



SECOND ITEM ON THE AGENDA

**Premises for the Subregional Office
in Santiago, Chile**

1. At its 288th Session in November 2003, the Governing Body requested that the results of the bidding evaluation process for the construction of the new ILO premises in Santiago be submitted to the Building Subcommittee in March 2004.¹
2. Following that decision, tender documents, including detailed technical architectural plans and drawings, were completed by the architect in January 2004. Eight contractors were invited by the Office to bid, after careful scrutiny of their building experience, general standing and financial position. Three of the contractors decided not to participate in the bidding process and tender documentation packages were sent to the remaining five contractors in January 2004 with the submission date set at 20 February 2004 so as to enable the Office to complete technical and commercial evaluations of the tenders soon thereafter.
3. In accordance with the Office's established procurement procedures, technical and financial contract evaluation panels were established to review the two submissions that were received by the Office. Both quotations were declared technically valid and the evaluation group was of the unanimous opinion that the replies received were comprehensive and of high quality. All prices submitted by the contractors were re-examined in detail and, in cases where the architect's estimates differed from those of the contractor, the items were reviewed and compared to prices currently being charged in the Santiago construction sector. The technical evaluation panel was also satisfied that both companies respected fully the detailed requirements of the architectural plans, and that the responses foresaw the completion of the building and the technical installations, which include air conditioning, electricity, security, lifts and external landscaping.
4. The lower of the two bids received, net of sales tax, is within 3 per cent of the Chilean peso denominated price that was estimated when the Governing Body decided to give effect to the proposal to build new premises for the ILO office in Santiago. Although this price is higher than the architect's original estimates, the increases relate to technical aspects, administrative costs and overheads of the contractors which can be negotiated prior to reaching a definitive contract price. Negotiations with the contractor could commence in April 2004.

¹ GB.288/9/1(& Corr.2), para. 100.

5. Following the detailed technical and financial evaluation, the ILO's Contracts Committee has confirmed that the contracting procedures were in accordance with the Financial Regulations and Financial Rules of the ILO. The Office therefore wishes to acknowledge the validity of the bids received and to enter into post-tender negotiations to further examine technical aspects and maintain the cost of the construction of the building within the limits estimated by the architect prior to the November 2003 session of this Subcommittee.
6. Local sales tax, which amounts to 19 per cent of the value of the contract, is not budgeted. Discussions will be taking place between the ILO and local authorities to obtain a waiver from the Government of Chile. A similar waiver was granted for the construction of the United Nations Economic Commission for Latin America and the Caribbean (ECLAC) building and the Office is hopeful that it can obtain a similar waiver.
7. It is recalled that the ILO presently occupies rented premises on a lease which is due to expire in 2011. The Office is presently negotiating conditions for the termination of the lease, to prevent undue financial liability for the Office.
8. With respect to the financing of the project, it is recalled that during both the Subcommittee deliberations² and the ensuing discussion of its report by the Programme, Financial and Administrative Committee³ in November 2003, concerns were raised as to the suitability of a commercial loan for such a project and the impact of loan servicing costs on future regular budgets. A request was also made for information concerning rules and practices of other United Nations organizations. Following a review of practice within several United Nations organizations, it has been determined that the use of commercial loans for building projects has so far been restricted to the construction of headquarters premises only. It is also recognized that the Building and Accommodation Fund currently holds funds well in excess of the amount earmarked by the Governing Body for this project and any further amounts needed for other approved projects, and that the opportunity cost of using these available funds is minimal. It is therefore proposed that the construction of the Subregional Office in Santiago be funded from the Building and Accommodation Fund.
9. Attention is also drawn to the fluctuating value of the Chilean peso (the currency in which construction costs will be incurred) with respect to the US dollar (the ILO's accounting currency for recording all expenditures) and the Swiss franc (the currency in which Building and Accommodation Fund monies are held). It is not possible to forecast how the Chilean peso/US dollar/Swiss franc exchange rates will evolve during the construction of the premises, which could commence before the summer of 2004 and be completed towards the end of 2005. The Office will continue to monitor exchange rate fluctuations and their potential impact on both the reported and the economic costs of construction.
10. ***The Building Subcommittee may wish to propose to the Programme, Financial and Administrative Committee that it take note of the information above and that it recommend to the Governing Body that:***

² GB.288/PFA/7.

³ GB.288/9/1(& Corr.2).

- (a) the cost of the building be funded from the Building and Accommodation Fund; and*
- (b) the Office be instructed to provide a progress report at the next session of the Governing Body.*

Geneva, 11 March 2004.

Point for decision: Paragraph 10.