November 3, 2014

His Excellency
Mr. Beto Richa
Governor of Paraná
Rua Jacy Loureiro de Campos s/n
Centro Cívico - 80530-915
Curitiba – Paraná
Brazil

Re: IBRD Loan 8201-BR (SWAp for Paraná Multi-sector Development Project)
Additional Instructions: Disbursement Letter

Excellency:

I refer to the Loan Agreement between the International Bank for Reconstruction and Development (the “Bank”) and the State of Paraná (the “Borrower”) for the above-referenced project, December 12, 2013. The Loan Agreement provides that the Bank may issue additional instructions regarding the withdrawal of the proceeds of Loan 8201-BR (“Loan”). This letter (“Disbursement Letter”), as revised from time to time, constitutes the additional instructions and replaces the previous version dated December 12, 2013.

The attached World Bank Disbursement Guidelines for Projects, dated May 1, 2006, (“Disbursement Guidelines”) (Attachment 1), are an integral part of the Disbursement Letter. The manner in which the provisions in the Disbursement Guidelines apply to the Loan is specified below. Sections and subsections in parentheses below refer to the relevant sections and subsections in the Disbursement Guidelines and, unless otherwise defined in this letter, the capitalized terms used have the meanings ascribed to them in the Disbursement Guidelines.

I. Disbursement Arrangements

(i) Disbursement Methods (section 2). The following Disbursement Methods may be used under the Loan:

- Reimbursement for Categories 1 and 2
- Advances only, for Category 2

(ii) Disbursement Deadline Date (subsection 3.7). The Disbursement Deadline Date is four months after the Closing Date specified in the Loan Agreement. Any changes to this
date will be notified by the Bank.

(iii) Disbursement Conditions (subsection 3.8). Please refer to the Disbursement Conditions in Schedule 2, Section IV, B. of the Loan Agreement.

II. Withdrawal of Loan Proceeds

(i) Authorized Signatures (subsection 3.1). Applications for this Loan will be signed by the official(s) authorized to sign Applications as indicated in the letter dated March 14, 2014 signed by Mr. Luiz Eduardo da Veiga Sebastiani.

(ii) Applications (subsections 3.2 - 3.3). Please provide completed and signed Applications for withdrawal, together with supporting documents to the address indicated below:

Banco Mundial
Sector Comercial Norte
Quadra 02, Lote A
Edificio Corporate Finance Center
7º Andar
70712-900 Brasilia, D.F.
Brazil
Attention: Loan Department

(iii) Electronic Delivery (subsection 3.4) The Bank may permit the Borrower to electronically deliver to the Bank Applications (with supporting documents) through the Bank’s Client Connection, web-based portal. The option to deliver Applications to the Bank by electronic means may be effected if: (a) the Borrower has designated in writing, pursuant to the terms of subparagraph (i) of this Section, its officials who are authorized to sign and deliver Applications and to receive secure identification credentials ("SIDC") from the Bank for the purpose of delivering such Applications by electronic means; and (b) all such officials designated by the Borrower have registered as users of Client Connection. If the Bank agrees, the Bank will provide the Borrower with SIDC for the designated officials. Following which, the designated officials may deliver Applications electronically by completing Form 2380, which is accessible through Client Connection (https://clientconnection.worldbank.org). The Borrower may continue to exercise the option of preparing and delivering Applications in paper form. The Bank reserves the right and may, in its sole discretion, temporarily or permanently disallow the electronic delivery of Applications by the Borrower.

(iv) Terms and Conditions of Use of SIDC to Process Applications. By designating officials to use SIDC and by choosing to deliver the Applications electronically, the Borrower confirms through the authorized signatory letter its agreement to: (a) abide by the Terms and Conditions of Use of Secure Identification Credentials in connection with Use of Electronic Means to Process Applications and Supporting Documentation
(v) **Minimum Value of Applications (subsection 3.5)**. The Minimum Value of Applications for Reimbursements is United States Dollars (USD) 1,400,000 equivalent.

(vi) **Advances (sections 5 and 6).**

- **Type of Designated Account (subsection 5.3)**: Segregated
- **Currency of Designated Account (subsection 5.4)**: Brazilian Reais (BRL)
- **Financial Institution at which the Designated Account Will Be Opened (subsection 5.5)**: Banco do Brasil
- **Ceiling (subsection 6.1)**: BRL 14,000,000

### III. Reporting on Use of Loan Proceeds

(i) **Supporting Documentation (section 4).** Supporting documentation should be provided with each Application for withdrawal as set out below:

- **For requests for Reimbursement claimed under Category 1:**
  - EEP Spending Report in the form attached (Attachment 4) prepared in accordance with provisions established in the Operational Manual and the additional instructions provided in this Disbursement Letter; and
  - List of payments against contracts that are subject to the Bank’s prior review, in the form attached (Attachment 5).

- **For requests for Reimbursement claimed under Category 2:**
  - Summary Sheet in the form attached (Attachment 6) and Records evidencing eligible expenditures (e.g., copies of receipts, supplier invoices) for payments made under:
    - Goods contracts costing USD 500,000 equivalent per contract or more;
    - Non-consulting services contracts costing USD 500,000 equivalent per contract or more;
    - Consultant firm contracts costing USD 100,000 equivalent per contract or more;
    - Individual consultant contracts costing USD 50,000 equivalent per contract or more; and
• Statement of Expenditure in the form attached (Attachment 7) for payments against contracts that do not exceed the thresholds established above.

• **For reporting eligible expenditures paid from the Designated Account under Category 2:**
  - Summary Sheet in the form attached (Attachment 6) and Records evidencing eligible expenditures (e.g., copies of receipts, supplier invoices) for payments made under:
    - Goods contracts costing USD 500,000 equivalent per contract or more;
    - Non-consulting services contracts costing USD 500,000 equivalent per contract or more;
    - Consultant firm contracts costing USD 100,000 equivalent per contract or more;
    - Individual consultant contracts costing USD 50,000 equivalent per contract or more;
  - Statement of Expenditure in the form attached (Attachment 7) for payments against contracts that do not exceed the thresholds established above; and
  - Designated Account Reconciliation Statement (Attachment 8).

(ii) **Frequency of Reporting Eligible Expenditures Paid from the Designated Account (subsection 6.3):** At least once every six months

**IV. Other Disbursement Instructions**

(i) Each EEP Spending Report, submitted as supporting documentation for Applications for withdrawal claimed under Category 1 will need to have been reviewed and certified by the Bank as acceptable in format and content in accordance with Schedule 2, Section I, C. 1. of the Loan Agreement and the Operational Manual.

(ii) Each EEP Spending Report will require the following information:

1) Calculation and demonstration of expenditures eligible for Bank financing.

2) Compliance with the Budget Execution Rule for the third to the sixth Application for withdrawal.
   
   a) The Budget Execution Rule is the first disbursement requirement to be verified.
b) Confirmation that at least 70 percent of the amounts budgeted, verified by sector (Sustainable Rural Development; Environmental and Disaster Risk Management; Education and Health), in the 12 months of the previous calendar year, have been spent (70 percent rule) for the third and fifth Application for withdrawal. If the 70 percent rule is not met, the planned disbursement amount is reduced in accordance with the Execution Coefficient set out below.

c) Confirmation that at least 30 percent of the amounts budgeted, verified by sector (Sustainable Rural Development; Environmental and Disaster Risk Management; Education and Health), in the first 6 months of the current calendar year, have been spent (30 percent rule) for the fourth and sixth Application for withdrawal. If the 30 percent rule is not met, the planned disbursement amount is reduced in accordance with the Execution Coefficient set out below.

d) In case of underperformance, defined as low execution of the budgeted amounts, a blockage of part of the planned disbursement amount is applied. The calculation of the under-performance and the amount to be blocked depends on whether budget execution is considered “low” or “very low” and leads to a blockage of 12.5 percent or 25 percent, respectively, of the planned disbursement amount, per underperforming sector.

e) The Budget Execution Rule results in an Execution Coefficient that varies from 0 to 1 and is used to calculate the amount to be disbursed. The planned disbursement amount is multiplied by this coefficient to calculate the amount eligible for disbursement, before considering the achievement of any DLI’s.

f) The Execution Coefficient is defined as the sum of the coefficients calculated for each sector, as per the table below:

<table>
<thead>
<tr>
<th>Performance Ranges</th>
<th>Applications for Withdrawal 4 and 6</th>
<th>Applications for Withdrawal 3 and 5</th>
<th>Execution Coefficient for each sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very Low (0 to 15%)</td>
<td>Very low (0 to 50%)</td>
<td></td>
<td>0</td>
</tr>
<tr>
<td>Low (15.1 to 29.9%)</td>
<td>Low (50.1 to 69.9%)</td>
<td></td>
<td>0.125</td>
</tr>
<tr>
<td>Satisfactory (30% and above)</td>
<td>Satisfactory (70% and above)</td>
<td></td>
<td>0.25</td>
</tr>
</tbody>
</table>

3) Compliance with each relevant Disbursement-Linked Indicator (DLI) for the second to the eighth Application for withdrawal.

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1 “Low” budget execution is that below 70 percent of the budgeted amounts, but above 50.1 percent for Applications for withdrawal 3 and 5, and below 30 percent but above 15.1 percent for Applications for withdrawal 4 and 6. “Very low” budget execution is that below 50 percent of the budgeted amounts for Applications for withdrawal 3 and 5, and below 15 percent of the budgeted amounts for Applications for withdrawal 4 and 6.
a) The compliance with the DLIs is verified after verification of the Budget Execution Rule for the third, fourth, fifth and sixth Application for withdrawal.

b) The compliance with the DLIs is verified without reference to the Budget Execution Rule for the second, seventh and eighth Application for withdrawal.

c) For the third, fourth, fifth and sixth Application for withdrawal, compliance with DLIs is verified for those Project sectors that have met the Budget Execution Rule, in the case of the sectors that have EEPs, plus the Public Sector (i.e. the DLIs for the Project sectors that have not complied with the Budget Execution Rule are disregarded, for example “very low” performance; the DLIs for Public Sector are always considered). The amount to be disbursed is calculated according to the following formulae: \( \frac{x}{y} \) multiplied by the amount eligible to be withdrawn (after the application of the Budget Execution Rule), where \( x \) is the number of attained DLIs and \( y \) is the total number of DLIs, in both cases for those Project sectors that have met the Budget Execution Rule, plus the Public Sector.

d) For the second, seventh and eighth Applications for withdrawal the amount to be disbursed is calculated according to the following formulae: \( \frac{x}{y} \) multiplied by the amount eligible to be withdrawn, where \( x \) is the number of attained DLIs and \( y \) is the total number of DLIs, in both cases for all Project sectors, plus the Public Sector.

(iii) Rollover of Amounts Not Disbursed

Please refer to Schedule 2 Section IV. B. 4., 5. and 6. of the Loan Agreement.

(iv) Application for Withdrawal Schedule

Each Application for withdrawal submitted under Category 1 shall be presented using the following schedule, provided that the Borrower has submitted to the Bank evidence, satisfactory to the Bank, that the Borrower has complied with requirements specified in the above Sections:

a) For a first withdrawal, in an amount not exceeding USD 50,000,000, as a reimbursement for Eligible Expenditure Program expenditures (EEPs) (as defined in the Appendix to the Loan Agreement and set out in Schedule 4 to the Loan Agreement) incurred in the 12 months prior to the Signing date of the Loan Agreement but not earlier than January 1, 2012 made on or about the Effective Date;

b) For a second withdrawal, in an amount not exceeding USD 44,125,000, as a reimbursement for EEPs incurred in the period from the Signing Date to June 30, 2014, provided that the Borrower has submitted to the Bank evidence, satisfactory to the Bank, that the Borrower has complied with the Disbursement Linked Indicators (DLIs) set forth in Schedule 5 to the Loan Agreement for said period;
c) For a third withdrawal, in an amount not exceeding USD 50,000,000, as a reimbursement for EEPs incurred in the period from July 1, 2014 to December 31, 2014, provided that the Borrower has submitted to the Bank evidence, satisfactory to the Bank, that the Borrower has complied with the Budget Execution Rule (70% rule) and the Disbursement Linked Indicators (DLIs) set forth in Schedule 5 to the Loan Agreement for said period;

d) For a fourth withdrawal, in an amount not exceeding USD 65,000,000, as a reimbursement for EEPs incurred in the period from January 1, 2015 to June 30, 2015, provided that the Borrower has submitted to the Bank evidence, satisfactory to the Bank, that the Borrower has complied with the Budget Execution Rule (30% rule) and the Disbursement Linked Indicators (DLIs) set forth in Schedule 5 to the Loan Agreement for said period;

e) For a fifth withdrawal, in an amount not exceeding USD 55,000,000, as a reimbursement for EEPs incurred in the period from July 1, 2015 to December 31, 2015, provided that the Borrower has submitted to the Bank evidence, satisfactory to the Bank, that the Borrower has complied with the Budget Execution Rule (70% rule) and the Disbursement Linked Indicators (DLIs) set forth in Schedule 5 to the Loan Agreement for said period;

f) For a sixth withdrawal, in an amount not exceeding USD 35,000,000, as a reimbursement for EEPs incurred in the period from January 1, 2016 to June 30, 2016, provided that the Borrower has submitted to the Bank evidence, satisfactory to the Bank, that the Borrower has complied with the Budget Execution Rule (30% rule) and the Disbursement Linked Indicators (DLIs) set forth in Schedule 5 to the Loan Agreement for said period;

g) For a seventh withdrawal, in an amount not exceeding USD 15,000,000, as a reimbursement for EEPs incurred in the period from July 1, 2016 to December 31, 2016, provided that the Borrower has submitted to the Bank evidence, satisfactory to the Bank, that the Borrower has complied with the Disbursement Linked Indicators (DLIs) set forth in Schedule 5 to the Loan Agreement for said period;

h) For an eighth withdrawal, in an amount not exceeding the balance remaining under Category 1, as a reimbursement for EEPs incurred in the period from January 1, 2017 to June 30, 2017 provided that the Borrower has submitted to the Bank evidence, satisfactory to the Bank, that the Borrower has complied with the Disbursement Linked Indicators (DLIs) set forth in Schedule 5 to the Loan Agreement, that have not been previously achieved.
V. Other Important Information


If you have not already done so, the Bank recommends that you register as a user of the Client Connection website (https://clientconnection.worldbank.org). From this website you will be able to prepare and deliver Applications, monitor the near real-time status of the Loan, and retrieve related policy, financial, and procurement information. All Borrower officials authorized to sign and deliver Applications by electronic means are required to register with Client Connection before electronic delivery can be effected. For more information about the website and registration arrangements, please contact the Bank by email at <clientconnection@worldbank.org>.

If you have any queries in relation to the above, please contact Monica Tambucho at mtambucho@worldbank.org, using the above Project Name and Loan number as a reference in the subject line.

Yours sincerely,

Monica Tambucho
Senior Finance Officer
WBG Finance and Accounting
C.c with copies:
Sr. Cassio Taniguchi
Secretario do Planejamento e Coordenação Geral
Secretaria de Estado do Planejamento e Coordenação Geral - SEPL
Rua Jacy Loureiro de Campos S/N
4o andar, Ala C, Centro Civico
Palacio das Araucarias
80530-140, Curitiba, PR
Tel: +55 41 3313-6275
Fax: +55 41 3313-6333
cassiotaniguchi@sepl.pr.gov.br

Sr. Luiz Eduardo Sebastiani
Secretario de Fazenda
Secretaria de Estado da Fazenda - SEFA
Av. Vicente Machado, 445 - Centro
80420-902, Curitiba, PR
Tel: +55 41 3321-9014
Fax: +55 41 3222-3505
luiz.sebastiani@sefa.pr.gov.br

Sra. Rosane Gonçalves
Coordinadora, SEPL
Fax: + 55 (41) 3313-6285
rosanegoncalves@sepl.pr.gov.br
Attachments
1. *World Bank Disbursement Guidelines for Projects*, dated May 1, 2006 - Not included as there is no change from previous Disbursement Letter
2. Form for Authorized Signatures
3. *Terms and Conditions of Use of Secure Identification Credentials in connection with Use of Electronic Means to Process Applications and Supporting Documentation*, dated March 1, 2013 Not included as there is no change from previous Disbursement Letter
4. Format of EEP Spending Reports - Not included as there is no change from previous Disbursement Letter
5. List of payments against contracts that are subject to the Bank's prior review - Not included as there is no change from previous Disbursement Letter
6. Summary Sheets - Not included as there is no change from previous Disbursement Letter
7. Statement of Expenditures - Not included as there is no change from previous Disbursement Letter
8. Designated Account Bank Reconciliation Form - Not included as there is no change from previous Disbursement Letter