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UNITED NATIONS BUILDING IN SANTIAGO, CHILE

Report by the secretariat

1. This report covers developments in regard to the construction of the United Nations Building at Santiago subsequent to the submission of the report by the secretariat of ECLA to the Committee of the Whole in 1962.^{1/} In accordance with previous plans, the secretariat invited competitive bids for the construction of the Building. The opening of bids was scheduled for early October 1962 in the hope that construction could be started by 24 October 1962 if possible. The nature of the bids revealed that the cost of construction of the project would exceed by a substantial margin the budget previously estimated, and the question had therefore to be referred to the General Assembly of the United Nations.
2. Details concerning the deficit and the reasons therefor -- the effects of the fluctuating rate of exchange and trends in construction costs -- are given in the Report of the Secretary-General to the General Assembly,^{2/} annexed to this report.
3. After the matter had been considered by the Advisory Committee on Administrative and Budgetary Questions, the General Assembly decided to endorse the Advisory Committee recommendations to the effect that it might be advisable to proceed with the construction on the basis of the original plan, subject to appropriate precautions, and to review the situation at the eighteenth session of the General Assembly. Meanwhile, the General Assembly recommended the maximum possible co-operation for the voluntary Gift Programme which had been organized.
4. The General Assembly and the Advisory Committee on Administrative and Budgetary Questions pointed out that an examination of the estimated costs based upon the actual bids showed clearly that the entire deficit could not be covered by reductions in the project unless the question of accommodating the specialized agencies in the Building were dropped.
5. As soon as the existence of a deficit became known, the Government of Chile responded generously and spontaneously with an offer of a sum of E° 465,000, to be made available in the financial year 1964. This offer

^{1/} E/CN.12/AC.50/8.

^{2/} A/C.5/923.

was additional to the very substantial contribution already made by the Government of Chile in donating the site, providing urban services in the surrounding area and initiating a programme for a park of some 70 hectares adjacent to the United Nations area, to be known as "Parque de las Américas".

6. The present budgetary position is briefly as follows:

(a) A sizable deficit is estimated even after the generous gesture of the Government of Chile is taken into account. The exact amount of this deficit cannot be predicted, since it will vary according to the widely fluctuating rate of exchange of the Chilean currency in the free market. An appreciation of this deficit at various rates of exchange is contained in the attached Report of the Secretary-General to the General Assembly.

(b) The entire construction is to be initiated, and only those reductions will be made which will not jeopardize the plans for housing the specialized agencies.

(c) The present appropriation of 1,550,000 dollars cannot be exceeded.

(d) It is hoped that the remaining deficit can be made up through the medium of the voluntary Gift Programme.

(e) The General Assembly will again consider the question at the eighteenth session, by which time the results of the Gift Programme should be known.

7. While the over-all question of the Building programme was under consideration in the General Assembly, the secretariat both at Headquarters and in ECLA evaluated the bids submitted by the various construction firms and, following the rules laid down by the United Nations in these matters, selected the firm of Enrique Albertz, Civil Engineer, to execute the project. The ECLA secretariat thereupon continued the negotiations with this firm pending a decision by the General Assembly, with a view to protecting the interest of the United Nations during a period of sharply rising construction costs. With this in mind, certain key construction materials were contracted for in advance at fixed prices.

8. When the decision of the General Assembly became known on 19 December 1962 and authority was granted by Headquarters on 26 December 1962 to proceed, the secretariat of ECLA immediately took steps to have construction facilities

/and equipment

and equipment installed, and the actual construction of the Building began on 18 January 1963.

9. It will be seen from the above that the ECLA secretariat has been entrusted with an almost impossible task - the construction of virtually the entire project with the existing budget, which is demonstrably too low. The task is greatly complicated by variations in the rate of exchange and rises in construction costs which cannot be foreseen with clarity. It seems therefore that a final and adequate solution can be achieved only by an extremely favourable response to the Gift Programme, or failing that, by further action on the part of the General Assembly.

10. The Ad Hoc Committee created under resolution 216 (AC.50) of the Committee of the Whole of ECLA held a number of meetings in 1962, and on 28 September 1962 transmitted a letter to the States members of ECLA urging warm support for the Gift Programme and attaching a brochure giving details of the project and suggesting gifts of a functional value, as proposed by the Secretary-General in his Report to the General Assembly. This brochure was also sent to the Secretary-General of the United Nations by the Gift Committee and transmitted by him to all the Members during the seventeenth session of the General Assembly. The Secretary-General's note of transmittal contained the following passage:

"It will be recalled that in his previous progress reports on the construction of the United Nations Building in Santiago, the Secretary-General had referred to the tradition among Member States of making gifts to the United Nations for the furnishing and embellishment of its premises, both at Headquarters and at other offices, and had suggested that the Members might wish to respond similarly in connexion with the new building in Santiago. In his latest progress report (A/C.5/923, paras. 12, 17 (b) and 20), the Secretary-General pointed out that in view of the financial difficulties confronting the project, he attached special importance to the generous co-operation of Member States in the Gift Programme and expressed the hope that any space reduction necessary to achieve the construction within the existing financial appropriation could be minimized as a result of a favourable and substantial response to the appeal of the Ad Hoc Committee of ECLA in this regard." (A/C.5/923/Add.1.)

11. On 18 January 1963, following the decision of the General Assembly, the Secretary-General wrote to the Gift Committee pointing out the gravity of the financial situation and expressing the hope that the Committee would be successful in its efforts to cover the deficit in the building project through the Gift Programme. In response to the Secretary-General's letter, the Gift Committee again communicated with all the States Members of ECLA, urging the utmost co-operation. In this second appeal to the member Governments, the Gift Committee suggested that member Governments might think seriously of the possibility of contributions in cash in view of the budgetary situation and the fact that not all gifts of a functional nature will serve in the full measure of their value to reduce the deficit.

12. In view of the importance attached by the Secretary-General to the Gift Programme and the short period of time available to accomplish the aims of this Programme, it was decided, with the approval of Headquarters, that a member of the Gift Committee accompanied by a member of the secretariat of ECLA should visit a number of capitals in Latin America in order to exchange views with member Governments and stimulate as much interest as possible in the Programme. At the date of this Report, the visit to the various member countries is in progress. The results will be communicated to the member Governments in a special report by the Ad hoc Committee at the tenth session of ECLA.

14. On the basis of the starting date of 18 January 1963, it is now estimated that the frame construction work will be completed by the end of December 1963 and that the Building will be ready for occupancy during the first half of 1965.

ANNEX

BUDGET ESTIMATES FOR THE FINANCIAL YEAR 1963

Construction of the United Nations Building in Santiago, Chile

Report of the Secretary-General

Introduction

1. This report is intended to apprise the General Assembly of the developments which have taken place during the past year in regard to the construction of the United Nations Building in Santiago and to inform the General Assembly of certain courses of action which, as a result of such developments, including in particular those that have occurred in October and November of 1962, the Secretary-General would intend to follow with a view to the project being carried to completion within the financial limits already authorized.

Construction Costs

2. In October 1962, following the outcome of the competitive bidding for the major construction contracts, the Secretary-General learned with great concern that, on the basis of the present architectural plans, the United Nations Building in Santiago could not be built within the existing financial authorization of \$ 1,550,000 approved by the General Assembly.^{1/}

3. In view of the prevailing fluctuations in the rate of exchange between the Chilean Escudo and the U.S. dollar, it is not possible to assess accurately the actual gap between the financial authorization and the total construction costs based on the outcome of the competitive bidding.

4. At the time of the opening of the bids, the free market rate of exchange in Chile was Escudo 2.20 to the U.S. dollar. However, the rate of exchange fluctuated considerably during the months of October and November 1962. These fluctuations would, to a certain extent, affect the bids despite the protective clauses contained in the general conditions for bidding. The lowest and highest rates of exchange^{2/}

1/ General Assembly resolution 1407 (XIV).

2/ Based on statistics of free market rates of exchange collected by ECLA.
/during this

during this period were Escudos 1.75 and 2.75 respectively per U.S. dollar. In terms of the over-all construction costs for the entire project, these fluctuations give rise to differences of some hundreds of thousands of dollars.

5. The competitive bidding indicated that the total cost of the Building would amount to Escudos 2,798,755 plus U.S. \$ 766,969, for expenditures to be incurred in U.S. dollars. The following table shows (a) the outcome of the competitive bidding and (b) the estimated deficits over the existing financial authorization on the basis of the different exchange rates.

Table 1

	Costs in U.S. dollars under different rates of exchange		
	2.20 Escudos to \$ 1.00 at time of com- petitive bidding	1.75 Escudos to \$ 1.00 Lowest rate Oct.-Nov./62	2.75 Escudos to \$ 1.00 Highest rate Oct.-Nov./62
1. Estimated cost of major contracts on basis of competitive bidding, payable in local currency (2,798,755 escudos)	1 272 161	1 599 289	1 017 729
2. Estimated cost of other contracts, including local and international procurement, payable in US dollars.	546 969	546 969	546 969
3. Expenditures and obligations incurred (cost of contest, fees, levelling site)	220 000	220 000	220 000
4. Total estimated costs	2 039 130	2 366 258	1 784 698
5. Appropriation by the General Assembly	1 550 000	1 550 000	1 550 000
6. Estimated deficit over appropriation	\$ 489 130*	\$ 816 258*	\$ 234 698*

* These totals do not include any contingency provision for further wage and price increases.

6. The Secretary-General and his advisers have constantly attached the greatest importance to the completion of this project within the financial authorization of \$ 1,550,000. In addition to the opinion of the architect and the consultant engineer, the secretariat sought and obtained, at all stages of planning, unqualified assurances that the construction was feasible within the financial authorization. Unfortunately the outcome of the competitive bidding failed to substantiate these expenditures,

Causes of deficit

7. After a thorough analysis of the bids and of the technical and financial data gathered by ECIA, it appears that the differences between the present estimate based on the outcome of the competitive bidding and the previous estimate based on the best expert advice available are attributable to the cumulative effects of the following factors:

- (a) extensive changes made in the original plans to take into account considerable increases in the staff of ECIA and specialized agencies to be accommodated in the Building;
- (b) increases related to architectural requirements;
- (c) gradual increases in construction costs;
- (d) the very confused and unstable economic conditions prevailing at the time of competitive bidding;
- (e) the nature of the project selected.

8. These factors and the extent to which they have contributed to increase in construction costs are explained below:

(a) Changes in original plans to include unexpected staff increases:

- (i) The Secretary-General reported^{3/} to the General Assembly at its sixteenth session that the space and facilities of the Building which were based on requirements existing or foreseen in 1959^{4/} and subsequently adjusted to provide some 1 283 square metres for expansion purposes, were completely absorbed by additional requirements as known in 1961. These new requirements

^{3/} A/C.5/887, paras. 2 and 3.

^{4/} A/4239, para. 8.

included an expansion of ECLA's staff by some 35.6 per cent and of FAO's staff by 24.4 per cent. Other additional unforeseen requirements resulted from requests of ILO and UNESCO for provision of accommodations for their newly established offices.

- (ii) The original plans were extensively revised to meet these new requirements. The measures taken in order to ensure the maximum economy and efficiency in the use of space, included further restrictions and limitations on allocation of space and a lowering of the construction standards.
- (iii) In this connexion it may be recalled that even after these extensive revisions, it was not found possible, within the limits of architectural and financial possibilities, to provide space in the new Building for the proposed Latin American Institute for Economic Planning.^{5/} The Institute will therefore be located elsewhere in Santiago.

(b) Increase related to architectural requirements

- (i) In the development of the final architectural plans, it was found necessary to provide for additional structural work which was not foreseen in the preliminary design. This included the installation of two foundation caissons, the addition of a small third basement for technical reasons related to the installation of machinery, the enlargement of the second basement, the widening of the main internal communications bridge, an expansion of the small conference room - largely for safety reasons - and small space increases in the delegates and staff lounges.
- (ii) These changes and those indicated under paragraph 8 (a) (i) above resulted in an increase of the total area from 8,620 sq. metres (as estimated at the time of the architectural competition) to 10,900 sq. metres i.e. an increase of 26.5 per cent.

^{5/} A/C.5/887, para. 4.

- (iii) It should be pointed out that when these changes were decided, the experts, on the basis of the prices prevailing at that time, were of the opinion that the costs could still be kept within the existing financial authorization.

(c) Gradual increases in construction costs

- (i) Increases in wages and prices (fees of contractors, engineers, surveyors, wages of construction workers and material costs) have in general caused construction costs to rise. The actual rise which occurred in construction costs from 1959 to the middle of 1962 had been largely offset however by the favourable over-all effect of the currency fluctuations, by the tax exemption accorded by the Government of Chile and by the decision of the Government to provide excavation work for the installation of utilities on the United Nations site without charge.^{6/} In October and November 1962 further substantial increases in wages and prices took place which are estimated to have had a 20 to 25 per cent impact on construction costs.
- (ii) The estimates reproduced in the Report of the Secretary-General^{7/} in 1959 and which served as the basis for the appropriation of \$ 1,550,000 were calculated on a unit construction cost of \$ 124 per square metre. These estimates were based on the statistics of the Chamber of Construction of Chile and on advice from the President of the College of Architects of Chile and from ECLA's consulting engineer. At the time of the opening of the bids for major construction contracts in October 1962 it was found that the unit cost had increased from \$ 124 to approximately \$ 155.

(d) Economic conditions existing at time of competitive bidding

The timing of the bids in relation to the economic situation in Chile has probably had an effect on the level of the bids. The period of preparation of the bids by the construction firms was one of exceptional

^{6/} A/C.5/887, paras. 5 and 6.

^{7/} A/4239.

economic difficulty and uncertainty. That the opening of the bids coincided with the climax of the currency crisis was unfortunate and has undoubtedly had some effect upon the bids submitted.

(e) Nature of project selected

- (i) It now appears that the increased cost of the project as planned is attributable in part to the nature of the project chosen, although assurances had been given as to the feasibility of the project within the financial authorization.
- (ii) The local experts in building construction have expressed the view that the Building, as projected, will meet the purposes of the United Nations and, at the same time, be commensurate with the importance and dignity of the Organization. They are of the opinion that the construction should therefore be carried out with as little alteration as possible.

Delay in construction

9. Delays have been encountered in the construction schedule mainly on account of the necessity of holding a competition for the selection of an architect and of the extensive revision that had to be carried out in the plans to cope with unexpected increases in the number of staff to be accommodated. On examining the effect of the delays on the construction costs it appeared that although the bids for the major contracts would probably have been lower if the competitive bidding had taken place in 1961, according to the original schedule, the advantage thus gained would for the most part have been offset by the cumulative effect of the increase in prices and the depreciation of local currency.

Measures taken after competitive bidding

10. In view of the substantial gap between the funds authorized for the project and the construction costs based on the competitive bids, it was decided that no major contract should be awarded pending (a) a reappraisal of financing arrangements and, construction plans, (b) further negotiations with the Government of Chile and (c) consideration of developments by the General Assembly, at its current session.

/ Basic considerations

Basic considerations in evolving an appropriate solution

11. In recommending a future course of action for carrying forward the project, the Secretary-General has been guided by two main considerations. First of all, he has felt that in view of the critical financial situation of the organization and of the need for a policy of austerity in capital expenditures, a solution not involving additional expenditures by the United Nations should be found. Secondly, he has proceeded on the assumption that any additional resources that should be needed for accomplishing the Building project should be sought within the framework of United Nations policies concerning assistance from Governments in the matter of office accommodation.

ECLA Gift Programme

12. Another important factor to be considered in connexion with the financing of the United Nations Building in Santiago is the gift programme initiated by ECLA. At its eighth session, the Committee of the Whole of ECLA adopted a resolution^{8/} which, inter alia, taking into account "the relatively small budget for the project and the increased need for space resulting from the expanding activity in the region of the United Nations and the Specialized Agencies", urged Member Governments to respond generously to its appeal either by making direct gifts or by enlisting the help of public institutions or individuals. The Committee of the Whole also established an ad hoc committee, composed of Brazil, Chile and Costa Rica to serve until May 1964, to co-ordinate and promote the gift programme in consultation with the Secretariat of ECLA and the project architect. The Ad Hoc Committee, which held its first meeting in Santiago in August 1962, approved the publication of a booklet designed to provide Member Governments with information about the gift programme. It is anticipated that this pamphlet will be ready for distribution as an addendum to the present report before the end of the current session of the General Assembly. In view of the financial difficulties confronting the project, the Secretary-General attaches special importance to the generous co-operation of Member States in the gift programme. While several ECLA member States have already expressed their willingness to support this gift programme, it is not possible to assess, at this stage, the monetary value of the contribution they may ultimately offer.

^{8/} Resolution 216 (A/C.50) ECLA Committee of the Whole, eighth session.
/Negotiations with

Negotiations with the Government of Chile

13. Following the outcome of the competitive bidding, negotiations were undertaken in New York with the Representatives of the Government of Chile through whom complete information was provided as to the financial status of the project and the difficulties with which the United Nations was confronted. Simultaneously, negotiations took place in Santiago between the Ministry of Foreign Affairs and the Executive Secretary of ECLA. The two following possibilities were explored, having in view the policies referred to in paragraph 11 above. The first was to ascertain whether the Government would be willing to reconsider the existing arrangements by undertaking to finance the entire project. The other possibility was to determine whether the Government would be willing to cover the gap between the existing financial authorization of \$1,550,000 approved by the General Assembly and actual foreseeable expenditures based on the outcome of the competitive bidding, on the understanding that any such additional contribution would be in Chilean Escudos.

14. In these negotiations, during which the representatives of the Government of Chile showed their understanding of the problems involved, the Government informed^{2/} the Executive Secretary that:

- (a) it was not in a position to implement a solution along the lines mentioned in paragraph 13 above and that,
- (b) it had decided, as a gesture of goodwill to the United Nations and to assist in the financing of the deficit in the financial authorization for the project, to offer an additional gift of Escudos 465,000.

15. Assuming that the rate of exchange were to stabilize at the rate of Escudos 2.20 to the dollar, this gift would reduce the estimated deficit from US\$ 489,130 (as indicated in table 1 above) to US\$ 278,130 (in round figures). However, a word of caution should be added in regard to the estimated amount of the deficit: the amount is liable to vary depending upon future variations in the economic situation in Chile. Further currency fluctuations and changes in wages and prices could significantly

^{2/} Letter dated 21 November 1962 from the Government of Chile, copy attached as Annex to this document.

increase or decrease this deficit. As indicated in table 1, such fluctuations can have a very marked effect on the over-all costs of the entire project. Furthermore, the estimated deficit does not include provision for contingencies including possible further wage and price increases. A minimum provision for such contingencies would be at least 10 per cent of the over-all estimates.

Present financial situation

16. Thus on the basis of the architectural plans prepared and the bids received, the currently estimated deficit situation is as follows:

Table 2

	<u>Estimates in U.S. dollars</u> (using rate of exchange 2.20 Escudos to 1 U.S. dollar)
1. Estimated deficit over existing appropriation, according to rate of exchange 2.20 Escudos to 1 U.S.\$, and as per details in table 1.	\$ 489 130
2. Offer of the Government of Chile as reported in paragraph 14 (b) 465,000 Escudos:	\$ 211 000
3. Deficit without provision for contingencies and excluding results of the Gift Programme:	\$ 278 130
4. Provision for contingencies: 10 per cent of over-all estimates (table 1, items 1 and 2)	\$ 181 913
Total estimated deficit (not taking into account the Gift Programme):	\$ 460 043
	(460 000 in round figures)

/Future action

Future action

17. Subject to such views and alternative proposals as the General Assembly may wish to offer, and with a view to remaining, so far as United Nations budgetary commitments are concerned, within the present financial authorization of \$1,550,000, the Secretary-General would intend to proceed in the following manner:

- (a) to accept, with gratitude, the additional gift of Escudos 465,000 from the Government of Chile;^{10/}
- (b) to support the Gift Programme undertaken by the Ad Hoc Committee of ECLA and to ascertain whether the anticipated deficit might be covered in part by the donation of functional gifts and/or by cash contributions;
- (c) to modify the construction programme to the extent necessary for the purpose of keeping within the existing financial authorization by effecting further drastic reductions in space and facilities.

Space reductions

18. In all probability, it will be necessary to limit space requirements to those of ECLA itself and thus to exclude all or most of the other prospective occupants (TAB, UNICEF, FAO, ILO, UNESCO) from the Building, if savings in construction costs of up to \$ 460,000 are to be assured. In addition, the small conference room, three of the interior connecting bridges and the retaining walls on the west side will need to be suppressed. The Building would then assume a U shape instead of a square with the open end facing east. The main conference room planned as a tower would also have to be reduced to a structure of one storey. It would be feasible to restore the features thus eliminated at a later date, but, of course, at a much higher cost. It should also be pointed out that meanwhile there will be no margin for further staff expansion.

^{10/} Among other contributions from the Government of Chile are the donation of the site, the development of the surrounding area, the construction of access roads, and the extension of municipal facilities to the site.

19. On the basis of the study^{11/} undertaken by ECLA in close co-operation with experts and with the lowest bidder, the savings which would result from these reductions is estimated at \$ 496,000 which would, approximately balance the deficit of \$ 460,000 as estimated under table 2, above.

20. The Secretary-General is most reluctant to eliminate the provision of space for the other offices of the United Nations and specialized agencies in Santiago, as such a measure is clearly contrary to the General Assembly's policy of encouraging and promoting the centralization of United Nations and specialized agency offices in common buildings. In the circumstances however, and in the absence of firm assurances of additional and substantial cash contributions, he sees no feasible alternative, short of increasing still further the level of the United Nations budgetary support. He would nevertheless express the hope that these space reductions might be minimized as a result of a favourable and substantial response to the appeal of the ECLA Ad Hoc Committee for a Gift Programme.

^{11/} The possibility of adopting a new and more simple project has also been explored. ECLA, after serious consideration, expressed the view that the time period required for the development of a new design carried with it the risk that whatever savings might be effected in the new project would be lost to price inflation during the period of design without considering the cost of the new design itself.

TRANSLATION

REPUBLIC OF CHILE
MINISTRY OF FOREIGN AFFAIRS
No. 16139

POLITICAL DEPARTMENT
INTERNATIONAL AGENCIES

Santiago, 21 November 1962

Sir,

With reference to your letter of 20 November, in which you allude to the conversations held with you and Mr. Raúl Prebisch, Executive Secretary of ECLA, concerning the estimated deficit in the budget for the construction of the projected United Nations Building at Santiago, I note that you ask me to let you know the decision adopted in that connexion by the Government of Chile, since the Secretary-General has to report to the General Assembly of the United Nations on this matter.

This problem has been carefully considered by my Government and, after holding meetings with the Ministers of Financial Affairs and of Public Works, I am in a position to inform the Executive Secretary that the Government of Chile has decided to include in the 1964 Budget the sum of 465,000 escudos as a special contribution, testifying to Chile's co-operation, towards the financing of the estimated deficit in the budget for the construction of the United Nations Building at Santiago.

I should add that the decision to make a contribution which will virtually halve the deficit in question represents an exceptional effort on the part of my Government, which is confident that not only ECLA but also the Secretary-General and the General Assembly of the United Nations will appreciate the true value of this substantial co-operation.

I have the honour to be, etc.

(Signed) CARLOS MARTINEZ SOTOMAYOR

Mr. Alfonso Santa Cruz
Acting Executive Secretary of the
Economic Commission for Latin America
Santiago