



Board of Executive Directors

For consideration

On or after: 6 June 2007

PR-3161

22 May 2007

Original: Spanish

To: The Board of Executive Directors
From: The Secretary
Subject: Venezuela. Proposal for a loan for a program to support the Centro de Acción Social por la Música, Phase II

Basic Information: Loan type Specific Investment Project (ESP)
Borrower Bolivarian Republic of Venezuela
Amount up to US\$150,000,000
Source Single Currency Facility of the Ordinary Capital

Inquiries to: Mr. José Cuesta (extension 1487)

Remarks: As reported to the Board of Executive Directors at its meeting on 10 August 2006, the Office of the Secretary is distributing simultaneously a document (PR-3161-1) containing the text of the electronic links of the above-referenced document.

References: GN-1838-1(7/94), DR-398-5(5/03)

Other distribution: Representative in Venezuela

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

VENEZUELA

**PROGRAM TO SUPPORT THE CENTRO DE ACCIÓN SOCIAL
POR LA MÚSICA, PHASE II**

(VE-L1017)

LOAN PROPOSAL

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Electronic Links and References	
Basic socioeconomic data	http://www.iadb.org/RES/index.cfm?fuseaction=externallinks.countrydata
Status of loans in execution	http://portal.iadb.org/approvals/pdfs/VEen.pdf
Tentative lending program	http://opsgs1/ABSPRJ/tentativelending.ASP?S=VE&L=EN
Annex II. Procurement Plan Part A	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=964830
Annex IV. Calculation of program benefits	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=936732
TOR External impact assessment	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=941914
Draft Operating Manual	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=976542
Information available in the RE3/SO3 technical files	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=949795

ABBREVIATIONS

AWP	Annual work plan
CAF	Andean Development Corporation
CASPM	Centro de Acción Social Por la Música
CESI	Committee on Environment and Social Impact
DIP	Department of Infrastructure and Projects
FESNOJIV	Fundación del Estado para el Sistema Nacional de Orquestas Juveniles e Infantiles de Venezuela [Venezuelan State Foundation for the National System of Youth and Children's Orchestras]
GDP	Gross domestic product
ICAS	Institutional Capacity Assessment System
INE	Instituto Nacional de Estadística [National Statistics Institute]
IT	Information technology
MPPPS	Ministry of Social Welfare and Participation
OAS	Organization of American States
OC	Ordinary Capital
PROPEF	Project Preparation and Execution Facility
UBN	Unmet basic needs
ULA	Universidad de Los Andes
UNDP	United Nations Development Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNICEF	United Nations Children's Fund
VAT	Value-added tax

PROJECT SUMMARY

VENEZUELA PROGRAM TO SUPPORT THE CENTRO DE ACCIÓN SOCIAL POR LA MÚSICA, PHASE II (VE-L1017)

Financial Terms and Conditions ¹					
Borrower: Bolivarian Republic of Venezuela			Amortization period:	25 years	
Executing agency: Fundación del Estado para el Sistema Nacional de Orquestas Juveniles e Infantiles de Venezuela [Venezuelan State Foundation for the National System of Youth and Children's Orchestras] (FESNOJIV)			Grace period:	7 years	
			Disbursement period:	7 years	
Source	Amount (in millions)	%	Interest rate:	Variable	
IDB (Ordinary Capital)	US\$150	71	Inspection and supervision fee:	0.0%	
Local	US\$ 61	29	Credit fee:	0.25%	
Total	US\$211	100	Currency:	U.S. dollars from the Single Currency Facility	
Project at a glance					
<p>Project objective: The program's ultimate objective is to contribute to improving the lives of Venezuela's boys, girls, and young people, particularly the most disadvantaged among them. Through the efficient and effective expansion of the System, the program will contribute to the development of human capital, training in civic values and good behavior, the creation of future employment opportunities, and offering alternatives for the non-criminal use of free time among its beneficiaries.</p> <p>Special contractual conditions: See paragraphs 3.11, 3.18, 3.19, and 3.21. The program's first disbursement will be subject to fulfillment of the conditions established in Article 4.01 of the Bank's General Conditions and the entry into effect of the Operating Manual, as indicated in paragraph 3.19. Special conditions for execution will include the submission of a report on the legal status of ownership of the land where the Regional Centers will be located (paragraph 3.11); the hiring of an independent external institution or firm for the program's impact assessment (paragraph 3.18); and the signing of an agreement with the United Nations Development Programme governing the terms and conditions of UNDP procurement activities, should such procurement take place (paragraph 3.21).</p> <p>Exceptions to Bank policies: None.</p>					
<p>Project consistent with country strategy: Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>]</p> <p>Project qualifies as: SEQ [<input checked="" type="checkbox"/>] PTI [<input checked="" type="checkbox"/>] Sector [<input type="checkbox"/>] Geographic [<input type="checkbox"/>] Headcount [<input checked="" type="checkbox"/>]</p> <p>Procurement: See paragraphs: 3.20, 3.21, 3.22, 3.23. Works and services will be procured in accordance with the Bank's new procurement policies and procedures. Verified by CESI on: 30 March 2007.</p>					

¹ The interest rate, credit fee, and inspection and supervision fee mentioned in this document are established pursuant to document FN-568-3 Rev. and may be changed by the Board of Executive Directors, taking into account the available background information, as well as the respective Finance Department recommendations. In no case will the credit fee exceed 0.75%, or the inspection and supervision fee exceed 1% of the loan amount.*

* With regard to the inspection and supervision fee, in no case will the charge exceed, in a given six-month period, the amount that would result from applying 1% to the loan amount divided by the number of six-month periods included in the original disbursement period.

I. FRAME OF REFERENCE

A. Introduction

- 1.1 Venezuela's National System of Youth and Children's Orchestras (the "System") is a pioneering initiative that, for more than 30 years, has provided musical training to over two million Venezuelan boys and girls ages 3 to 19. The System is made up of the Fundación del Estado para el Sistema Nacional de Orquestas Juveniles e Infantiles de Venezuela [Venezuelan State Foundation for the National System of Youth and Children's Orchestras] (FESNOJIV) (its centralized management body based in Caracas), 126 community-based centers located in all the states in the country, and, associated with them, 326 orchestras and choirs. There are currently 245,353 beneficiaries enrolled in the program, of whom approximately 67% are from the country's two poorest social strata (81% if the medium-low stratum is included).¹ The primary individual benefits attributed to the System include improvements in academic achievement and in the psychological development of children and young people. Its social benefits include reducing the school dropout rate and the rate of youth violence. The System has also included particularly vulnerable groups, such as the disabled: the Coro de las Manos Blancas—the world's only choir of deaf girls, boys, and young people. All of this has led other countries in the region, including Ecuador, Chile, and Colombia, to implement similar systems.
- 1.2 This program consolidates and expands the support the Bank has been providing to the System through a prior operation (VE-0105). That operation made it possible to expand the system substantially, without diminishing its quality of service. Annual enrollment rose from 100,000 beneficiaries in 1999 to 245,343 today. That project contributed to financing the construction of the Centro de Acción Social Por la Música (CASPM) in Caracas, a world-class music education center. The CASPM, currently operating at partial capacity, is expected to be working at full capacity in two months. The previous operation also helped to consolidate the program's successful music education method and administrative-financial system for the growing number of community-based centers and orchestras. Financing was provided for the purchase of musical instruments and for external impact assessments of the System. Nevertheless, the original design for the construction of the CASPM underwent successive changes that led the resources earmarked for FESNOJIV's institutional development to be channeled to construction of the CASPM, which in turn left the institutional progress only partially achieved. The Project Completion Report for this operation (drafted in December 2005) recommended that FESNOJIV develop its own impact monitoring and assessment system, so it was not dependent solely on external studies. That will be done in this operation.

¹ Source: Universidad de Los Andes (ULA) (2004), Plan for Monitoring and Evaluating the Impact of Venezuela's National Orchestra and Choir System, and FESNOJIV (2006) 2005 FESNOJIV Annual Report.

- 1.3 The proposed program seeks to further expand the System from the current 245,353 beneficiaries to 500,000 by 2015. This poses the challenge of maintaining the quality of service for a substantially higher enrollment. To do so, this program will consolidate the achievements of the prior operation and develop the institutional and evaluation aspects that the previous program did not provide. The program seeks to deconcentrate the System, by creating an intermediate regional level between the national directorate and the community-based centers. Accommodating this new level will involve adjustments to the music education, administrative-financial, and information systems. The program will also finance the investment in regional infrastructure (seven Regional Centers), and the purchase of musical instruments to meet the new demand.
- 1.4 This program's preparation has mitigated a series of risks associated with the operation and anticipated from the lessons learned in the previous operation. For the Regional Centers, a strategy was defined that included the development of a Regional Center Functional Plan as a first step, addressing all activities to be undertaken by these centers (including administrative, music education, technology and communications, and supervision) and the respective architectural, technical, and special requirements (acoustics, audiovisual equipment, and lighting, among others) for these activities. Second, a complete Reference Center project was designed based on the Functional Plan. It includes the design of structural, utility (water, sewerage, electricity), and special elements. These first two steps were taken during project preparation, resulting in a works budget with 90% reliability. A third step—to be taken during execution—is the adaptation of this Reference Project to the characteristics of the sites where each of the seven Regional Centers will be located. During program preparation, a baseline was also established in order to be able to stringently evaluate its individual and social impacts. An implementation plan was developed for the monitoring and evaluation system, identifying the stages, activities, and responsibilities for establishing this system. Consensus was reached on the terms of reference for the monitoring and evaluation specialist in the executing unit, as well as the terms of reference for the external impact assessment. The program's primary benefits were also quantified in order to determine the operation's cost-benefit ratio and cost-effectiveness. Lastly, FESNOJIV's institutional capacities were analyzed. That analysis showed that the organization was well positioned to handle the expansion, and identified the main areas for improvement.
- 1.5 Below this document details the System's background, the challenges for its expansion, and the program's strategy, its objectives and components, execution mechanisms, and the operation's risks and impacts.

B. Socioeconomic framework

- 1.6 In economic terms, Venezuela's rapid growth continues. For the third consecutive year, real GDP growth has been around 10% (10.3% in 2006), and considerable growth is also expected in 2007. This growth is driven by the high revenues from oil exports, permitting public spending to mushroom (39.8% higher in 2006 than in

2005) and increased investment in fixed capital (up 31.5% over 2005). The government faces no problems funding its economic program, forecasting a fiscal surplus for the central government of 0.1% of GDP for the first three quarters of 2006. In the external sector, the current account surplus for the same period is 16.1%. Nevertheless, the economy's rapid growth has created inflationary pressures, with annual inflation reaching 17% in December 2006.

- 1.7 Socially, like other Latin American countries, Venezuela faces major challenges in terms of inequality and poverty. Poverty rates recently fell after a volatile period. According to figures from the 2006 Social Report by the National Statistics Institute (INE), in the first half of 2006, poverty affected 33.9% of Venezuelan households and extreme poverty, 10.6%. The higher number of children per household among low-income populations has led to a phenomenon known as the "juvenilization of poverty." An estimated 74% of children ages 0 to 9 and 71% of children ages 10 to 15 live in poor households. In any case, several of the Millennium Development Goals for 2015 are nearly achieved or moving in the right direction (education, water and sanitation, gender), while major efforts will be needed to achieve the other goals, such as those related to poverty, maternal-child mortality, and malnutrition. Even though social spending per capita in Venezuela is at the average level for the region, one trait that makes its social development different from the rest of the region is the inclusion of music as a tool for social development.

C. Social development through music in Venezuela

- 1.8 **The System.** The social development model based on music education was developed in Venezuela around the Venezuelan National System of Youth and Children's Orchestras. The System comprises a national level and a community level. At the national level is the Venezuelan State Foundation for the National System of Youth and Children's Orchestras (FESNOJIV), while the System's community level is made up of 126 community-based centers and 326 orchestras and choirs. Currently attached to the Ministry of Social Welfare and Participation (MPPPPS), FESNOJIV has enjoyed significant independence and continuity since its establishment in 1979. Its mission is to contribute to the country's social development through music, particularly the development of vulnerable children and young people. In practice, this foundation serves as the executive and operational administration managing the creation, implementation, outfitting, development, and supervision of the community-based centers, orchestras, and choirs in the System. FESNOJIV has maintained stable management for over three decades, and become an institution of recognized prestige both domestically and internationally, as demonstrated by numerous international awards.²

² Awards received include the UNESCO International Music Prize (1993), the "Gabriela Mistral" Prize from the OAS (1996), "Successful Experience in Poverty Reduction" by the UNDP (1998), the United Nations International Arts Prize (2004), and UNICEF National Ambassador (2004). It has also been recognized by artists including Claudio Abbado, Plácido Domingo, and Sir Simon Rattle.

- 1.9 **Community-based centers.** The 126 community-based centers currently operating are the System’s basic units. Based on FESNOJIV’s planning and guidelines, the centers are responsible for executing the various orchestral and choral programs and teaching instrument lessons and supporting theory classes. They promote the System locally through concerts and recitals, and act as a bridge to ensure that the most talented students pursue their studies. In many cases they also become centers promoting educational, artistic, and cultural activities in the community. They promote the development of children and young people’s cognitive, musical, personal, and social skills. There are different types of centers that vary in size and complexity, with an average of 2,000 beneficiaries per center. There are centers in every state in the country (with 12 in the Capital District).
- 1.10 **Financing.** The System’s budget was US\$61.2 million in 2006. Government contributions are its main source of funding (91%) (primarily from the central government), while the remainder comes from private donations (5%) and external sources, i.e., the Bank loan (4%). This budget has grown as the System has expanded, with an average annual increase of 24% since 2000. Behind the strong annual growth there are major fluctuations in the execution of physical investment. On average, during this period, the financing of physical investment represented 59% of the System’s total budget, with the rest going to personnel expenses (25%) and other current expenses (16%). Table I-1 provides a breakdown of the budget and its sources since 2000:

Table I-1
System financing³

	Central government contribution	Local government contribution	Private contributions	IDB loan VE-0105	Total revenues	% Personnel expenses	% other Recurrent expenses	% Investment expenses
2000	24,976,949	...	1,309,948	177,000	26,463,897	54.8%	30.6%	14.6%
2001	25,740,825	...	1,182,851	1,143,000	28,066,676	34.9%	26.3%	38.8%
2002	24,358,285	13,571	3,700,227	654,000	28,726,083	21.7%	14.6%	62.8%
2003	16,046,227	56,694	416,758	1,360,000	17,879,679	16.8%	11.0%	72.2%
2004	34,780,255	41,477	1,504,536	3,044,000	39,370,268	11.8%	9.4%	78.8%
2005	37,764,686	...	1,420,892	1,596,000	40,781,578	14.1%	8.6%	77.3%
2006*	59,273,725	...	1,984,191	...	61,257,916	16.8%	11.2%	72.0%

- 1.11 **Quality of service.** The System has achieved high levels of quality in its services. Despite the sharp increase in annual enrollment, it continues to implement a pioneering teaching method that simultaneously integrates theoretical, instrumental practice, and orchestral practice components of orchestral execution from the outset. This ensures that individuals participate in a group from the moment they enter the System and engage in theoretical and instrumental music instruction in an

³ Source: FESNOJIV, Planning and Budget Department; IDB, Project Completion Report.

isolated manner (as is common in other traditional teaching methods), but rather collectively with other boys, girls, and young people. Unlike other group teaching methods (such as, the Suzuki method), the Venezuelan method also ensures early and continued exposure to great musical works, on the one hand, and on the other, seeks continuous contact between the beneficiary and his or her community. This strong link with the community—through frequent community performances—ensures that the beneficiary remains motivated and stays in the System. According to the baseline developed for this program, beneficiaries participate in the System for an average of 10 years. This allows them to absorb values such as teamwork and the pursuit of collective excellence during their participation in the System. As a result, 85% of students achieve a level of music proficiency considered good or excellent. All beneficiaries receive at least one individual class per week and at least three weekly workshops by instrument. The System provides an average of 17 hours of classroom time per week, for 40 weeks a year. Despite this academic load, each of the System's orchestras averages 26 musical performances a year. Despite swelling enrollment in recent years, the ratio of musical instruments per student has remained at two instruments for every three students, which is considered adequate for musical instruction.

- 1.12 **Benefits.** Sixty-three percent of the System's beneficiaries have good or excellent achievement in school (compared to 50% among their classmates who do not participate in the System). Parents report substantial improvements in their children's punctuality, responsibility, and discipline after going through the System (95%, 96%, and 86%, respectively, according to the 2004 ULA report). According to the results of a recent cost-benefit study conducted during program preparation, there are important social benefits—representing about 1.68 bolívares for each bolívar invested in the System—from the decline in the school dropout rate and the drop in victimization in communities where the System is present (see Table IV-1 in Chapter IV). The program's baseline also confirms the benefits related to the training of human capital and individual behavior (two-thirds of parents surveyed report these as the primary advantages of their children's participation in the System). As shown in Table I-2, there are also significant benefits in terms of social capital formation and improvement in formal employment expectations for boys, girls, and young people of working age (14 and up).

Table I-2
Baseline indicators⁴

Measure	Indicator	Intervention group	Control group
Academic achievement	Class attendance	95.5%	87.6%
	School dropout rate	6.9%	26.4%
Employability	Participation in formal employment of youth ages 14 and up: participation in social security system and/or written contract	40.7%	12.5%
Conflict management/ social capital	Participation in community activities	60.1%	37.9%
	Percentage of beneficiaries whose parents or guardians are notified of behavior problems at school	12.4%	22.5%
Socioeconomic profile of beneficiary	Persons living in poverty	59.9%	69.8%

- 1.13 **Beneficiaries.** It is estimated that more than two million boys, girls, and young people ages 3 to 19 have passed through the System since its creation in the 1970s. The annual growth in enrollment over the last seven years has been over 13%, with annual growth rates exceeding 20% in states with medium or low human development such as Sucre, Guárico, Trujillo, and Yaracuy. This has allowed the System to more than double its enrollment over this period from 100,000 beneficiaries in 1999 to the current 245,343. In Caracas, the population served has grown annually at an average rate of 8.5% (below the System's annual growth rate).
- 1.14 FESNOJIV's 2005 Annual Report indicated that nearly 67% of the System's beneficiaries came from poor strata of the population, that is, those living below the level of the basic shopping basket, made up of foodstuffs, essential products, and services, while this figure would jump to 81% if beneficiaries from the medium-low stratum were included. This beneficiary profile is achieved despite the fact that the System does not include explicit mechanisms for positive discrimination of its beneficiaries beyond their location in poor districts, resulting from a process of self-selection, and the provision of services based on community demand (demand-driven). This program, however, identifies safeguard criteria to ensure that future System beneficiaries are not excluded for reasons of gender, ethnicity, disability, or other personal characteristics (see Table IV-2 in Chapter IV).
- 1.15 **Bank support for the System's growth.** The System has continuously expanded since its creation in 1979. Coinciding with the Bank's support (through operation VE-0105), the pace of System expansion began to accelerate in 1998. The operation helped to more than double enrollment from 100,000 in 1999 to the current 245,343 beneficiaries. The music instruction method was systematized for all of the

⁴ The survey was conducted from October to December 2006, in 15 System centers (12% of all centers) in six states. The sample consisted of 840 boys, girls, and young people, as well as 500 parents and/or guardians. They were organized into two groups of equal size: the intervention group and the control group, based on whether or not they participated in the System. Information was collected on a total of 26 indicators.

System's centers, even as their numbers mushroomed from 59 to 126 during this period. Institutionally, greater functional and administrative integration was achieved between the centers and headquarters, without creating more bureaucracy (the historic ratio of administrative staff to music education staff did not increase with System expansion). The quality standards described earlier were maintained, despite the growth. The headquarters was modernized with the construction of the CASPM, which was built with the technical features of a world-class center of excellence in music education. In turn, the loan facilitated the performance of evaluation studies, the establishment of a fundraising mechanism, and the purchase of 1,830 instruments.

- 1.16 **Experience from the previous phase.** Even though the previous program increased System coverage and strengthened aspects of its management, it did not effectively deconcentrate FESNOJIV's administrative-financial and music education areas. Implementation of the restructuring plan prepared during that program suffered setbacks associated with the delay in constructing the CASPM. The delays in the construction of the center—designed as the cornerstone of the System's administrative-financial and music education modernization—were largely the result of successive changes to the original design. Therefore, the prior program only achieved some of the planned institutional restructuring objectives, such as the installation of a computer system integrated with all of the centers and improvements in the budget system. Other changes planned for the previous program, related to internal organization and human resources policies, did not take place. These lessons were taken into account in the design of this program, as explained in paragraph 1.24.

D. System challenges: continuous expansion

- 1.17 The System is currently proposing a new stage of expansion that will allow it to double its annual enrollment to 500,000 beneficiaries by 2015, a figure confirmed in a System demand projection study carried out during preparation of this operation. This study considered, among other factors, historical population growth rates, population density by region, enrollment and graduation cycles in the System, and averaged four alternative demographic projection methods.
- 1.18 The main challenge posed by this expansion is maintaining the quality of service with such a substantial growth in demand. The results of the institutional capacity assessment (ICAS) of FESNOJIV found that the technical teams, procedures, manuals, strategic planning instruments, and administrative and internal control mechanisms were adequate for effective management of the institution's projects and activities at their current level. It concluded that the institution was well positioned to address future growth in demand, but would require additional investments and specific adjustments in its management. These adjustments and investments are planned both nationally and regionally.
- 1.19 Nationally, expanding the System without compromising quality will require human- and material resource changes in the music education area. For

administrative-financial management, the institution will create a regional level that will connect national management with the community-based centers. These Regional Centers will effectively deconcentrate the System's operations, both administratively and in terms of teaching. They will also provide adequate space and equipment for the community-based centers so they can continue providing excellent music education and ongoing contact with the community. A comprehensive monitoring and evaluation system is also planned for the System. These adjustments will require organizational changes as well as physical investments, including plans for the construction of seven Regional Centers.

E. Country strategy in the sector

- 1.20 Venezuela has a medium-high level of human development. Its per capita social spending (US\$488 in 2002-2003) places it at the Latin American average. The government's current strategy seeks to increase this social spending while expanding coverage of social services and programs, taking advantage of the economic boom resulting from international oil prices.
- 1.21 The System has been a pioneer in the region in the area of social development. In fact, it has transcended the artistic world to become a social development project that aspires to imbue citizens from a very early age with civic values and teamwork; to enhance human capital through the improved academic achievement of participants; to create future employment opportunities; to provide young people with alternatives for spending their free time; to have a positive impact on family and community relations; and to enhance equity by benefiting the country's poor communities.
- 1.22 The System enjoys enormous prestige in the country, and has received continual support from past governments and the current administration, regardless of their political orientation. This makes the System and its expansion a priority element of the country's social and cultural policy. Nevertheless, System expansion requires technical support in institutional matters, the execution of a very specific and complex infrastructure (music education centers), and the development of appropriate monitoring and evaluation mechanisms. The Bank's experience in institutional and evaluation matters, along with the experience gained in the support for construction of the CASPM in Caracas, have allowed it to contribute great value to this new expansion phase.

F. The Bank's strategy in the sector

- 1.23 The Bank's strategy with Venezuela, approved in 2000, and its subsequent updates, establish four priority action areas: (i) social; (ii) economic; (iii) institutional; and (iv) science and technology. This program falls under the first priority area: the social area.
- 1.24 The experience of the previous operation underscores the need to plan physical investment designs more accurately. Successive modifications of the original CASPM project resulted in delays and cost overruns. Ultimately, this impacted the

execution of other program components, primarily the institutional deconcentration of the System, the gradual roll-out of which was linked to the opening of the CASPM. In this regard, the project completion report stressed the need to maintain a proper balance between institutional capacity and the scope of physical investments, taking care to link the execution of both components. Otherwise, institutional bottlenecks will arise, delaying program execution. The project completion report also indicated that the program's impacts were not solely individual, and therefore a more systematic effort to identify and quantify social impacts was needed. This will allow for more accurate evaluation, as well as an evidence-based strategy for adjusting System interventions. The preparation of a Functional Plan for the Regional Centers, the completion of a complete Reference Center project with finished designs and precise costs, the establishment of a sequence for implementing the System's various strategic development elements, and the determination of a baseline are concrete actions incorporated during program preparation as a result of the lessons learned.

- 1.25 The Bank has also contributed to financing the Medellín, Colombia Youth Symphony as part of the Support for Peaceful Coexistence and Citizen Security Program (CO-0213). Its evaluation highlights significant improvement in the peaceful resolution of conflicts and social inclusion among participants in musical groups, with respect to non-participants. In turn, the loan for the Program for the Expansion and Improvement of Early and Basic Education (VE-0138) will finance US\$3.12 million in musical equipment for schools. Moreover, the Social Inclusion through Culture and Citizenship: Culture Factories program in Brazil (BR-0373), approved in 2003, seeks the social integration of boys, girls, and young people through artistic work. The experience in executing this program shows the importance of maintaining the institutional stability of the sector to prevent continuous turnover in its operating personnel.

G. Program strategy

- 1.26 The program's strategy consists in supporting System expansion on three fronts: (i) the institutional strengthening of FESNOJIV for efficient management of the expanding System; (ii) supporting investment in infrastructure; and (iii) supporting the creation of management measurement and impact assessment instruments for the System. The program will address these areas simultaneously, with short-term actions (developing a baseline, starting the institutional strengthening process for the System, and designs for the Regional Centers), and medium- and long-term actions (establishing a monitoring and evaluation system, institutional development, and construction of the Regional Centers). The program's overall execution schedule details the successive construction process for the seven Regional Centers over an estimated period of six years, and the implementation sequence for the remaining components coordinated around building the centers.

H. Coordination with other donors

- 1.27 The Andean Development Corporation (CAF) has collaborated in the past with the System by cofinancing the establishment of the Andean Youth Orchestra and providing grants supporting music student exchanges in the Andean Region. Although there is currently no direct collaboration between the CAF and the System, the establishment of areas of collaboration in the future has not been ruled out.

II. THE PROGRAM

A. Objectives and description

- 2.1 The program's ultimate objective is to contribute to improving the lives of Venezuela's boys, girls, and young people, particularly the most disadvantaged among them. Through the efficient and effective expansion of the System, the program will contribute to the development of human capital, training in civic values and good behavior, the creation of future employment opportunities, and alternatives for the non-criminal use of free time among its beneficiaries. Specifically, the program seeks to: (i) expand System coverage; (ii) adapt FESNOJIV's institutional capacities to the demands of greater coverage; (iii) deconcentrate the System for more efficient management; and (iv) establish a monitoring and evaluation system in order to be able to estimate the System's individual and social benefits.

B. Structure

- 2.2 The program will consist of three components: (i) strategic development of the System; (ii) physical investments; and (iii) development of a monitoring and evaluation system.

1. Strategic development of the orchestra system (US\$67.05 million)

- 2.3 This component's objective is to strengthen FESNOJIV in order to expand System enrollment from the current 245,353 to 500,000 students over the long term. This strategy is divided into the strengthening or development of the institution's: (i) music education area; (ii) institutional area; and (iii) financial-budgetary area.

a. Music education area (US\$60.95 million)

- 2.4 **Adaptation of the teaching system (US\$8.55 million).** The current teaching method will have to be adapted to effectively address the increase in enrollment, increased demand for teachers and instructors, and the creation of Regional Centers. To do so, consulting projects and training will be financed in seven musical education areas: (i) assessment of the capacity of the current teaching system; (ii) adaptation of curriculum design; (iii) consolidation of the national practice network by instrument section; (iv) adaptation and production of bibliographic material; (v) training for the implementation of the adjustments in the teaching method; (vi) establishment of a continuous training system in music excellence; and

- (vii) creation of a support network for the procurement and circulation of instruments.
- 2.5 **Increased availability of instruments (US\$52.4 million).** The planned increase in enrollment necessitates a strategy for purchasing and replacing instruments in keeping with the annual growth in enrollment. To do so, the component will finance the purchase of at least 42,620 instruments over the next seven years. This—together with other contributions⁵—will allow the System to maintain an appropriate ratio of instruments to students.
- b. Institutional development area (US\$5.8 million)**
- 2.6 The objective of this area is to adapt the organization to the increase in demand for the System on various fronts: (i) strategic planning; (ii) organizational structure; (iii) technological upgrades; and (vi) human resources. Through this component, the loan will finance consulting projects, training activities, and the procurement of information technology and equipment.
- 2.7 **Strategic planning.** The program will finance a consulting project to develop a detailed strategic plan agreed by consensus among the various levels of the System. Then, it will finance a consulting project for the design and execution of System planning and management techniques including the regional level. This component will also finance the production of educational materials (guides and texts for self-directed learning) necessary to train the technical teams to execute the strategic plan. Financing will also be provided for training the strategic plan's technical teams on techniques for monitoring and evaluating the organization's ongoing performance (from scenario-based techniques to instructions for preparing management reports). Another consulting project will be financed to develop mechanisms to monitor and measure management of the expanded System.
- 2.8 **Organization.** A consulting project will be financed for the design and implementation of the System's new organizational structure, detailing its process of deconcentration into the seven Regional Centers, and adapting the work of the current organization (management, planning, coordination, supervision, and operation) to the existence of these Centers. This component will also finance training and dissemination activities related to the new organizational structure throughout the System.
- 2.9 **Technological upgrades.** The program will finance a consulting project to design an information and communications system for FESNOJIV, the future Regional Centers, and the community-based centers. Financing will also be provided for the purchase of hardware and software for the operation of this system, and a

⁵ For the 2007 academic year, donations have been pledged (through agreements between FESNOJIV and various institutions) for the purchase of instruments, totaling US\$13.5 million. These contributions come from the Government of the State of Miranda, Fondo Intergubernamental para la Descentralización [Intergovernmental Fund for Decentralization] (FIDES), Petróleos de Venezuela (PDVSA), Fondo Único Social [Single Social Fund] (FUS), Misión Negra Hipólita, and the Ministry of Education.

specialized human resources training program in communications and information technology. This part of the program will be executed in coordination with the monitoring and evaluation systems components in order to avoid duplication of efforts in the implementation of these information systems (e.g., in hardware purchases) and to leverage synergies in activities (e.g., joint information systems training for management oversight and impact assessment, or the use of a single website for disseminating System achievements).

- 2.10 **Human resources.** The program will finance a consulting project to put forward: (i) a diagnostic assessment of staff expansion needs (music education and administrative); (ii) adjustments to human resources policies (relating to salaries and benefits, promotion, planning, mobility, retirement, among others) consistent with the new organization; and (iii) training (workshops, conferences, bibliographic material) of staff and dissemination of new human resources policies for the System. The project will also finance the training activities.

c. Financial-budgetary area (US\$300,000)

- 2.11 This area's objective is to update the financial management and budgetary system based on the new organizational structure. To do so, the program will finance a consulting project to develop an information system for management oversight, in keeping with the implementation of the Regional Centers. The component will also finance pertinent training programs for the management of the new financial-budgetary information system.

2. Physical investment component (US\$109.9 million)

- 2.12 In order to address the growth in demand anticipated in the coming years, the program provides for, among other actions, the financing necessary for the (i) design, (ii) construction, (iii) outfitting, and (iv) supervision of the works for seven Regional Centers to be located outside of Caracas. These Regional Centers will allow for the effective deconcentration of the System's operation, both in terms of teaching and administrative matters. They will also provide adequate equipment to allow the community-based centers to provide outstanding music education.
- 2.13 The methodology adopted to design this component contemplated, first, the development of a Funcional Plan that describes the technical complexity of the Regional Centers, including all characteristics and spaces required for each of the functions the Centers will perform. The second step was to design the complete project for a Reference Center, based on this Funcional Plan, and quantify its cost (with 90% reliability). This project, already complete, includes finished architectural, structural, and utility (water, sewerage, electricity) designs (drawings, technical reports, specifications, and itemized budgets), as well as designs for the special projects for this type of building (acoustics, lighting, recording, power, among others). The project will set forth the mandatory environmental protection measures in Venezuela. In addition to these considerations, the main parameters for deciding where to locate the Centers were: higher target populations to be served, projections of a higher number of community-based centers to be served, physical

condition and legal status of the land, and existing transportation facilities. As a result of this analysis, the following cities were selected to host Regional Centers: Barquisimeto, Guanare, Puerto La Cruz, Puerto Ordaz, Maracaibo, Maracay, and Mérida.

3. Impact monitoring and evaluation system (US\$3.4 million)

- 2.14 This component will finance consulting projects, training, and the procurement of equipment for the establishment of a monitoring and evaluation system to measure the social and individual benefits of the program and the System in the future. Specifically, this component will finance: (i) the design of a monitoring and evaluation system for the System; (ii) one midterm and one final survey for the operation to determine individual and social impacts; (iii) the development of an experimental analytical methodology for the program, with a control group of non-participants in the System and a group of beneficiaries; (iv) the purchase of the equipment, software, and hardware needed for System operations; and (v) the training of the appropriate FESNOJIV staff to manage the monitoring and evaluation system, and use of the impact analysis techniques for the institution to produce its own reports in the future.
- 2.15 **Program management (US\$2.25 million).** This will include US\$2.25 million—at an annual cost of US\$321,000—to support the Department of Infrastructure and Projects (DIP) for the seven years of program execution. These expenditures include personnel expenses, equipment, and other administrative expenses for the DIP to perform its duties efficiently.
- 2.16 **Associated unallocated costs (US\$23.66 million).** This component includes the repayment to the Project Preparation and Execution Facility, annual external audits acceptable to the Bank, a contingency line item of US\$13.37 million, and a budget item of US\$9.02 million for escalation.

C. Cost and financing

- 2.17 The estimated cost of the program is US\$211 million. The Bank will finance US\$150 million (71%) and the Government of the Bolivarian Republic of Venezuela will contribute counterpart resources equivalent to US\$61 million (29%).⁶ The operation's expected costs and financing are described in the following table:

⁶ Part of the national counterpart contribution will go to finance all of the value-added tax (VAT) associated with the direct costs. By decree, the current VAT rate is 11%, but it is estimated to be cut to 9% in June 2007. Should there be another rate cut, the national counterpart amount would be modified, which would result in the pari passu adjustment of the program.

**Table II-1
Program costs (in thousands of US\$)**

Categories	IDB (OC)	Local	Total	% Total
1. Engineering and administration	4,900	2,250	7,150	3.3%
1.1 Adjustment of designs	2,500	0	2,500	1.2%
1.2 Supervision	2,400	0	2,400	1.1%
1.3 Project unit	0	2,250	2,250	1.0%
2. Direct costs	133,753	46,646	180,399	85.5%
2.1 Physical investment	99,053	10,896	109,949	52.1%
2.1.1 Regional Centers	98,000	10,780*	108,780	51.6%
2.1.2 Equipment, furniture, and vehicles	1,053	116*	1,169	0.6%
2.2 Strategic development	33,300	33,750	67,050	31.2%
2.2.1 Music education	33,300	27,650	60,950	28.3%
2.2.1.1 Music education development	7,100	1,450	8,550	4.0%
2.2.1.2 Increasing availability of instruments	26,200	26,200	52,400	24.4%
2.2.2 Institutional	0	5,800	5,800	2.7%
2.2.2.1 Strategic plan	0	1,500	1,500	0.6%
2.2.2.2 Human resources	0	150	150	0.1%
2.2.2.3 Organizational structure	0	300	300	0.1%
2.2.2.4 Information systems design	0	400	400	0.2%
2.2.2.5 IT equipment	0	3,450	3,450	1.6%
2.2.3 Financial-budgetary area	0	300	300	0.1%
2.3 Monitoring and evaluation	1,400	2,000	3,400	1.6%
2.3.1 Monitoring and evaluation system	1,150	2,000	3,150	1.5%
2.3.2 Impact assessment	250	0	250	0.1%
3. Associated costs	1,270	0	1,270	0.6%
3.1 PROPEF and external audit	1,270	0	1,270	0.6%
Subtotal	139,923	48,896	188,819	89.5%
4. Unallocated	10,077	11,162	21,239	10.1%
4.1 Contingencies	1,058	11,162	12,220	5.8%
4.2 Escalation	9,019	0	9,019	4.3%
5. Financial costs	0	942	942	0.4%
5.1 Commitment fee	0	942	942	0.4%
Total	150,000	61,000	211,000	100.0%
%	71%	29%	100%	

*Note: This item refers exclusively to the VAT for the construction of the Regional Centers, furniture, and vehicles.

2.18 **Conditions for the Bank's financing.** The Bank's US\$150 million in financing will be drawn on the Ordinary Capital. Table II-2 indicates the terms and conditions of the loan:

Table II-2
Terms and conditions of the loan

Source:	Ordinary Capital
Amount:	US\$150 million
Periods:	
• Amortization:	25 years
• Grace:	7 years
• Disbursement:	7 years
Interest rate:	variable
Commitment fee:	0.25% on undisbursed balances
Currency:	US\$ from the Single Currency Facility

III. EXECUTION

A. Borrower and executing agency

- 3.1 The borrower will be the Bolivarian Republic of Venezuela and the executing agency, the Fundación del Estado para el Sistema Nacional de Orquestas Juveniles e Infantiles de Venezuela [Venezuelan State Foundation for the National System of Youth and Children’s Orchestras] (FESNOJIV) through its Department of Infrastructure and Projects (DIP). FESNOJIV’s highest authority is its Board of Directors, made up of an Executive Director and four Directors, two of whom are appointed by the Ministry of Social Welfare and Participation (MPPPPS)—governing Ministry—and the other two by the board itself, based on recommendations by the Foundation’s advisory council (made up of citizens who have made outstanding contributions to Venezuelan music).

B. Project execution and administration

- 3.2 **Executing unit (Department of Infrastructure and Projects).** The Department of Infrastructure and Projects reports directly to FESNOJIV’s executive board. The existing Department of Infrastructure and Projects includes three units: (i) the project unit; (ii) the maintenance unit; and (iii) the infrastructure unit. The project unit will provide direct support in program execution through a general coordinator, seven area specialists, seven regional coordinators, and administrative support staff. The DIP’s two other units will support execution (fundamentally in the physical investment component) based on the specific needs identified by the project unit.
- 3.3 The general coordinator of the DIP’s project unit will be responsible for technical and administrative management and general program oversight. He or she will be supported by a planning specialist, a monitoring and evaluation specialist, a financial-accounting specialist, a procurement specialist, a music education specialist, an engineering specialist, and an information technology specialist. Each of them will be responsible for supervising the work in their respective areas, as established in the Operating Manual. In turn, seven regional coordinators will be hired to supervise all work related to the opening of their respective Regional Centers, such as timely availability of land, faculty, and administrative staff for each center, musical instruments, furnishings, and special equipment, among other things.

3.4 The DIP will have the following program execution duties: (i) preparing annual work plans, supervising the implementation of program activities, and tracking the respective indicators; (ii) preparing the respective revised procurement plans, as well as the procurement of goods and consulting services; (iii) coordinating preparation of the technical and semiannual reports; (iv) maintaining separate specific bank accounts to manage Bank and local counterpart resources; (v) submitting timely disbursement requests and support documentation for eligible expenditures; (vi) maintaining adequate information systems for the consolidated accounting and financial administration of the program, integrated with FESNOJIV's official books, as well as a contract administration and project oversight system, with the applicable internal control structure; (vii) preparing and submitting the project's consolidated financial reports, semiannual revolving fund reports, and any other financial reports required by the Bank; (viii) maintaining complete information on the program's consolidated procurements; and (ix) maintaining an adequate system to archive support documentation for eligible expenditures for verification by the Bank, external auditors, and any citizen requesting such information.

3.5 **Financial administration.** FESNOJIV's executive board will be responsible to the Bank for overall financial administration of the program and will request the necessary resources on an annual basis (Bank disbursement and local counterpart) for the following fiscal year. The request for local counterpart resources will be submitted to the MPPPPS for consideration, which will in turn send it to the National Budget Office (ONAPRE) for inclusion in the National Budget. To use these resources, the executive board will request and send the applicable support documentation to the MPPPPS for its authorization and issuance of the payment order. The National Treasury Office will transfer the required amount to an account opened in a financial institution under the name of the program. The foreign contribution funds will be allocated through the Special Annual Debt Act. These resources will be deposited in a special account opened at the Central Bank of Venezuela, following submission to the Bank and approval of the request for disbursement or reimbursement of expenditures.

C. **Execution mechanism**

3.6 The program will be executed in three components: (i) strategic development of the system; (ii) physical investments; and (iii) development of the monitoring and evaluation system.

1. Strategic development of the system component

3.7 **Music education area.** The DIP project unit's music education specialist will draft the Terms of Reference for the seven consulting projects identified in this component with the technical support of FESNOJIV's Music Education Management Office. These Terms of Reference will be approved by the executive board. After approval, consulting projects will be executed gradually, based on the general program execution schedule. This means that the consulting project on the

- current teaching system's capacity will be assessed first, followed by the program on curriculum design, and then the project on bibliographic material. Once these consulting projects have been completed, those on consolidation of the national practice network by instrument section, continuous training, and circulation of instruments will be carried out in parallel, as the Regional Centers are built. The DIP will be responsible for monitoring execution of the consulting projects and will approve the respective reports of each one.
- 3.8 **Increasing the availability of instruments.** The music education specialist will draft the technical specifications for the procurement of instruments, with the support of the Music Education Management Office. These technical specifications will be approved by the executive board. After approval, purchases will be made in accordance with the procurement plan approved by the executing agency and the Bank. The executive board, in coordination with the DIP and the Music Education Management Office, will be responsible for allocating and distributing instruments to the Regional Centers and community-based centers in accordance with the general program execution schedule.
- 3.9 **Institutional development area.** The general coordinator will draft the Terms of Reference for the consulting projects related to strategic planning, organization, technological upgrades, and human resources, in coordination with the other specialists in the project unit. The departments of Planning and Budget, Personnel, Communications, and Administrative Services will provide technical support. The executive board will approve the Terms of Reference and will closely supervise the general coordinator's work and leadership in executing the consulting projects. Their implementation is expected to extend gradually throughout the entire length of the program. The development of the strategic plan, to be agreed by consensus at all levels of the System, will launch this process, and based on this, the other consulting projects will be undertaken in parallel. The DIP will be responsible for monitoring execution of this area and will approve the corresponding reports.
- 3.10 **Financial-budget area.** The financial specialist will draft the terms of reference for a consulting project to develop an information system for the financial-budget management control of the System's Regional Centers and community-based centers, and the training sessions for its operation. The Administration and Finance and Planning and Budget Management Offices will provide technical support. These Terms of Reference will be approved by the executive board. After approval, the consulting project and the corresponding training will be executed in accordance with the general program execution schedule. The DIP will be responsible for monitoring execution of the consulting and training, and will approve the corresponding reports.
- 2. Infrastructure component**
- 3.11 The complete Reference Center Project that determined the component's size must be adapted to the characteristics and conditions of each of the seven sites where the Regional Centers will be built. This was anticipated in the consulting project that

prepared the Reference Center project and it was recommended that, in each case, the same consultants be responsible for adapting it. This work will be done according to the general program execution schedule, which, after considering the operational, supervisory, and control capacities of FESNOJIV, estimates that all of the Regional Centers will be built in a period of six years. The order in which they will be built will depend on the transfer of ownership of the land where they will be located, and, to the extent possible, new community-based centers will be created in the geographic area of influence of the Regional Centers that are built. **A special condition precedent to the construction of each Center will be the submission by the executing agency of a legal report confirming the legal ownership status of the land, within the framework of local legislation and Bank policies.**⁷

- 3.12 With the technical support of the other units in the DIP, the engineering specialist will undertake the following tasks in the execution cycle of this component (as detailed in the Operating Manual): (i) obtaining approval of projects from the municipios and the applicable departments, including the environmental protection standards established in Venezuelan legislation; (ii) preparation of all background material necessary to issue bid calls for the construction of each Center, according to the general program execution schedule; (iii) evaluation of bids submitted and preparation of reports with the pertinent recommendations; (iv) preparation of the technical background information to be included in the contracts in accordance with the decisions made in each case by the competent FESNOJIV authority; (v) preparation and execution of the monitoring and evaluation plan for the works; (vi) coordination of the receipt of the works by the applicable departments and municipios; and (vii) receipt of the works and settlement of the contracts by FESNOJIV. The DIP will be responsible for monitoring and approving each and every one of these tasks.

3. Impact monitoring and evaluation system development component

- 3.13 The project unit's monitoring and evaluation specialist will be responsible for performing or coordinating the tasks specific to monitoring the execution of the program, in coordination with the other the specialists in the DIP. To do so, the specialist will (i) periodically collect information related to program execution; (ii) construct monitoring indicators based on that information; (iii) draft program execution reports based on the approved work plans; and (iv) regularly participate in the discussions within the institution and in the monitoring meetings with the Bank. He or she will also be responsible for coordinating and supervising the two surveys to evaluate the program's impacts based on the terms of reference already approved jointly with FESNOJIV for this assignment. This consulting project will be executed by an independent external firm (at an estimated cost of US\$250,000). Nevertheless, it is expected that the specialist will be trained to analyze the midterm

⁷ The federal, state, and municipal governments and/or state-owned companies own most of the land; therefore, the timely transfer of such ownership is anticipated. The program does not expect expropriations or urban resettlements related to land transfers.

and final surveys. The executing agency and the Bank will use that analysis as an initial approximation of the program's impacts.

- 3.14 **Reports.** Every six months the borrower will submit a report to the Bank on the progress of each of the work plans. These reports, coordinated by the monitoring and evaluation specialist, will be submitted within 60 days following the end of the six-month period. Through annual administration missions, the Bank will evaluate the proper implementation of the schedules and indicative targets established in the respective AWP.
- 3.15 **Review of AWPs.** In the last quarter of each year of execution, the DIP's project unit will prepare an AWP that lays out the expected activities, schedule, terms of reference, and indicative targets for the following 12 months. The review of the AWPs will allow the executing agency and the Bank to take the steps necessary to correct any deviations and enable the program to achieve the expected results on time and on budget.
- 3.16 **Monitoring meetings.** FESNOJIV and the Bank will hold monitoring meetings to analyze the progress made in the execution of each component, and, if necessary, adjustments will be agreed upon to ensure the program's timely implementation. In each of these meetings, as a minimum, FESNOJIV must submit information about: (i) the enrollment level attained by the System and use of nonexclusion criteria in selecting new enrollees (see Table IV-2 in Chapter IV); (ii) progress in the procurement of new instruments; (iii) progress in the adoption of new planning protocols, integrated financial administration and information systems by the Regional Centers; and (iv) progress in building the Regional Centers.
- 3.17 The last monitoring mission will take place no later than 60 days following the disbursement of 85% of the loan or completion of the construction of the last Regional Center, whichever occurs first. In addition to analyzing the foregoing indicators, in this meeting the executing agency will submit information on: (i) the degree to which the program achieved its development objectives; (ii) its efficiency in reaching these objectives; (iii) factors that influenced program outcomes; (iv) factors influencing variations in the impacts observed in the different regions; (v) sustainability of program outcomes; and (vi) lessons learned relating to program implementation. This information will facilitate the drafting of the project completion report.
- 3.18 **Impact assessment based on midterm and final surveys.** The program will finance two surveys in addition to the baseline survey, which was done during program preparation. They will be conducted following the same methodology used to develop the baseline, in order to ensure comparability and consistency. Their design must guarantee that the results are representative of the nation as a whole. The midterm survey will be conducted once the first two Regional Centers have been operating for one year, while the final survey will be conducted within three months following completion of the last Regional Center. An independent external consulting firm will conduct these surveys and produce two impact assessment

reports based on the results of the midterm and final surveys. **The hiring of an independent external institution or firm to conduct this impact assessment will be a special execution condition.**

D. Operating Manual

- 3.19 The basic conditions and procedures necessary to carry out each of the components and activities set forth in the program, as well as the operational obligations and targets, schedules, and costs by subcomponent, are established in the Operating Manual. The draft manual was agreed upon with the Bank during program preparation. **The entry into effect of the Operating Manual will be a condition precedent to the first disbursement.**

E. Procurement

- 3.20 FESNOJIV, through the DIP project unit, will be responsible for procurement, supervision, and acceptance of the works (construction of the Regional Centers), and the supply of furnishings (including office furniture, seating, music stands, and props), vehicles, special mechanical equipment for theaters and concert halls, professional sound, video, and lighting systems, and computer equipment. FESNOJIV has broad experience in procurement, having been responsible for the construction and outfitting of the Centro para la Acción Social de la Música in Caracas, as well as for purchasing instruments and specialized equipment required for the System to operate efficiently. FESNOJIV has a procurement committee made up of representatives of the legal, administrative-financial, and music education areas. It will provide technical support to the DIP project unit in the procurement activities under this program.
- 3.21 Construction of the Regional Centers will be contracted through international bidding. For the procurement of instruments and specialized musical equipment, the program would hire the United Nations Development Programme (UNDP) as its program procurement agent, since it has exceptional experience in providing service to make such purchases more efficient. In fact, the UNDP acted in this same capacity satisfactorily in program VE-0105. **In the event the UNDP is hired, the signing of an agreement between the UNDP and the executing agency governing the terms and conditions of its procurement activities will be a special condition for execution.** The signing of music education agreements with centers of excellence having world-class reputations is also expected. These world-class centers have an enormous demand, which means that their services must be contracted with due advance notice and planning. This circumstance and the highly specialized technical capacities they provide mean that these resources cannot be contracted by other procurement methods. Therefore, the consulting services arising from these agreements will be procured by single-source selection, taking into account the general interests of the program, and ensuring the economy and efficiency thereof within the framework of the Bank's procurement policies for consulting services.

- 3.22 Construction works, goods, and nonconsulting services will be procured in accordance with the “Policies for the procurement of works and goods financed by the Inter-American Development Bank” (document GN-2349-7) of July 2006. International competitive bidding will be required for procurement processes valued at greater than or equal to US\$250,000 for goods and services, and US\$5 million for construction works. These thresholds are warranted considering that in similar projects in Venezuela, foreign bidders participate when amounts exceed these levels. Bid processes below these thresholds will be undertaken in accordance with domestic legislation, provided that it does not contradict Bank policy. Shopping will be used for procurement of works for amounts less than US\$350,000 and for goods valued at less than US\$50,000.
- 3.23 Consulting services will be procured in accordance with the “Policies for selection and contracting of consultants financed by the Inter-American Development Bank” (document GN-2350-7) of July 2006. The shortlist of consultants, whose estimated cost is less than US\$200,000 per contract, may comprise entirely national consultants. The initial procurement plan agreed upon with the Bank for the first 18 months can be found in the link for Annex 2.

F. Revolving fund

- 3.24 To make program disbursements, a revolving fund will be established with up to 5% of the loan amount. Semiannual reports must be submitted on the status of the revolving fund within 60 days following the close of each six-month period.

G. Disbursement period and schedule

- 3.25 A disbursement period of seven years has been planned, according to the schedule below:

**Table III-3
Disbursement schedule (in thousands of US\$)**

Source	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Total
IDB	7,800	18,103	29,038	39,501	29,312	21,522	4,725	150,000
Local	2,620	9,479	9,847	10,757	11,593	7,528	9,175	61,000
Total	10,420	27,582	38,885	50,257	40,905	29,050	13,900	211,000
%	4.8%	13.1%	18.4%	23.8%	19.4%	13.8%	6.6%	100.0%

H. Audit

- 3.26 There will be an external financial and operational audit of the program, financed with loan resources. It will be performed by an independent auditing firm acceptable to the Bank, following Bank policies and procedures (documents AF-100 and AF-300), hired according to the selection procedures for external auditors (document AF-200) and based on the guidelines established in the terms of reference for external audits of projects financed by the IDB (documents AF-400 and AF-500), which must be previously approved by the Bank. The program’s

annual financial statements will be submitted within 120 days following the end of the fiscal year, and the final audited statements within 120 days following the last disbursement.

I. Inspection and supervision of works

3.27 Construction of the Regional Centers will be inspected by specialized consulting firms to be hired with program resources. To do this, the project unit will prepare terms of reference in coordination with the DIP infrastructure unit. They will detail the technical characteristics, experience, and personnel that firms to be contracted must have. The executive board must approve these terms of reference. In general, these firms will conduct a direct inspection on the worksite in order to establish compliance in all phases of construction, in accordance with the drawings, specifications, details, contract, and other documents established for its execution. The inspection will measure, evaluate, and control the quantity and quality of the work executed and in execution, with respect to materials, equipment, and processes. The contracts for the construction of civil works and for goods and services will specify the right of FESNOJIV and the Bank to examine the sites, the performance of activities, and the goods procured with program resources. FESNOJIV will round out the staff at the project unit by hiring a regional coordinator for each Regional Center, who will be an experienced professional in works supervision.

J. Maintenance and other recurrent costs

3.28 Once the Regional Centers are built, they will become assets of FESNOJIV, which will be responsible for operating and maintaining them adequately, as specified in the maintenance manual for each Regional Center. Beginning the third year of program execution, and for five years after program completion, FESNOJIV will submit annual operation and maintenance reports on the Regional Centers.

3.29 The additional costs FESNOJIV will incur after program completion are estimated at US\$11 million annually in personnel (US\$6 million), maintenance (US\$4 million), and service expenses (US\$1 million). FESNOJIV will include the resources necessary for the adequate maintenance and operation of the Regional Centers in its annual budget. As has been the case until now, these resources will come from contributions from the federal and local governments and/or private donors. The Government of Venezuela has agreed to contribute the resources necessary to finance these expenses in a timely fashion.

IV. VIABILITY AND RISKS

A. Institutional viability

4.1 From an institutional standpoint, the program seeks to support FESNOJIV in consolidating its music education, administrative, financial, and evaluation capacities in order to maintain the current quality standards both during and after expansion of the System. Given the rapid increase in beneficiaries, the program will

support the various administrative and financial considerations so the administrative staff can maintain the System's quality standards. The teaching staff will be expanded based on enrollment growth in order to bring academic services in line with the new demand. FESNOJIV's experience managing the System, and the institutional support to be provided by the program, will make the program institutionally viable.

B. Socioeconomic viability

- 4.2 The present value of the program's benefits was estimated at US\$259 million (see Table IV-1), while the present value of its costs is US\$154 million. As a result, the program's net present benefit is US\$105 million. This means that the program's ratio of benefits to total costs in net present value for 2007 is 1.68. These estimates directly measure the program's benefits such as the savings for the country by lower school dropout and crime rates associated with the System's presence throughout the country.
- 4.3 When the program's net present value is measured indirectly, that is, as its opportunity cost, the present value of the benefits exceed their costs by US\$56 million. In other words, for each dollar invested in the program, there is a savings of 36 cents with respect to the next best investment alternative considered for this program. This opportunity cost measures the extra cost the country would have to assume to place the same number of beneficiaries served by the System in comparable activities, that is, in activities that would have similar benefits for a similar number of beneficiaries, for the same number of class hours as provided by the System (710 per year).

**Table IV-1
Program benefits**

	Rate (%)		Projected impact through 2015 (number of cases)	Unitary benefit per beneficiary (US\$ 2007)	Total benefit (US\$ million 2007)	Counterfactual analyzed
	Intervention group	Control group				
Direct measurement of benefits						
Savings due to reduction in school dropout rate	Dropout rate: 6.9%	Dropout rate: 26.4%	30,133 dropouts prevented	US\$16,018	US\$244.65 million (*)	Without the program, there is no additional increase in enrollment without reducing the quality, and therefore no additional dropouts could be prevented in the educational system in the future.
Savings due to reduction in crime	Thefts per 100,000 inhabitants: 112 Injuries per 100,000 inhabitants: 184	Thefts per 100,000 inhabitants: 120 Injuries per 100,000 inhabitants: 191	3,036 thefts prevented 2,657 injuries prevented	US\$4,886 per theft prevented US\$2,442 per injury prevented	US\$14.65 million	There is no expansion of the System, and the current rates of victimization do not change.
Opportunity cost of System						
Total savings with respect to the next best alternative to the Orchestra System	N/A	N/A	254,647 additional beneficiaries	US\$241 in savings per System beneficiary with respect to participation in the public school system (**)	US\$56.16 million (***)	The increase in System enrollment is absorbed by the public school system, which will provide these individuals with the same number of class hours (710 per year).

Note: All assumptions were calculated to obtain conservative estimates. Thus, all scenarios assume a conservative discount rate of 12% per year. In addition, benefits are measured only to 2015, even though they will likely extend beyond this time.

(*) This cost comes from estimating the lost investment in human capital (investment in national education), loss of future employment earnings (based on the returns from one additional year of education), and a reduction in demand for goods and services (associated with a loss of future employment earnings) caused by school dropout in Venezuela. Of the total estimated cost, 10% corresponds to the disinvestment in human capital; 64% to the loss of future employment earnings; and 26% to the drop in demand.

(**) The cost of participating in the public education system is US\$459 per year, while participating in the Orchestra System costs an average of US\$218, for the same number of class hours.

(***) The opportunity cost calculation includes the cost of the program.

- 4.4 In addition to quantifying program benefits, the complete Reference Center project made it possible to accurately quantify the costs of investment in the program's physical infrastructure (its largest investment). Specifically, the total cost of each Regional Center is US\$13.94 million (not including VAT), assuming an average cost per m² of US\$1,406. This unit cost per m² of construction is above the range observed in recent projects in which the Bank has participated, although none of their construction projects were as technically complex as those required for this project (as indicated in paragraph 2.13). Those costs ranged from US\$500 per m² in schools for children and teens (technically relatively simple) in Venezuela to US\$1,088 in the case of the virtual libraries in Brazil (of medium technical complexity). Venezuelan authorities have expressed their commitment to the level of technical complexity planned for the Regional Centers as necessary for delivering the System's current services. Other countries are currently in various phases of implementing systems similar to Venezuela's. It is likely that, given their greater fiscal constraints, they would opt for less expensive capital works.

C. Financial viability

- 4.5 In terms of the program's financial viability, additional recurrent expenses from the program are estimated at US\$11 million per year: US\$6 million in personnel expenses (salaries and training) for additional teachers and instructors, US\$4 million in maintenance expenses, and US\$1 million in service expenses. This represents around 8% of the System's future budget upon program completion, estimated at US\$129 million in 2015. However, as capital expenses fall after the Regional Centers are built, the historical ratios—from before the CASPM was built—for personnel and other current expenses are expected to return to the 85% level they had in 2000 (when they totaled US\$22.6 million—see Table I-1). FESNOJIV will finance the additional increase, primarily with government contributions, as has been the case since its establishment.
- 4.6 Private sector participation is expected to increase as a result of the fundraising strategy prepared during the previous operation. The strategy's ultimate objective was to make FESNOJIV and the System more socially and economically sustainable. Specifically, it sought to: (i) consolidate and enhance the System's image as a social program of excellence; (ii) increase FESNOJIV's capacity to raise funds from outside the System; and (iii) increase the flow of resources to the System. As a result, communications campaigns have been conducted since 2005 both inside and outside of the System (radio, television, and press campaigns). A private, nonprofit organization called The Society of Friends of the National Orchestra System was created. It has supported FESNOJIV in arranging donations from foundations and private companies in sectors including banking, telecommunications, and industry both at home and abroad. As a result, there are disbursements and disbursement commitments for purchasing musical instruments for a total of US\$13.5 million (see footnote 5), donations of equipment and technology for the future Regional Centers, and financing for the orchestras' travel. Although the fundraising strategy does not set a quantitative target for the increase in future fundraising, the System's contributions from regional and local governments, civil society, and the private sector are expected to be maintained at the aforementioned level of US\$13.5 million per year upon program completion (well above the US\$2 million received in 2006). The program will monitor the strategy, revising these flows and disseminating the System through the mass media and other community outlets (including clinics, health posts, schools, and community centers).

D. Environmental impact

- 4.7 The construction of the Regional Centers is expected to have various environmental impacts. The design study for the Reference Center identified these impacts, their relevance, and mitigation measures. These impacts include air pollution, noise pollution, and visual pollution, in both the construction and operation phases. Their intensity was classified as low and average during construction, and very low during the operation phase. The program will ensure that the works meet the standards to mitigate any potential negative impacts, which will involve adequate

protection of workers, reforestation, time-of-day restrictions on construction work, and the nonuse of high-risk materials such as asbestos or explosives, among others. To ensure compliance, the bidding documents will include binding compliance clauses for all environmental protection conditions. Furthermore, the program's Operating Manual will specifically detail the standards required such as acoustics, sanitation, disabled access, green areas, and other elements. The project unit will have a procurement specialist who will have to explicitly demonstrate that environmental legislation has been respected. The Bank, through its Country Office, and if necessary, in consultation with specialists at Headquarters, can request all evidence it deems appropriate to demonstrate compliance with environmental, urban development, or acoustic standards.

E. Gender equity and ethics

- 4.8 To date, the System has endeavored to ensure equal opportunity access to the population ages 3 to 19, which has allowed most of the beneficiaries to come from poor or medium-to-low social strata. It has also resulted in girls and young women representing 40% of total System enrollment. The System operates in all states with an indigenous population. Moreover, it is a world pioneer in the establishment of choirs for the disabled and is currently designing a program that will bring the System to boys and girls living around garbage dumps in four municipios in the country.
- 4.9 Although the expanded System will continue offering universal access to the Venezuelan population, it will seek formulas that, on one hand, encourage greater inclusion of girls and young women, and the disadvantaged, and on the other, ensure equal opportunity access to all Venezuelans of eligible age. To do this, the System will adopt clear, explicit criteria to safeguard against exclusion. The working definition of these criteria is included in Table IV-2. The decision to implement a new community-based center in a municipio or community will depend on the first four criteria, weighted equally. If after applying these criteria, the demand for centers still outpaces supply, the first criterion (socioeconomic level) will determine location. Once the center's location is determined, if demand from applications exceeds the capacity of the new center, selection will be based on the socioeconomic level of the family and the special conditions of the beneficiaries, with both factors bearing equal weight. If demand continues to exceed the number of places in the center after both criteria have been applied, greater weight will be given to the latter (special conditions).

Table IV.2 Criteria to safeguard against exclusion

Criterion	Working definition
<i>Community non-exclusion</i>	
[i] Socioeconomic level of the municipio	The overall level of poverty in the municipio requesting the center will determine the socioeconomic level of the community. The level of poverty is defined based on the monetary household poverty indicator published by the INE for 2006 and subsequent updates. The order of priority will be determined as a function of the magnitude of the municipio's poverty index.
[ii] Community commitment	Local authorities and/or key community organizations, such as, for example, parents associations with the support of the authority, indicate their interest in a new center in a letter of commitment, detailing their willingness to support the process of establishing the new center.
[iii] Availability of musical instruments	Local organizations and/or authorities have working musical instruments immediately available for music education.
[iv] Availability of space for educational services	The community demonstrates the stable availability of a physical space appropriate for music education.
<i>Individual non-exclusion</i>	
[v] Socioeconomic level of the household	The socioeconomic level of the applicant's household will be determined by an index of unmet basic needs (UBN) developed by the System at the time of pre-enrollment. This index will be based on the determination of the people living in the household; parent's education; basic services in the home; people who work in the household. Priority will be given to those applicants from households with higher UBNS.
[vi] Special beneficiaries	Special beneficiaries are those applicants who belong to ethnic groups, have mental or physical disabilities, or belong to groups that at the time of application are underrepresented in the System with respect to their proportion in the national population (specifically, girls and young women, or street children).

F. Benefits and beneficiaries

4.10 The program will make it possible to extend the System's activities, which produce these individual and social benefits, to be extended to a larger population (350,000 beneficiaries per year from poor social strata). The System is also expected to improve the proportion of poor beneficiaries by at least four percentage points. The creation of the Regional Centers will increase the exposure of boys, girls, and young people to personal and civic values that encourage the personal development of children and their academic achievement. The program will promote the early development of boys and girls (starting at age 3) through musical kindergartens, where games and songs stimulate boys and girls' motor skills and auditory and rhythmic capacities. The higher number of performances (musical and theatrical) around the Regional Centers will increase the offering of recreational, social, and cultural advancement and integration activities representing alternatives to the violent use of free time among young people. Furthermore, the audiovisual collections conserved in the Regional Centers will increase the offerings for the use of free time in the beneficiary communities. The significant increase in enrollment will give rise to higher demand for music instructors and instruments, which will increase employment possibilities for outstanding participants in the System and for

instrument makers. It is also expected to enhance job opportunities in services associated with the operation of the Regional Centers and community-based centers, such as audiovisual services, stage sets, information technology, and maintenance, among others.

G. Risks

- 4.11 **Scaling of the program.** In phase one, there were significant cost overruns in the construction of the CASPM, associated primarily with adjustments and modifications to its original design. To minimize these risks, in this phase, a Functional Plan and a Reference Center project have been completed. The Functional Plan specified the characteristics and spaces required to develop each of the functions to be performed by the Centers. The complete Reference Center project collected the technical and functional characteristics of these centers and produced precise estimates of their construction cost.
- 4.12 **Delays in execution.** Construction of the CASPM brought to light the multiple factors that can affect the execution of works as complex as the music education centers. Nevertheless, the experience acquired by FESNOJIV in the design and construction of the CASPM will be critical in mitigating these delays. The development of a Functional Plan and a complete reference project prior to project approval will mitigate potential delays attributable to poor planning.
- 4.13 **Resistance to change within FESNOJIV.** Any process of change or reorganization can bring with it resistance by those groups affected. This could hinder the process of institutional change. This risk is considered relatively unlikely due to the undisputed leadership of the current founding director and the level of commitment of the members of the System to the expansion of the institution and its adaptation for the future. Moreover, the Strategic Plan that will determine the future of the institution will be drafted by consensus among the various levels of the institution.
- 4.14 **The country's financial capacity.** Macroeconomic shocks could reduce the country's financing capacity, affecting the spending capacity of the national authorities and, ultimately, disbursement of the national counterpart contribution. Experience shows, however, that this risk is low, since during past periods of economic crisis, the System received the planned government contributions.

		<ul style="list-style-type: none"> € Surveys of households and living conditions € Baseline and midterm and final project monitoring surveys € System impact assessments 	<ul style="list-style-type: none"> € There are no significant delays in System implementation.
Purpose	By the end of the program:		
To contribute to the development of human capital, training in civic values and good behavior, the creation of future employment opportunities, and offering alternatives for the non-criminal use of free time by Venezuela's boys, girls, and young people, through the effective and efficient expansion of the Venezuelan National System of Youth and Children's Orchestras.	<ol style="list-style-type: none"> 1. The average academic achievement improves from the current dropout rate of 6.9% to 3% and from the current 95% attendance to 98% with respect to the baseline and control group. 2. The behavior of individuals in the System improves, with the percentage receiving notices for bad conduct in school falling from the current 12.4% to 6% with respect to the baseline and control group. 3. The percentage of individuals who work in the formal sector increases from the current 40.7% to 50% with respect to the baseline and control group. 4. The percentage of System beneficiaries who participate in community activities increases from the current 60.1% to 70% with respect to the baseline and control group. 	<ul style="list-style-type: none"> € Baseline and midterm and final project monitoring surveys € System impact studies 	<ul style="list-style-type: none"> € The macroeconomic situation remains favorable, without there being a collapse in international oil prices or any other significant external shock. € FESNOJIV's commitment to change (particularly among its leadership) remains strong.

¹ The baseline was developed during program preparation (October to December 2006).

² Intermediate impact indicators after four years of execution are: (1) improvement in academic achievement, measured in terms of the school dropout rate falling from 6.9% to 5%, and attendance increasing from 95% to 96%; (2) reduction of notices of bad conduct in school falling from 12.4% to 9%; (3) the percentage of System beneficiaries who work in the formal sector increases from 40.7% to 45%; and (4) the percentage of System beneficiaries who participate in community activities increases from 60.1% to 65%. Their means of verification are the same as for the end-of-program indicators.

Narrative Summary	Indicators of Achievement	Means of Verification	Important Assumptions
Components	By the end of the program:		
1. Development of the strategic plan <ul style="list-style-type: none"> - Music education area adjusted - Institutional development complete - Financial-budgetary area consolidated 	1.1 Enrollment reaches 310,000 by 2010, 425,000 by 2013, and 500,000 by 2015. 1.2 FESNOJIV has adjusted its organizational structure to the new System one year after construction of all of the Regional Centers. 1.3 The percentage of boys, girls, and young people with at least one individual session is maintained at 100% every year. 1.4 The System has purchased 42,620 new instruments by 2013. 1.5 Seven Regional Centers and 75% of the community-based centers have adopted new planning instruments and protocols (annual work plans) within seven years of program approval. 1.6 Seven Regional Centers and 75% of the community-based centers have adopted new personnel management and training protocols within seven years of program approval. 1.7 Seven Regional Centers and 75% of the community-based centers are operating under an integrated financial and accounting system within seven years of program approval. 1.8 Seven Regional Centers and 75% of the community-based centers are connected by information systems (other than telephone) within seven years of program approval.	<ul style="list-style-type: none"> • Baseline and midterm and final project monitoring surveys • Project reports • FESNOJIV annual financial management reports • National and regional annual work plans • FESNOJIV annual report 	<ul style="list-style-type: none"> • There is no strong internal opposition to change within the System. • The institution's commitment to change (particularly among its leadership) is maintained.

Narrative Summary	Indicators of Achievement	Means of Verification	Important Assumptions
<p>2. Investments in infrastructure</p> <ul style="list-style-type: none"> - Regional Centers built 	<p>2.1 The projects for the seven Regional Centers are adjusted according to the technical requirements of the Functional Plan and the complete Reference Center project within four years following program approval.</p> <p>2.2 Four Regional Centers have been built by the end of 2010 and all seven Regional Centers are operating normally by 2014.</p>	<ul style="list-style-type: none"> • Project reports • FESNOJIV annual report • Functional Plan, complete Reference Center project 	<ul style="list-style-type: none"> • The macroeconomic situation remains favorable, without there being a collapse in international oil prices or any other significant external shock. • The execution of the works does not experience significant delays or timing problems due to (non-technical) causes beyond the control of the project.
<p>3. Impact monitoring and evaluation system</p> <ul style="list-style-type: none"> - System is operating 	<p>3.1 75% of community-based centers report monitoring information on their students to their regional and national centers in 2013.</p> <p>3.2 Less than 10% of the original baseline sample is lost in the successive surveys in 2010 and 2013.</p> <p>3.3 At least 25% of community-based centers in the System have been trained in the monitoring and evaluation methodology within five years of project approval.</p> <p>3.4 When the second impact assessment is performed, 90% of survey respondents in regions where the Regional Centers and their community-based centers offer services, are aware of the services provided and participation mechanisms, through the mass media (TV, radio, Internet) and/or community outlets (including community centers, clinics and health posts, and schools).</p>	<ul style="list-style-type: none"> • Baseline and midterm and final project monitoring surveys • System impact studies • FESNOJIV annual report 	<ul style="list-style-type: none"> • There are no significant delays in implementation of the monitoring and evaluation system.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/07

Venezuela. Loan ___/OC-VE to the Bolivarian Republic of Venezuela
Program to Support the Centro de Acción Social por la Música (phase II)

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Bolivarian Republic of Venezuela, as Borrower, for the purpose of granting it a financing to cooperate in the execution of a program to Support the Centro de Acción Social por la Música (phase II). Such financing will be for an amount of up to US\$150,000,000 from the Single Currency Facility of the Ordinary Capital resources of the Bank, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

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