FIDIC standard contracts with multilateral development banks hails a significant step forward in FIDIC's policy and advocacy activities for its global member associations. Such agreements not only promote the use of FIDIC contracts, which are globally recognised and make procurement processes more efficient, but they also aid in the promotion and development best practice in risk allocation, effective contract management, dispute avoidance and resolution within the global consultancy, engineering and construction sector.

As a result, FIDIC and its member associations enable the consultancy and engineering sector and continue to engage at a strategic level, while also ensuring the use of practical and efficient practices to ensure the efficient delivery of infrastructure.

FIDIC and the consultancy and engineering sector have worked for decades to establish the integrity and reputation of the sector, and it is vital that this work continues going forward. The establishment and signing of such agreements with multilateral development banks continues this important process. It continues to add value to the sector for every player and person within it. Our member associations have access to FIDIC's network and expertise, which allows

engagement in strategic conversations to shape and influence the sector going forward.

Member association firms

When licencing the use of its contracts, FIDIC considers a number of factors, one of which is the benefit to its member associations' member firms. It is these firms that design, plan and deliver the infrastructure that will last for generations. It is crucial to the consultancy and engineering sector that, national associations and FIDIC work together and engage to ensure the efficient delivery of infrastructure with the integrity that leaves a legacy we can all be proud of.

The use of FIDIC contracts helps to manage risk, reduces costs for clients and companies, and provides a common base for procurement processes. The benefits of FIDIC contracts and the signing of licensing agreements with these multilateral development banks are felt across the entire supply chain.

FIDIC, its member associations and their member consultancy and engineering firms are proud to engage in such agreements as they form a vital part of meeting the scope of infrastructure delivery required to meet global challenges such as access to effective transportation system, clean and sustainable energy provision, safe drinking water, access to the internet, and mitigating the effects of climate change.

This report sets out an outline of:

- The infrastructure and investment challenge the globe faces
- Who are the multilateral development banks and what role do they play in infrastructure investment?
- Some of the key benefits to FIDIC member associations and their members

Over the months and years ahead, FIDIC will progress with the implementation of its advocacy programme to secure similar undertaken and endorsement from other multilateral banks, strategic sovereign government, financiers and private equity investors. Further endorsement and conversion with these strategic stakeholders will be incorporated into the future issued version of this report.

Finally, FIDIC will welcome feedback from member associations, member firms and stakeholders on how best to improve future edition of this report to meet the needs of the consultancy and engineering business sector.

Background

The international engineering federation FIDIC (the International Federation of Consulting Engineers) is in the process of securing **multiple deals that will see multilateral development banks (MDBs) adopting the use of FIDIC standard contracts.**

Under the terms of these agreements, FIDIC grants a non-exclusive licence to refer to the major FIDIC contracts for projects they finance, and the documents will be used as part of the MDBs' standard bidding documents.

The contracts mainly include the 2017 Second edition FIDIC contracts, which cover a wide range of international construction and infrastructure work, and this programme represents a major endorsement for the contracts from a major international funding organisations.

This briefing note has been written to assist both FIDIC member associations and their members in understanding the significance and opportunities available as a result of the partnership between multilateral development banks and FIDIC.

Infrastructure, its importance and are we investing enough?

In 2017 the Global Infrastructure Hub, an initiative between Oxford Economics and the G20, produced the Global Infrastructure Outlookⁱⁱ which assessed the investment needs of 50 countries over seven sectors up to 2040.

The report recognised the importance of infrastructure and attempted to quantify using other countries peers the investment requirement going forward to improve people's wellbeing and quality of life. This type of analysis therefore fits quite well with international investment banks and organisations such as the World Bank in their efforts to achieve very similar goals.

They discovered that global infrastructure investment needs to be \$94 trillion between 2016 and 2040, which is 19% higher than the current trend. To meet this investment need, the world will need to increase the proportion of GDP it dedicates to infrastructure to 3.5% compared to the 3% expected under current trends.

Within this they identified Asia will likely dominate the global infrastructure market up to 2040 accounting for 54% of global infrastructure investment need. They also, however, also identified that the largest 'gap' between current trends and investment need occurred in the Americas (47% greater than current trend) and Africa (39% greater than current trend). Their analysis also looked at seven different sectors concluding that electricity and roads account for more than two-thirds of global investment needs.

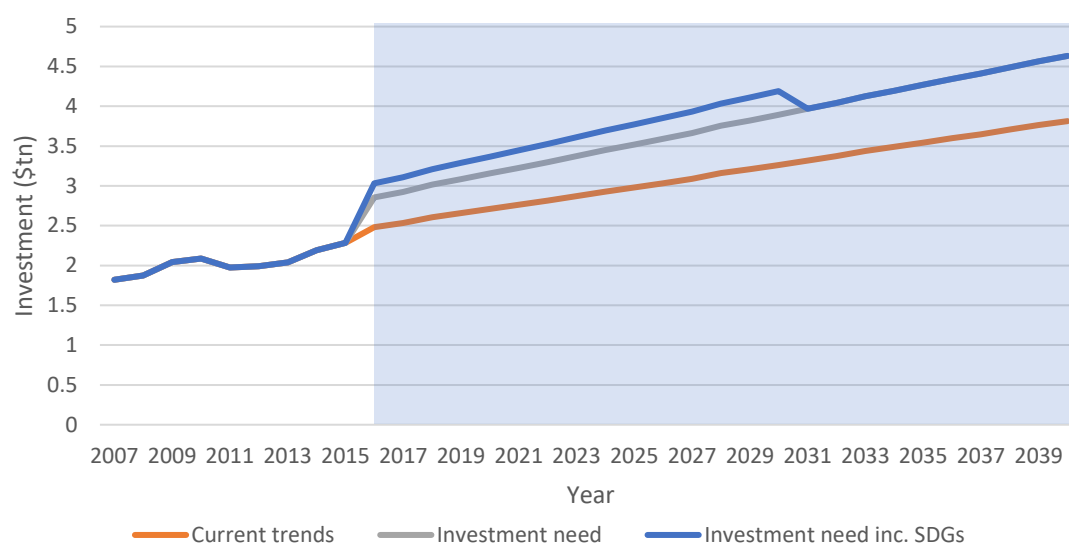
The Global Infrastructure Hubⁱⁱⁱ also attempts to account for the UN sustainable development goals^{iv}. These goals are aimed at achieving a better and more sustainable future for all by 2030 and aim to address a number of global challenges. The goals include:

- No poverty
- Zero hunger
- Good health and well-being
- Quality education
- Gender equality
- Clean water and sanitation
- Affordable and clean energy
- Decent work and economic growth
- Industry, innovation and infrastructure
- Reduced inequality
- Sustainable cities and communities
- Responsible production and consumption
- Climate action
- Life below water
- Life on land
- Peace, justice and strong institutions
- Partnerships for the goals

Each of the above goals have a number of targets within them various nations have made commitments to meet these goals. The Global Infrastructure Hub's analysis on these goals, whilst it accepts are not directly comparable because they relate only to investment needed to meet households' electricity and water needs, and so have been required to make adjustments estimate that meeting the SDG for universal access to electricity would require an additional \$2.7 trillion of investment and for water an additional \$0.8 trillion of investment over and above that implied by their investment need scenario between 2016 and 2030.

Figure 1 shows the above findings as plotted in the Global Infrastructure Hub's report and the extent of spending in trillions of dollars that is estimated to be required above and beyond the current trend to meet the investment need (in line with peers) and to meet the sustainable development goals in the shorter term.

Figure: 1 - Infrastructure investment at current need and trend



Source: *The Global Infrastructure Hub*

Interestingly the Global infrastructure Hub also provided an update in June of 2018 which focused the countries within Africa within the G20, which they refer to as the Compact with Africa (CWA) nations. They found that “Infrastructure relative investment need for the ten CWA nations up to 2040 is forecast to be almost US \$ 2.0 trillion, when compared with best practice among their peer countries. This forecast increases to almost US \$ 2.4 trillion to meet the United Nations’ Sustainable Development Goals for electricity and water by 2030.”^v

The World Economic Forum also produce a global competitiveness report which rates a number of pillars in an effort to judge global competitiveness and relative positions of countries among their peers. The Global Competitiveness Report 2018^{vi} explores 12 categories of pillars as part of their analysis these include:

- Institutions
- Infrastructure
- ICT adoption
- Macroeconomic stability
- Health
- Skills
- Product market
- Labour market
- Financial system
- Market size
- Business dynamism
- Innovation capacity

As can be seen from the pillars above a number of the World Economic Forum categories (such as infrastructure) align with the United Nations Sustainable Development Goals and the goals of institutions and banks such as the World Bank.

The World Economic Forum’s global competitiveness report provides a detailed breakdown of each of these pillars and their constituent parts for each country and an overall competitiveness score. In their 2018 analysis their report covered 140 economies providing an overall score of between 1 and 100. The United States scored highest in 2018 with an overall score of 85.6 and Chad the lowest with an overall score of 35.5.

Figure 2 and 3 show the extent of this differential and how the various regions vary against the trend given their levels of national income. It is apparent that whilst not all countries in a region are necessarily grouped together there is some degree of correlation with sub-Saharan African countries

generally appearing as the least competitive, with Latin America and the Caribbean and East Asia and the Pacific grouping towards the middle and Europe and North America towards the higher end of income and global competitiveness.

This again suggests that the work of institutions such as the various development banks will be vital in reducing the relative gap if the UN Sustainable Development Goals are to be met.

Figure: 2 - The competitiveness gap

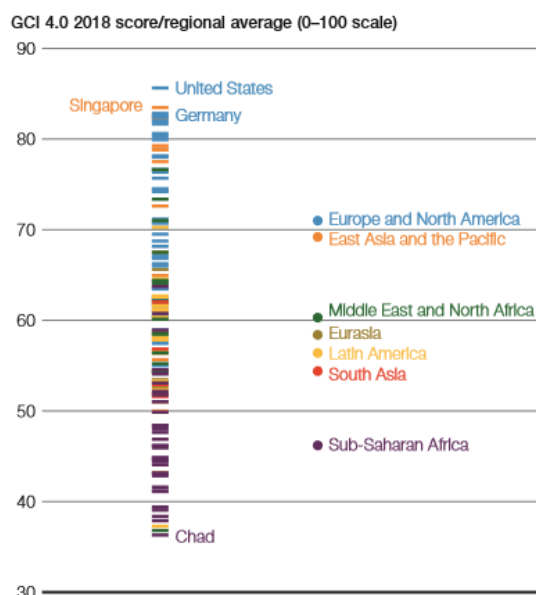
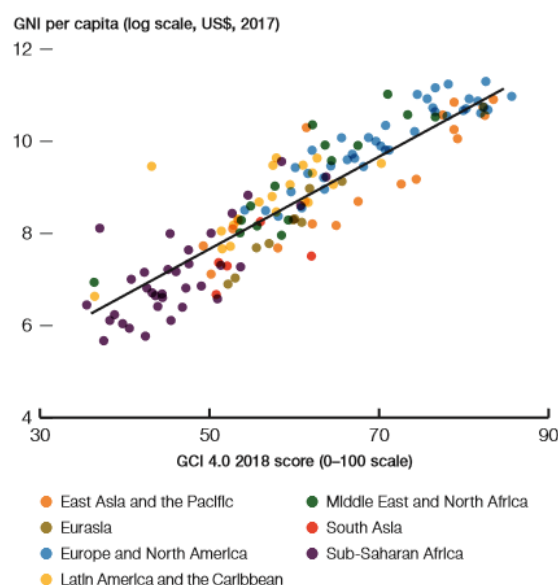


Figure: 3 - Competitiveness and income



Source: World Economic Forum

Source: World Economic Forum; World Bank, 2018; national sources^{vii}

The results above are also demonstrated in their World Economic Forums more detailed analysis of the average scores in each of its pillars across its regions. As can be seen from Figure 4 innovative ecosystems and markets appear to be the areas where Latin America and the Caribbean, Middle East and North Africa, South Asia and sub-Saharan Africa are currently are attaining lower average scores. There is also, however, lower scores on ICT adoption and Infrastructure within the enabling environment pillar.

Figure: 4 - The competitiveness gap

Region	Enabling environment				Human capital		Markets				Innovation ecosystem	
	Institutions	Infrastructure	ICT adoption	Macroeconomic stability	Health	Skills	Product market	Labour market	Financial system	Market size	Business dynamism	Innovation capability
East Asia and the Pacific	61.6	74.3	67.3	88.9	84.3	66.9	62.2	65.9	72.8	67.2	65.7	52.9
Eurasia	53.0	66.3	57.1	71.7	73.4	65.6	57.1	61.6	50.8	49.8	60.1	34.8
Europe and North America	64.5	78.7	68.0	91.8	90.7	74.2	62.0	66.2	69.5	59.6	68.3	58.1
Latin America and the Caribbean	47.8	61.1	46.4	74.0	82.7	57.5	53.9	55.3	59.5	52.5	52.4	33.8
Middle East and North Africa	54.3	69.0	54.1	79.6	80.0	61.4	54.7	52.3	61.8	60.3	56.7	39.9
South Asia	50.1	59.6	33.0	74.1	68.4	49.7	47.3	51.7	59.0	66.9	56.5	36.4
Sub-Saharan Africa	47.5	46.3	29.6	66.9	48.0	43.4	50.4	53.8	50.4	38.8	51.1	28.4

Source: World Economic Forum^{viii}

This again shows the breadth of the challenge ahead when trying to reduce the gap in performance across infrastructure, sustainability, quality of life and the natural environment between countries.

The above reports therefore provide a picture which covers a significant amount of the globe and suggests that despite current efforts more emphasis is needed on ensuring that countries and institutions target their efforts not only in countries and regions where the greatest improvements can be obtained but also that such activities are as efficient and effective as possible to obtain the maximum value for money and social value for the investment that takes place.

The challenge is significant which is why FIDIC is working with international development banks such as the World Bank to ensure that the most efficient and beneficial outcome possible is achieved for members and society as a whole.

Who are the multilateral development banks and what role do they play?

Multilateral development banks (MDB) are international financial institution chartered by a number of countries or sponsors with the task of encouraging economic development.

Unlike commercial banks, MDBs do not seek to maximise profits, instead, they prioritize development goals, such as ending extreme poverty, environmental and sustainable goals, reducing economic inequality, providing access to basic and vital services including water, roads, schools and hospitals.

These institutions therefore significantly involved in the whole infrastructure remit and so not only of interest to companies who deliver the projects but also our members associations whom look after their members and ultimately FIDIC.

These institutions generally lend at low or no interest or provide grants to fund projects in infrastructure.

FIDIC has therefore used its global influence to extend the use of its contracts globally to these institutions. This ensures that when projects are procured member associations members know what they can expect from the form of contract that is being used on MDB projects.

There are a number of MDBs including but not limited to:

- World Bank
- European Investment Bank (EIB)
- Islamic Development Bank (IsDB)
- Asian Development Bank (ADB)
- European Bank for Reconstruction and Development (EBRD)
- CAF - Development Bank of Latin America (CAF)
- Inter-American Development Bank Group (IDB, IADB)
- African Development Bank (AfDB)
- New Development Bank (NDB)
- Asian Infrastructure Investment Bank (AIIB)
- Caribbean Development Bank (CDB)
- Central American Bank for Economic Integration (CABEI)
- East African Development Bank (EADB)
- West African Development Bank (BOAD)
- Black Sea Trade and Development Bank (BSTDB)
- Economic Cooperation Organization Trade and Development Bank (ETDB)
- Eurasian Development Bank (EDB)

Key benefits for FIDIC member associations

Promotion of international presence - The agreements that has been signed between FIDIC and the various MDBs can be advertised to member associations/members and demonstrates the value to FIDIC members which would not have been achieved without global partnership/collaboration.

International used standardised contracts – Many associations and their respective partners/member firms have or have utilised various standardised contracts across various countries/regions. These provide a number of benefits in reducing uncertainty, improving the efficiency in negotiations, improving consistency across projects, allowing parties to better manage and understand risk and terms under which they are pricing projects. Standardised contracts, whilst in some cases still containing special conditions reduce the need for bespoke arrangements on projects thus reducing cost and provides best worldwide practise. As for an association and a member of FIDIC the various MDB deals mean that standardised and well understood, industry tested contracts will be utilised as part of a wide range of projects.

Advocacy and influence – FIDIC member associations will notice that the scale and extent of FIDICs global influence continues to grow as similar deals with MDBs continue to develop. This allows both FIDIC and its member associations to engage at a strategic level across sectors and regions where member firms operate.

Promotion of members globally – FIDIC contracts and their presence in global projects provide an opportunity for member association to promote their member firms globally. Such presence is hard to achieve as a single national organisation and is invaluable as a global business, especially in the current globalized construction industry.

SMEs – Whilst MDBs do not sound like the first place an SME would anticipate working there are multiple and a significant number of smaller projects into which SMEs can tender or supply larger consultancies. This provides opportunities that are not usually easily found given the standard terms in the contract lowering the cost of bidding it opens up markets that otherwise may have been restricted.

Precedent and influence – Standardised contracts can be challenged but under precedent or common law if a decision is made, they consequently set the standard for what is expected going forward. As a result, the FIDIC contract and the agreements made with global corporations can have a significant effect on legal and regulatory regimes.

Training is available to your members – As a member of FIDIC, your association with its member firms have access to an established network of trainers that has been built up over many years and multiple editions. We are able to support you in arranging this training with your member firms and own staff if required.

Pre-prepared materials for promotion – At FIDIC we understand that member associations can a times be resource constrained as such it is important to us that as far as we can we provide materials such as news articles, briefing notes etc. which provide you with a simple cost-effective route to market the benefits to your members.

Social media – By being a member of FIDIC you are not only promoted thorough your own account but also globally through FIDIC's. This is part of our strategy to further enhance the profile of FIDIC and its member associations.

FIDIC contracts proposed for multilateral agreements



Conditions of Contract for Construction for Building and Engineering Works Designed by the Employer (“Red book”), Second edition 2017;



Conditions of Contract for Plant & Design-Build for Electrical & Mechanical Plant & for Building & Engineering Works Designed by the Contractor (“Yellow book”), Second edition 2017;



Conditions of Contract for EPC Turnkey Projects (“Silver book”), Second Edition, 2017);



Client/Consultant Model Services Agreement (“White book”), Fifth Edition 2017;



Conditions of Contract for Design, Build and Operate Projects (“Gold book”) First Edition 2008;



The Short Form of Contract (“Green book”), First Edition 1999.



International Federation of Consulting Engineers (FIDIC)

World Trade Center II, Geneva Airport P.O. Box 311 CH-1215 Geneva 15 - Switzerland

Tel. +41 22 799 4900 - Fax +41 22 799 4901

Arthur: Graham Pontin, Head of economic and strategic policy

Email: fidic@fidic.org www.fidic.org

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Endnotes

ⁱ The six FIDIC contract documents covered by the FIDIC/World Bank agreement are as follows:

- Conditions of Contract for Construction for Building and Engineering Works Designed by the Employer (“Red book”), Second edition 2017;
- Conditions of Contract for Plant & Design-Build for Electrical & Mechanical Plant & for Building & Engineering Works Designed by the Contractor (“Yellow book”), Second edition 2017;
- Conditions of Contract for EPC Turnkey Projects (“Silver book”), Second Edition, 2017);
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- Conditions of Contract for Design, Build and Operate Projects (“Gold book”) First Edition 2008; and
- The Short Form of Contract (“Green book”), First Edition 1999. (can we justify the text below)

ⁱⁱ Oxford economics and a G20 initiative (Global Infrastructure Hub), Global Infrastructure Outlook, July 2017 ([click here](#))

ⁱⁱⁱ Oxford economics and a G20 initiative (Global Infrastructure Hub), Global Infrastructure Outlook, July 2017 ([click here](#))

^{iv} United Nations, About the sustainable development goals, accessed 24/4/2019 ([click here](#))

^v Global Infrastructure Hub, Global Infrastructure Outlook, Infrastructure investment need in the Compact with Africa countries, June 2018, accessed 24/04/2019 ([click here](#))

^{vi} The World Economic Forum, Global Competitiveness Report 2018, Accessed 24/4/2019 ([click here](#))

^{vii} GNI = gross national income (Atlas method), natural log transformation. Data for Venezuela is from 2014, and data for Taiwan (China) is from 2016. N=140, R2 = 0.82

^{viii} If you wish to see further detail please refer to the At a Glance section on page xi for regional classification. Darker shades indicate better performance within the report ([click here](#))