

The World Bank

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

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March 19, 2009

His Excellency
Cid Ferreira Gomes
Governor
Secretaria do Planejamento e Gestão do Estado do Ceará
Centro Administrativo Gov. Virgílio Távora
Av. General Afonso Albuquerque Lima, s/n
Ed. SEPLAN, 3º. Andar
Cambéba
60830-900 Fortaleza, CE
Brazil

Excellency,

**Re: IBRD Loan 7600-BR (Ceará Inclusive Growth Project – SWAp II)
Additional Instructions: Disbursement Letter**

I refer to the Loan Agreement between the International Bank for Reconstruction and Development (the "Bank") and the State of Ceará (the "Borrower") for the above-referenced project, dated *March 19, 2009*. This Disbursement Letter gives instructions on the withdrawal of proceeds from IBRD Loan 7600-BR (the "Loan") for the Ceará Inclusive Growth Project. Copies of this letter together with the attachments should be sent to all staff involved in the process of preparing withdrawal applications for this Project.

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: The expenditures previously paid by the Borrower may be reimbursed in Brazilian Reais or in US\$ to an authorized account to be indicated by the Borrower.
- Advances to Designated Account.

(ii) Disbursement Deadline Date (subsection 3.7). The Disbursement Deadline Date is four (4) 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 the Loan Agreement.

II. Withdrawal of Loan Proceeds

(i) Authorized Signatures (subsection 3.1). A letter in the Form attached (Attachment 2) should be furnished to the Bank at the address indicated below providing the name(s) and specimen signature(s) of the official(s) authorized to sign Applications:

Banco Mundial
Sector Comercial Norte,
Quadra 02, Lote A
Edificio Corporate Finance Center
7º andar
70712-900 Brasilia, D.F.
Brazil
Attention: Makhtar Diop, Country Director

(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) Minimum Value of Applications (subsection 3.5). The Minimum Value of Applications for Reimbursement is US\$5,000,000 equivalent with the exception of Category 2 that has a minimum application amount of US\$100,000 equivalent.

(iv) Advances (sections 5 and 6).

For Category 1 (Part 1) of the Project

- *Type of Designated Account (subsection 5.3):* Pooled.
- *Currency of Designated Account (subsection 5.4):* Reais.
- *Financial Institution at which the Designated Account Will Be Opened (subsection 5.5):* Borrower's Single Treasury Account held at Banco do Brasil.
- *Ceiling (subsection 6.1):* Forecast for six months as detailed in the Interim Financial Report (IFR) for Category 1.



For Category 2 (Part 2) of the Project

- *Type of Designated Account (subsection 5.3)*: Segregated.
- *Currency of Designated Account (subsection 5.4)*: Reais.
- *Financial Institution at which the Designated Account Will Be Opened (subsection 5.5)*: Financial institution acceptable to the Bank..
- *Ceiling (subsection 6.1)*: Forecast for 2 quarters as detailed in the Interim Financial Report (IFR) for Category 2.

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 for Category 1:*
 - Customized SOE in the form attached (Attachment 3) 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 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 for Category 2:*
 - Records evidencing eligible expenditures (e.g., copies of receipts, supplier invoices) for payments made under:
 - Goods contracts costing US\$1,000,000 equivalent per contract or more;
 - Consultant firm contracts and Non-Consultant Services costing US\$100,000 equivalent per contract or more; and
 - Individual consultant contracts costing US\$50,000 equivalent per contract or more;
 - Statement of Expenditure in the form attached (Attachment 4) for payments that do not exceed the thresholds established above; and
 - List of payments against contracts that are subject to the Bank's prior review, in the form attached (Attachment 5).
- *For requests for Advances to a Designated Account Category 1:*
 - Customized SOE in the form attached (Attachment 3) 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 letter;
 - Designated Account Reconciliation Statement;
 - List of payments against contracts that are subject to the Bank's prior review, in the form attached (Attachment 5); and

- Forecast for six months as detailed in the Interim Financial Report (IFR) for Category 1.
- **For requests for Advances to a Designated Account Category 2:**
 - Records evidencing eligible expenditures (e.g., copies of receipts, supplier invoices) for payments made under:
 - Goods contracts costing US\$1,000,000 equivalent per contract or more;
 - Consultant firm contracts and Non-Consultant Services costing US\$100,000 equivalent per contract or more; and
 - Individual consultant contracts costing US\$50,000 equivalent per contract or more;
 - Statement of Expenditure in the form attached (Attachment 4) for payments that do not exceed the thresholds established above;
 - Reconciliation of the Designated Account with a copy of the Designated Account Bank Statement;
 - List of payments against contracts that are subject to the Bank's prior review, in the form attached (Attachment 5); and
 - Forecast for 2 quarters as detailed in the Interim Financial Report (IFR) for Category 2.

(ii) Frequency of Reporting Eligible Expenditures Paid from the Designated Account (subsection 6.3): Semi-annually for Category 1 and Quarterly for Category 2.

IV. Other Disbursement Instructions

(i) Retroactive Financing: Reimbursement for payments made twelve months prior to the date of the Loan Agreement for Eligible Expenditures under Category 1 is available for an amount not to exceed US\$48,000,000 equivalent.

(ii) Category 1 Disbursements: Each withdrawal application for Category 1 shall meet the following conditions:

(a) It is supported by an EEP Spending Report containing the following information: Each EEP Spending Report, submitted as supporting documentation for withdrawal applications 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, A. 4. of the Loan Agreement and the additional instructions provided in the Project Operational Manual.

Each EEP Spending Report for Category 1 will require the following information:

- Calculation of expenditures eligible for Bank financing.
- Confirmation that at least 70% of each EEP budget was spent by the Borrower during the preceding calendar year, applicable as follows:
 - Applicable to the third, fifth, seventh and eighth withdrawal application.
 - For the 2008 calendar year, 50% (versus 70%) of each EEP budget must be spent.
- Compliance with each relevant Disbursement-Linked Indicator (DLI) for the fifth, seventh and eighth withdrawal application.



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

Doesn't Meet 70% rule – The eligible amount to be financed from the Loan will be reduced by 10% for each EEP Spending Report that fails to meet the 70% rule. Any amounts remaining due to a reduction for failing to meet the 70% rule, will be rolled over to the next disbursement date and will be disbursed if the Bank receives evidence that all the eligibility criteria, including the 70% rule, has been met at the time of the next disbursement request.

Sector Doesn't Meet DLI – Disbursement-linked indicators will activate disbursement of an amount corresponding to the value of each result (i.e., each DLI). The value of each DLI is calculated as the total disbursement amount for the period—after applying the 70% rule—divided by the number of disbursement-linked indicators (14) complied with. If the Bank receives only partial evidence of compliance under the Disbursement-Linked Indicators referred to in Schedule 5 of the Loan Agreement and reported in the EEP Spending Reports for the fifth and seventh disbursements under Category 1 the 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 does not exceed 30% the sum of amounts referred to in the last three columns of Schedule 4 of the Loan Agreement for the years up to and including the one for which the withdrawal is made.

Disbursement Table – Annex 6 of this letter provides estimated amount expected to be requested under Category 1.

V. Other Important Information

For additional information on disbursement arrangements, please refer to the Disbursement Handbook available on the Bank's public website at <http://www.worldbank.org> and its secure website "Client Connection" at <http://clientconnection.worldbank.org>. Print copies are available upon request.

If you have not already done so, the Bank recommends that you register as a user of the Client Connection website (<http://clientconnection.worldbank.org>). From this 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. For more information about the website and registration arrangements, please contact cbrocca@worldbank.org and mbrasil@worldbank.org of the Bank country office in Brasilia.



If you have any queries in relation to the above, please contact the Bank's Loan Department by sending a message to loa-lcr@worldbank.org and placing the project name and Loan number in the subject line.

Yours sincerely,



Makhtar Diop
Director

Brazil Country Management Unit

Attachments

1. *World Bank Disbursement Guidelines for Projects*, dated May 1, 2006
2. Form for Authorized Signatures
3. Customized Statement of Expenditures (SOE) for Category 1 – EEP Spending Report
4. Statement of Expenditure (SOE) for Category 2
5. Form of Payments Against Contracts Subject to the Bank's Prior Review
6. Disbursement Table for Category 1

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