CONFORMED COPY

July 27, 2011

His Excellency
Joao Colombo
Governor
Government of Santa Catarina
Rodovia SC 401-km 5, nº 4.600, Bairro João Paulo
Florianópolis, SC, CEP 88032-000
Brazil

His Excellency
Enori Barbieri
Secretary
Secretaria de Estado da Agricultura e Desenvolvimento Rural
Rodovia Admar Gonzaga
1486-Km 3-Itacorubi
Florianópolis, SC, CEP 88032-000
Brazil

Re: IBRD Loan 7952-BR (BRAZIL Santa Catarina Rural Competitiveness Project)
Additional Instructions: Revised Disbursement Letter

Excellencies,

I refer to the Loan Agreement between the International Bank for Reconstruction and Development (the “World Bank”) and the State of Santa Catarina (the “Borrower”) for the above-referenced project, dated September 30, 2010. The Loan Agreement provides that the World Bank may issue additional instructions regarding the withdrawal of the proceeds of Loan IBRD 79520-BR (“Loan”). This letter (“Disbursement Letter”), as revised from time to time, constitutes the additional instructions and replaces the previous version dated September 30, 2010.

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 Disbursement 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 Category 1 and Category 2
- Advance-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 World Bank.

(iii) Disbursement Conditions (subsection 3.8). Please refer to the Disbursement Conditions in 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 your letter of June 2, 2011 (Attachment 2).

(ii) Applications (subsections 3.2 - 3.3). Please provide completed and signed Applications for withdrawal together with supporting documents required, 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 devices (“Tokens”) 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 Tokens 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 Tokens to Process Applications. By designating officials to accept Tokens 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 Devices in connection with Use of Electronic Means to Process Applications and Supporting Documentation (“Terms and Conditions of Use of Tokens”) provided in Attachment 3; and (b) to deliver the Terms and Conditions of Use of Tokens to each such official and to cause such official to abide by those terms and conditions.

(v) Minimum Value of Applications (subsection 3.5). The Minimum Value of an Application for Reimbursement for Category (1) is United States Dollars (US$) 1,000,000 equivalent and for Category (2) is US$ 500,000 equivalent.

(vi) Advances (sections 5 and 6) for Category 2.

- Type of Designated Account (subsection 5.3): Segregated
- Currency of Designated Account (subsection 5.4): United States Dollars
- Financial Institution at which the Designated Account Will Be Opened (subsection 5.5): Banco do Brasil S/A
- Ceiling (subsection 6.1): US$ 2,000,000

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:
  - Customized SOE in the form attached (Attachment 4) which reflects the Eligible Expenditure Program Spending Report 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 World 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:
    - Consultant firm contracts costing US$ 100,000 equivalent per contract or more; and
    - Individual consultant contracts costing US$ 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 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:
    1. Consultant firm contracts costing US$ 100,000 equivalent per contract or more; and
    2. Individual consultant contracts costing US$ 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 Bank Statement(s) and Reconciliation.

**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 World Bank as acceptable in format and content in accordance with Schedule 2, Section I, A. 5. of the Loan Agreement and the Operational Manual.

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

(a) Calculation and demonstration of expenditures eligible for World Bank financing.

(b) Confirmation that at least 70 percent of the amounts budgeted, in the previous six calendar months for EEP Expenditures in total (i.e. overall budget for the group of eight EEP’s), have been spent (70 percent rule-Interim) for the second, third, fifth, seventh, ninth, eleventh and thirteenth Application for withdrawal. If the 70 percent rule-Interim is not met no disbursement is made.

(c) Confirmation that at least 70 percent of the amounts budgeted in the previous fiscal year for EEP Expenditures, per EEP Line, have been spent (70 percent rule-Final) for the fourth, sixth, eighth, tenth and twelfth Application for withdrawal. If the 70 percent rule-Final is not met, the maximum amount of the disbursement is reduced by 12.5 percent per failed EEP Line.

(d) Compliance with each relevant Disbursement-Linked Indicator (DLI) for the fourth, sixth, eighth, tenth and twelfth Application for withdrawal.

(iii) In the case that the EEP Spending Report indicates partial compliance with the requirements listed above, then the following will apply:

(a) The 70 percent rule (both Interim and Final) is the first disbursement requirement to be verified. The amount eligible to be withdrawn from the Loan for the given disbursement will be reduced, as per the percentage indicated above for each EEP Line that does not meet the rule 70 percent rule-Final. In the case the 70 percent rule-Interim is not complied with, no disbursement will take place.
(b) Compliance with DLIs is then verified. The amount to be disbursed is calculated according to the following formulae: \( x/y \times \text{amount eligible to be withdrawn} \) (after the application of the 70 percent rule-Final), where \( x \) is the number of attained DLIs and \( y \) is the total number of DLIs.

- For the fourth Application for withdrawal, only 11 indicators have targets for 2011 and only these should be considered in the above calculations. Therefore, the maximum denominator/total number of DLI’s to be used is 11.
- For the sixth, eighth, tenth and twelfth Applications for withdrawal, all the 13 indicators have targets, and all of them should be considered for the above calculations. Therefore, the maximum denominator/total number of DLI’s to be used is 13.

(iv) Rollover of Amounts Not Disbursed

(a) If the 70 percent rule (both Interim and Final) is not met, and/or the World Bank has received only partial evidence of compliance under the DLI’s, and/or the Borrower has not presented enough Eligible Expenditures under the EEPs to disburse the full amounts as estimated in Section (v) (a) through (l) below, the World Bank may, at its option, authorize that the unwithdrawn portion of the Loan resulting from this lack of evidence be carried forward to the subsequent withdrawals, provided that, if this occurs, the amount to be disbursed by the World Bank, in the aggregate under all subsequent withdrawals, shall not exceed 50 percent of the sum of amounts spent under the Eligible Expenditure Programs for the years up to and including the one for which the withdrawal is made.

(b) The amount carried forward to the subsequent withdrawals due to noncompliance with the 70 percent rule (either Interim or Final) may be paid only if the 70 percent rule (either Interim or Final) has been fully complied with in the subsequent withdrawal or if compliance with the 70 percent rule (either Interim or Final) has been waived by the World Bank.

(c) The amount carried forward to the subsequent withdrawals due to the non-achievement of DLIs may be paid, if the DLIs, which were previously missed, have subsequently been met/achieved or if compliance with these DLI’s has been waived by the World Bank.

(d) The amount carried forward to the subsequent withdrawals due to lack of eligible expenditure at the time of previous Applications for withdrawals may be paid only if enough eligible expenditures are presented under the subsequent Applications for withdrawals.

(v) Application for Withdrawal Schedule   Each Application for withdrawal shall be presented using the following schedule:

(a) the first withdrawal in respect of payments made for Eligible Expenditure Programs in the 12 months prior to the Signing date of the Loan Agreement but not earlier than
October 1, 2009, up to an aggregate amount not exceeding US$ 9,500,000 may be made on or about the Effective Date (in the event the full amount of the first withdrawal is not made, any balance remaining to be disbursed will be evenly distributed over the remaining twelve disbursements with a resultant increase in the aggregate amount of US$ 5,308,333 indicated below); and

(b) the second withdrawal on or about six months after Effective Date in respect of payments made for Eligible Expenditures Programs in the six month period after the end of the period covered by the first withdrawal, up to an aggregate amount not exceeding US$ 5,308,333; and

(c) the third withdrawal on or about twelve months after the Effective Date in respect of payments made for Eligible Expenditures Programs in the six month period, after the end of the period covered by the second withdrawal, up to an aggregate amount not exceeding US$ 5,308,333 (not including possible delayed disbursements).

(d) the fourth withdrawal on or about eighteen months after the Effective Date in respect of payments made for Eligible Expenditures Programs in the six month period, after the end of the period covered by the third withdrawal, up to an aggregate amount not exceeding US$ 5,308,333 (not including possible delayed disbursements).

(e) the fifth withdrawal on or about twenty-four months after the Effective Date in respect of payments made for Eligible Expenditures Programs in the six month period, after the end of the period covered by the fourth withdrawal, up to an aggregate amount not exceeding US$ 5,308,333 (not including possible delayed disbursements).

(f) the sixth withdrawal on or about thirty months after the Effective Date in respect of payments made for Eligible Expenditures Programs in the six month period, after the end of the period covered by the fifth withdrawal, up to an aggregate amount not exceeding US$ 5,308,333 (not including possible delayed disbursements).

(g) the seventh withdrawal on or about thirty-six months after the Effective Date in respect of payments made for Eligible Expenditures Programs in the six month period, after the end of the period covered by the sixth withdrawal, up to an aggregate amount not exceeding US$ 5,308,333 (not including possible delayed disbursements).

(h) the eighth withdrawal on or about forty-two months after the Effective Date in respect of payments made for Eligible Expenditures Programs in the six month period, after the end of the period covered by the seventh withdrawal, up to an aggregate amount not exceeding US$ 5,308,333 (not including possible delayed disbursements).

(i) the ninth withdrawal on or about forty-eight months after the Effective Date in respect of payments made for Eligible Expenditures Programs in the six month period, after the end of the period covered by the eighth withdrawal, up to an aggregate amount not exceeding US$ 5,308,333 (not including possible delayed disbursements).
(j) the tenth withdrawal on or about fifty-four months after the Effective Date in respect of payments made for Eligible Expenditures Programs in the six month period, after the end of the period covered by the ninth withdrawal, up to an aggregate amount not exceeding US$ 5,308,333 (not including possible delayed disbursements).

(k) the eleventh withdrawal on or about sixty months after the Effective Date in respect of payments made for Eligible Expenditures Programs in the six month period, after the end of the period covered by the tenth withdrawal, up to an aggregate amount not exceeding US$ 5,308,333 (not including possible delayed disbursements).

(l) the twelfth withdrawal on or about sixty-six months after the Effective Date in respect of payments made for Eligible Expenditures Programs in the six month period, after the end of the period covered by the eleventh withdrawal, up to an aggregate amount not exceeding US$ 5,308,333 (not including possible delayed disbursements).

(m) the thirteenth withdrawal on or about seventy-two months after the Effective Date in respect of payments made for Eligible Expenditures Programs in the six month period, after the end of the period covered by the twelfth withdrawal, up to an aggregate amount not exceeding US$ 5,308,337 (not including possible delayed disbursements).

V. Other Important Information


From the Client Connection website, you will be able to download 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 the World Bank Loan Department by sending a message to loalcr@worldbank.org and placing the Project name and Loan number in the subject line.

Yours sincerely,

/s/ Miguel-Santiago Oliveira
Senior Finance Officer
Loan Fiduciary & Controls
Attachments
2. Authorized Signature Letter
4. Customized Statement of Expenditures (SOE) for Category 1 – EEP Spending Report
5. Form of Payments Against Contracts Subject to the World Bank’s Prior Review
6. Form of Summary Sheet.
7. Form of Statements of Expenditures
8. Examples of Penalties and Rollovers

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