

January 3, 2014

Ms. Meg Taylor  
Compliance Advisor Ombudsman  
International Finance Corporation  
2121 Pennsylvania Avenue, N.W.  
Washington DC 20433

Dear Ms. Taylor,

Thank you for sharing the CAO's compliance audit report dated December 20, 2013 regarding IFC's investment in Corporacion Dinant S.A. de C.V. (hereafter "Dinant") in Honduras. IFC is committed to ensuring that the projects it finances are implemented in an environmentally and socially responsible and sustainable manner. Although we do not agree with some of the findings in the report, we acknowledge that CAO audits help strengthen our policies and procedures and lead to improvements in managing environmental and social risks, including in the context of fragile and conflict-affected states. The lessons from this report can help us as we increase our work in fragile and conflict-affected areas, where we can play an important role in helping companies create the conditions for economic growth and job creation.

We believe the key CAO Dinant report findings pertain to how IFC assesses broader contextual risks early in the appraisal process, as well as risks related to the interaction between company security forces and communities. We believe some of these findings have been addressed through the 2012 update to IFC's Sustainability Framework. For example, in accordance with the 2012 Sustainability Policy, we will consider inherent environmental and social risks of a given sector as well as the project's location in determining the risk category. We do believe that if a similar project were presented for financing today, it would most likely be categorized as high-risk.

We also review and update our operational procedures and practices on an ongoing basis to capture the continuous learning from our projects, including Dinant. For example, we have developed new screening tools that flag—earlier in the project appraisal process—potential environmental and social risks associated with agro-commodity production.

Moreover, IFC is committed to the Principles for Responsible Agricultural Investment (developed by FAO, IFAD, UNCTAD, and the World Bank Group), which ensure that agricultural investments support practices that protect the environment and local communities, respect local laws and land rights, and contribute to food security. We will continue to learn from our projects in the agribusiness sector to strengthen our standards and implementation processes.

### **Project Context and Risk**

At the time of project appraisal in 2008, IFC believed that the project risks associated with the expansion of Dinant's existing processing facilities were limited and manageable through an appropriate

Environmental and Social Action Plan, consistent with IFC's policies and practices at the time. Local counsel confirmed that Dinant held clear title to all its plantations. There was no evidence of land claims in the legal system or otherwise. Other international financial institutions also conducted their own due diligence prior to IFC and subsequently obtained approvals from their respective Boards of Directors on that same basis.

In June 2009, nearly a year after IFC's appraisal, the military overthrow of President Zelaya—an event IFC could not have foreseen—ignited social unrest across the country and reawakened a push for land redistribution in the Aguan Valley. The resulting political turmoil undermined law and order, exacerbating the trafficking of drugs and arms in the area. Nevertheless, IFC chose to remain engaged and work with Dinant to deal with the significantly changed circumstances on the ground and to improve its policies and practices, particularly in security and community engagement, in an effort to address the more volatile security environment.

### **IFC and Client Actions**

IFC has worked with Dinant to identify and undertake measures to prevent armed clashes, and has communicated several times with President Lobo to support a peaceful resolution to the Aguan Valley land conflict. The new government of Honduras called for negotiations between campesino organizations and landowners to quell social tensions and find a solution to land disputes. In late 2012, Dinant voluntarily sold nearly 4,000 hectares of its occupied plantations to the Honduran government to facilitate a resolution of the claims of campesino organizations. Dinant transferred its legal land titles to the government and received compensation.

In December 2010, in response to the rapidly changing circumstances IFC requested that Dinant hire an international security and human-rights consultant, who traveled to Honduras to assess its security program and thereafter defined an action plan, consistent with the Voluntary Principles on Security and Human Rights. IFC management conducted several visits to Honduras beginning in January 2011. In addition, our environmental and social specialists intensified supervision as soon as practicable with visits in 2011, 2012, and twice in 2013. IFC also recommended a consultant to oversee the Environmental and Social Action Plan implementation process locally and help the company build and manage a team of internal staff and specialized consultants. Working with the support of consultants and IFC, Dinant has taken significant strides forward. The following is a summary of actions taken with IFC's support, active guidance and monitoring, aimed to improve Dinant's Environmental and Social Action Plan performance. Several actions also address some of the CAO report findings:

#### *Actions Taken So Far*

##### Security

- Following IFC's request, Dinant hired a security and human rights consultant, who has provided comprehensive security training for the company's management team.
- Dinant is in the process of adopting new security protocols that define and clarify the appropriate use of force. Dinant's contracted security company has formally agreed to the Voluntary Principles. This is a first in Honduras.

- Dinant's managers at each major site and facility have conducted detailed risk assessments, including specific mitigation measures. They have received intensive training on the Voluntary Principles on Security and Human Rights.
- Dinant has developed and disclosed a human rights policy that is consistent with the Voluntary Principles on Security and Human Rights.
- Dinant management has met with various stakeholders to discuss security issues, including Honduran public security forces, Honduran Human Rights Commission, representatives from the European Union, the US Embassy, and NGOs.

#### Stakeholder Engagement, Social Assessment and Community Development

- Following IFC's recommendations, Dinant has hired consultants with extensive community engagement experience to conduct a comprehensive stakeholder mapping and socio-economic baseline survey of the communities surrounding its facilities. The survey is expected to be rolled out to 43 communities in January 2014.
- The aim is to better understand the issues currently impacting communities and to bring strategic focus and overall coordination to Dinant's existing corporate social responsibility programs, such as funding for school teachers, clinics, and conservation programs.

#### Environmental and Social Management

- In accordance with the Environmental and Social Action Plan, Dinant has completed a labor audit, and is implementing a corrective action plan that focuses on improvements to its working conditions, occupational health, and fire and life safety. It is investing in upgrades for its processing operations, including wastewater treatment, atmospheric emissions controls for boilers, and occupational health and safety measures.
- Assisted by external consultants and the commitment of substantial internal resources, Dinant has conducted an extensive evaluation of its environmental, health, and safety (EHS) management capacity and procedures and is currently developing the required plans and procedures to achieve certification under the ISO 14001 and OHSAS 18000 international standards. The certification process for all of its manufacturing and distribution activities is expected to be completed in 2014.
- Dinant has completed initial diagnosis of its palm oil production activities in order to meet, and be eligible for, certification under the Roundtable on Sustainable Palm Oil (RSPO), which promotes the production and use of sustainable palm oil. As part of its efforts to meet certification criteria and to improve its environmental and social performance, Dinant is currently mobilizing financing to make necessary improvements to upgrade pollution control measures at its oil mills. This will significantly reduce atmospheric emissions and discharge of industrial effluents.

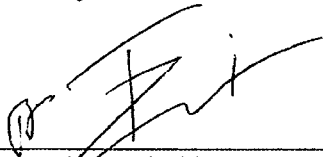
**Moving Forward**

We will continue to monitor and supervise the implementation of Dinant's Environmental and Social Action Plan through bi-monthly discussions and, in this connection, consider additional support from external experts. In addition, we will seek Dinant's agreement to undertake that the following actions are undertaken over the next 12 months, with IFC's support and guidance, to further address the CAO report findings. We will adjust these actions and timeline according to developments on the ground.  
*Action Plan*

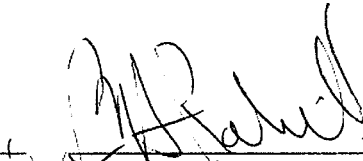
<b>Action</b>	<b>Responsibility</b>	<b>Expected Timeline</b>
In accordance with its commitment and ongoing efforts to strengthen community engagement, Dinant will continue to collaborate with proper authorities to investigate any credible allegations of unlawful or abusive acts of its security personnel against communities/stakeholders in the Aguan and take action to prevent recurrence if allegations are found to be true. As appropriate, Dinant will also refer such allegations to the relevant authorities, and, based on its findings, assess the feasibility of remediation to affected parties	Dinant to implement with IFC guidance	Targeting 12 months with estimated completion no later than the next 24 months
Dinant will develop a more comprehensive vetting process for security personnel.	Dinant to implement. IFC to supervise and monitor.	Targeting 3 months with estimated completion no later than the next 12 months, with quarterly updates to management + CAO
Dinant will train in-house and third-party guards on the new security protocols that define and clarify appropriate use of force, and to ensure a common understanding of its procedures.	Dinant to implement. IFC to supervise and monitor.	Targeting 3 months with estimated completion no later than the next 12 months, with quarterly updates to management + CAO
Dinant will implement a grievance mechanism to address communities' concerns and complaints, and provide feedback in a consistent and timely manner, while remaining attentive to the unique needs of each community in which it operates.	Dinant to implement. IFC to supervise and monitor.	Targeting 3 months with estimated completion within the next 12 months, with quarterly updates to management + CAO and pending positive political developments and adequate security on the ground.

<b>Action</b>	<b>Responsibility</b>	<b>Expected Timeline</b>
IFC will review, and if necessary strengthen, its approach to the management of environmental and social risks in fragile and conflict-affected areas. In particular, IFC will review its experience, and that of other DFIs, related to clients' use of security forces in very high-risk environments.	IFC to review and amend as needed. IFC to report back semi-annually to the World Bank and IFC President, the IFC Executive Vice-President and CAO on progress related to these actions.	Estimated completion within the next 12 months

Sincerely,



Oscar Chemerinski  
 Director  
 Manufacturing, Agribusiness & Services Department  
 Sub-Saharan Africa, Latin America & the Caribbean



Morgan Landy  
 Director  
 Environment, Social and Governance Department