

December 12, 2011

Mr. Chris Whaley  
Head of EU and International Co-ordination  
Department for Environment, Food and Rural Affairs  
Area 1B Nobel House,  
17 Smith Square, London SW1P 3JR  
United Kingdom

***Trust Fund Administration Arrangement between the Department for Environment, Food and Rural Affairs, United Kingdom of Great Britain and Northern Ireland and the International Bank for Reconstruction and Development concerning the Brazil Cerrado Climate Change Mitigation Single-Donor Trust Fund (TF No. TF071814)***

Dear Mr. Whaley,

1. We are pleased to acknowledge on behalf of the International Bank for Reconstruction and Development (“IBRD” or the “Bank”) that the Department for Environment, Food and Rural Affairs, United Kingdom of Great Britain and Northern Ireland (Defra) (the “Donor”) shall make available as a grant the sum of ten million British Pounds Sterling (GBP 10,000,000) (the “Contribution”) for the Brazil Cerrado Climate Change Mitigation Trust Fund (the “Trust Fund”) in accordance with the terms of this Arrangement.

2. Activities and Expenditures Financed by the Contribution

The Contribution shall be used to finance the activities and the categories of expenditure set forth in the “Description of Activities, Expenditures and Governance Arrangements for the Brazil Cerrado Climate Change Mitigation Trust Fund” attached hereto as Annex 1, and shall be administered by the Bank on behalf of the Donor in accordance with the terms of this Arrangement.

3. Administration of the Contribution

3.1. The Bank shall be responsible only for performing those functions specifically set forth in this Arrangement and shall not be subject to any other duties or responsibilities to the Donor, including, without limitation, any duties or obligations that might otherwise apply to a fiduciary or trustee under general principles of trust or fiduciary law. Nothing

in this Arrangement shall be considered a waiver of any privileges or immunities of the IBRD under its Articles of Agreement or any applicable law, all of which are expressly reserved.

3.2. The Contribution shall be administered in accordance with the Bank's applicable policies and procedures, as the same may be amended from time to time, including its framework to prevent and combat fraud and corruption and its screening procedures to prevent the use of Bank resources to finance terrorist activity, in line with the Bank's obligations to give effect to the relevant decisions of the Security Council, taken under Chapter VII of the Charter of the United Nations. The Donor acknowledges that this provision does not create any obligations of the Bank under the anti-terrorist financing and asset control laws, regulations, rules and executive orders of an individual member country that may apply to the Donor, nor shall it be deemed a waiver, express or implied, of any of the privileges and immunities of the Bank.

#### 4. Deposit of the Contribution

4.1. The Donor shall deposit with the Bank of England the Contribution in the form of one (1) non-interest-bearing demand promissory note of the Donor, in form and substance acceptable to the Bank, promptly following countersignature of this Arrangement. The Donor shall promptly notify the Bank when the promissory note has been deposited with the Bank of England, and provide the Bank with a copy of such promissory note deposited.

4.2. The Bank may submit one or more demands for payment of Contribution funds under the promissory note, which will be made in accordance with the following schedule:

- (a) promptly following countersignature of this Arrangement, two million British Pounds Sterling (GBP 2,000,000); and
- (b) on or before June 30, 2012, based on the financial needs of the Trust Fund and upon submission of a payment request by the Bank, eight million British Pounds Sterling (8,000,000).

The Donor will be given fifteen (15) days notice of any payment demands.

4.3. When making such deposit, the Donor shall instruct its bank to include in its payment details information (remittance advice) field of its SWIFT payment message, information indicating: the amount paid, that the payment is made by the Donor for TF No. TF071814 (*Brazil Cerrado Climate Change Mitigation Trust Fund*), and the date of the deposit (the "Deposit Instruction"). In addition, the Donor shall provide a copy of the Donor's Deposit Instruction to the Bank's Accounting Trust Funds Division by e-mail sent to [tfremitadvice@worldbank.org](mailto:tfremitadvice@worldbank.org) or by fax sent to (202) 614-1315.



4.4. The Bank shall convert the Contribution funds into the holding currency of the Trust Fund, namely United States Dollars, promptly upon receipt of the Contribution funds and the Deposit Instruction containing the information specified in paragraph 4.2 at the exchange rate obtained by the Bank on the date of the conversion. Where the Contribution proves to be insufficient to complete the activities as a result of an exchange rate fluctuation, neither the Bank nor the Donor shall bear any responsibility for providing any additional financing.

5. Commingling, Exchange and Investment of the Contributions

5.1. The Contributions shall be accounted for as a single trust fund and shall be kept separate and apart from the funds of the Bank. The Contributions may be commingled with other trust fund assets maintained by the Bank.

5.2. The Contributions may be freely exchanged by the Bank into other currencies as may facilitate their disbursement.

5.3. The Bank shall invest and reinvest the Contributions pending their disbursement in accordance with the Bank's policies and procedures for the investment of trust funds administered by the Bank. The Bank shall credit all income from such investment to the Trust Fund to be used for the same purposes as the Contributions.

6. Administrative Cost Recovery

6.1 In order to assist in the defrayment of the costs of administration and other expenses incurred by the Bank under this Arrangement, the Bank may, following deposit of the Cash Contribution, deduct and retain for its own account an amount equal to two percent (2%) of each Contribution. In addition, costs for program management and supervision as defined in Annex 1 up to a maximum of three percent (3%) will be charged to the Trust Fund on an actual basis.

7. Grant to Recipient

7.1. The Bank shall, as administrator of the Trust Fund on behalf of the Donor, enter into grant agreements (the "Grant Agreements") with eligible recipients selected in accordance with the governance terms of Annex 1 (the "Recipients") consistent with the purposes of this Arrangement and on the terms and conditions set forth in the Grant Agreements. Grant Agreements may be entered into up to the maximum amount of the Contributions that the Donor has agreed to make available under this Arrangement. Upon request by the Donor, the Bank shall furnish a copy of the Grant Agreements to the Donor.

7.2. The Bank shall be responsible for the supervision of the activities financed under the Grant Agreements. Subject to the consent of the relevant Recipients, representatives of the Donor may be invited by the Bank to participate in Bank supervision missions related to the Trust Fund.

7.3. The Bank shall promptly inform the Donor of any significant modification to the terms of any Grant Agreements and of any contractual remedies that are exercised by the Bank under any Grant Agreements. To the extent practicable, the Bank shall afford the Donor the opportunity to exchange views before effecting any such modification or exercising any such remedy.

7.4. The Donor or the Bank, as the case may be, shall promptly notify the other signatory in the event the Donor or the Bank determines that the other signatory is not in compliance with the terms of this Arrangement or that the funds provided under any of the Grants Agreements is not being used or has not been used for the implementation of the agreed activities. Upon receipt of any such notification, the signatories shall promptly consult with each other to determine the actions to be taken to resolve the matter. In accordance with applicable World Bank Group policies and procedures, including those pertaining to protection of confidential information and the integrity of the investigative process, the World Bank Group entity shall keep the Donor informed of the progress of any formal World Bank Group entity investigation concerning the misuse of funds provided under this Arrangement and will report to the Donor without delay the conclusions of such findings as well as measures taken to address the fraud and corruption consistent with its policies and procedures on anti-corruption.

## 8. Procurement

8.1. For Recipient-executed activities, the Grant Agreements shall provide that the Contributions shall be used by the Recipients to finance expenditures for goods and services, as the case may be, in accordance with the Bank's Guidelines on "Procurement under IBRD Loans and IDA Credits" and the Bank's Guidelines on the "Selection and Employment of Consultants by World Bank Borrowers," as in effect at the date of entry into the respective Grant Agreements.

8.2. For Bank-executed activities, the employment and supervision of any consultants and the procurement of any goods financed by the Contributions shall be the responsibility of the Bank and shall be carried out in accordance with its applicable policies and procedures.

## 9. Accounting and Financial Reporting

9.1. The Bank shall maintain separate records and ledger accounts in respect of the Contributions deposited in the Trust Fund account and disbursements made therefrom.

9.2. The Bank shall furnish to the Donor current financial information relating to receipts, disbursements and fund balance *in the holding currency* of the Trust Fund with respect to the Contributions via the World Bank's Trust Funds Donor Center secure website. Within six (6) months after all commitments and liabilities under the Trust Fund have been satisfied and the Trust Fund has been closed, the final financial information relating to receipts, disbursements and fund balance *in the holding currency* of the Trust



Fund with respect to the Contributions will be made available to the Donor via the World Bank's Trust Funds Donor Center secure website.

9.3. The Bank shall provide to the Donor, within six (6) months following the end of each Bank fiscal year, an annual single audit report, comprising (1) a management assertion together with an attestation from the Bank's external auditors concerning the adequacy of internal control over cash-based financial reporting for all cash-based trust funds as a whole; and (2) a combined financial statement for all cash-based trust funds together with the Bank's external auditor's opinion thereon. The cost of the single audit shall be borne by the Bank.

9.4. If the Donor wishes to request, on an exceptional basis, a financial statement audit by the Bank's external auditors of the Trust Fund, the Donor and the Bank shall first consult as to whether such an external audit is necessary. The Bank and the Donor shall agree on the appropriate scope and terms of reference of such audit. Following agreement on the scope and terms of reference, the Bank shall arrange for such external audit. The costs of any such audit, including the internal costs of the Bank with respect to such audit, shall be paid by the Donor.

9.5. The Bank shall provide the Donor with copies of all financial statements and auditors' reports received by the Bank from the Recipients pursuant to the Grant Agreements.

## 10. Progress Reporting

10.1. The Bank shall provide the Donor with an annual report on the progress of activities financed by the Contributions. Within six (6) months of the final disbursement date specified in paragraph 11.2, the Bank shall furnish to the Donor a final report on the activities financed by the Trust Fund.

10.2. The Donor may review or evaluate activities financed by the Trust Fund. The Donor and the Bank shall agree on the scope and conduct of such review or evaluation, and the Bank shall provide all relevant information within the limits of its policies and procedures. All associated costs shall be borne by the Donor. It is understood that any such review or evaluation will not constitute a financial, compliance or other audit of the Trust Fund.

## 11. Disbursement; Cancellation; Refund

11.1. It is expected that the Contributions will be fully disbursed by the Bank by December 31, 2016. The Bank shall only disburse Contributions for the purposes of this Arrangement after such date with the written approval of the Donor.

11.2. The Donor or the Bank may, upon three (3) months' prior written notice, cancel all or part of any remaining balance of the Contributions that are not committed pursuant to any agreements entered into between the Bank and any consultants and/or other third

parties for the purposes of this Arrangement prior to the receipt of such notice, including the Grant Agreements.

11.3. Following the final disbursement date specified in paragraph 11.1, the Bank shall return any remaining balance of the Contributions to the Donor based on the Donor's paid Contributions. In the event of a cancellation the Bank shall promptly return to the Donor the uncommitted Contributions in accordance with paragraph 11.2.

## 12. Communication and Addresses

Except as provided for in paragraph 4.2 above, any notice, request or other communication to be given or made under this Arrangement shall be in writing and delivered by mail, facsimile or e-mail to the respective party's address specified below or at such other address as such party notifies in writing to the other party from time to time:

### For the Bank:

Mr. Garo J. Batmanian  
Trust Fund Manager  
Environment Unit  
Latin America and the Caribbean Region  
The World Bank  
1818 H Street, NW  
Washington, DC 20433  
U.S.A.

Tel: 55-61- 3329-1000  
Fax: 55-61- 3329-1010  
E-mail: gbatmanian@worldbank.org

### For the Donor:

Mr. Andrew Randall  
International Climate Change Team Leader  
Department for Environment, Food and Rural Affairs  
Area 1B Nobel House,  
17 Smith Square, London SW1P 3JR  
United Kingdom

Tel: 011 44 20 7238 3046  
Fax: 011 44 20 7238 3057  
E-mail: Andrew.Randall@defra.gsi.gov.uk

And :

Ms. Angie Ehinger  
International Climate Change  
Department for Environment, Food and Rural Affairs  
Area 1 B Nobel House,  
17 Smith Square, London SW1P 3JR  
United Kingdom

Tel: 0044 020 7238 4532

Fax: 0044 20 7238 3057

E-mail: Angie.Ehinger@defra.gsi.gov.uk

13. Amendment

All annexes hereto constitute an integral part of this Arrangement. This Arrangement may be amended only in writing between the Bank and the Donor.

14. Disclosure

The Bank will disclose this Arrangement and related information on this Trust Fund in accordance with the World Bank Policy on Access to Information. By entering into this Arrangement, the Donor consents to disclosure of this Arrangement and related information on this Trust Fund.

Please confirm your acceptance with the foregoing, on behalf of the Donor, by signing and dating the two originals, retaining one original for your record and returning the other original to the Bank. Upon receipt by the Bank of the original Arrangement countersigned by you, this Arrangement will become effective as of the date of the countersignature. It is understood that this Arrangement is not an international treaty. It is an administrative Arrangement between the Donor and the Bank.

Sincerely,

**INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT  
INTERNATIONAL DEVELOPMENT ASSOCIATION**

  
fw Makhtar Diop  
Director

Brazil Country Management Unit  
Latin America and the Caribbean Region

**AGREED:**

**DEPARTMENT OF ENVIRONMENT, FOOD AND RURAL AFFAIRS of  
UNITED KINGDOM OF GREAT BRITAIN AND NORTHERN IRELAND**

By: C W Haley

Name: Chris Whaley

Title: Head of EU+ International Co-ordination

Date: 13 December 2011



**Description of Activities, Expenditures and Governance Arrangements under the Brazil Cerrado Climate Change Mitigation Trust Fund**

This Annex shall be applicable to and form an integral part of the arrangement entered into between the Bank and the Donor that provides contributions (the aggregate of all contributions from the Donor, the “Contributions”) to be administered by the Bank for the Trust Fund.

**A. OBJECTIVE**

The objective of the Trust Fund is to assist the Federative Republic of Brazil in mitigating Climate Change in, and improving environmental and natural resource management of the Cerrado Biome through appropriate policies and practices.

**B. DESCRIPTION OF ACTIVITIES**

**1. Bank-Executed Trust Fund Activities:**

- (a) Provision of technical assistance to strengthen the capacity of the Ministry of Environment (MMA) and other implementing entities of the Federative Republic of Brazil in the prevention and control of fires; and
- (b) Carrying out of the monitoring, evaluation, management and administration of the Trust Fund’s activities and supervision of the Recipient-executed activities.

**2. Recipient-Executed Trust Fund Activities:**

**Part I: Promote Farmers’ Compliance with Environmental Law**

Promoting compliance with environmental law through:

- (a) the provision of technical assistance to farmers to register under the Environmental Rural Register (*Cadastro Ambiental Rural*, CAR);
- (b) the provision of technical assistance to farmers whose holdings have been effectively registered under the CAR to help with the design and implementation of a plan to rehabilitate the vegetation of the degraded areas caused by illegal deforestation;
- (c) the promotion and marketing of products from private rural landholding with natural Cerrado vegetation (Legal Reserve); and

- (d) the production of seedlings of native tree species to be used for restoration as an incentive to conserve remaining forest cover and to add economic value to the Legal Reserve.

#### Part II: Promote Reduced Burning and Fire Control/Prevention

Reducing the use of fire as an agricultural practice and increasing the capacity of the three levels of government to control and fight fires through:

- (a) the strengthening of the capacity of selected state fire committees to enable the formulation of contingency plans for municipalities with the highest incidence of forest fires;
- (b) the preparation of contingency plans and signing of municipal protocols by relevant stakeholders;
- (c) (i) the provision of technical assistance to the farmers identified in Part I (a) above; (ii) the provision of a rural extension to said farmers to enable them to learn and adopt new practices that substitute for the annual burning of pastures, including practices that help restore and maintain sustainable pasture productivity; (iii) the establishment of demonstration plots/farms; and (iv) the carrying out of training for extension agents and relevant stakeholders in proper techniques of controlled burning;
- (d) the creation of, and the carrying out of training for, municipal fire brigades where protocols were signed by relevant stakeholders and equipped for effective fighting of forest fires; and
- (e) the enhancement of the early warning system through collaboration among federal, state environmental agencies, state fire departments and the National Institute for Space Research (INPE).

### **C. CATEGORIES OF EXPENDITURE**

#### **I. For Bank-executed Activities**

The Contribution funds may be used to finance the following categories of expenditures: consultant fees, media and workshop costs, travel expenses, staff costs, temporary support staff costs (program management and supervision), extended term consultants, contractual services and associated overheads.

#### **II. For Recipient-executed Activities**

The Contribution funds may be used to finance the following categories of expenditures: consultants' services, goods, works, training and operating costs.

The foregoing categories of expenditures may include the financing of taxes.

**D. GOVERNANCE ARRANGEMENTS**

1. A team lead by the Trust Fund Manager will be established within the Environment Unit in the Latino America and Caribbean Region of the Bank (LCSEN) and will be responsible for administering the Trust Fund (the "Trust Fund Team") in accordance with an Operations Manual to be developed by the Trust Fund Team in consultation with the Donor. In connection with this responsibility, the Trust Fund Team will also be responsible for coordination with Bank country teams, other Bank Units, the Donor, partners, and other stakeholders.

2. The Donor and the Brazilian Ministry of Environment (MMA) will be invited by the Bank to meet at least annually to: (a) review and approve the Trust Fund work plan, which includes proposed activities and estimated budgets; (b) review the Trust Fund progress and financial reports; (c) review the lessons and experiences of the implementation of the Trust Fund activities, including results achieved; and (d) provide strategic guidance to the Trust Fund Team on the implementation of the activities. Any changes in activities included in agreed work plans over one million five hundred thousand American Dollars (US\$1,500,000) will be sent to the Donor for approval, unless otherwise agreed.

3. The Donor attending the Trust Fund meetings will be represented by a senior representative. MMA will also be represented by a senior representative. The Bank will be represented by the Trust Fund Manager who will also be the chair. Other Bank staff may also attend the meeting. Decision making will be made by consensus of the representatives of the Bank, MMA and the Donor participating in a physical meeting, or by email correspondence with the Donor (within a reasonable period) on a no-objection basis between physical meetings. The Trust Fund Team will manage the no-objection process. The Bank will, within a reasonable time, record the decisions made in the meeting in minutes which will be submitted to the Donor for concurrence.



