

November 4, 2005

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

Dear Ms. Taylor,

Re: Response to CAO's Audit Report on IFC's Amaggi Expansion Project

Following the release of the CAO's Audit Report on IFC's Amaggi Expansion Project, IFC responded to the CAO that it would carefully consider its recommendations through the supervision process.

We have been in contact with Amaggi since the Audit Report's release and have just completed an extensive field supervision mission.

We were pleased that the Audit Report concluded that IFC followed its categorization procedures for the investment in Amaggi. However, the CAO further opined that IFC did not: (i) adequately assure itself of the adequacy of the Company's ESMS to meet IFC's requirements; (ii) fully assess implementation of the ESMS during appraisal; or (iii) clearly define the detail of assessment needed for the silo locations. The CAO, therefore, found that the Category B rating could only be fully justified if these conditions were met.

IFC staff was surprised by these findings given the focus and attention that IFC has put on the Company's management systems since the first investment was made. A great deal of time has been spent with the Company reviewing the design and performance of its ESMS. A supervision visit was made in 2003 specifically to look at the ESMS. Implementation of the ESMS was also audited by JGP Consultores, a well established Brazilian environmental consulting firm specialized in planning, impact assessments, auditing and implementation of mitigative measures. Following a field appraisal in 2004 of the Amaggi Expansion project (IFC's second loan), IFC staff once again worked with Amaggi to further enhance the ESMS and together we agreed on a number of corrective actions including: (i) expanding the scope of ESMS procedures by extending the requirement to comply with the ESMS to third-party farmers who receive pre-financing from Amaggi; (ii) collecting baseline data for pre-financed farms; and (iii) revising the training program for employees dealing with pre-financed farmers.

We have been strongly encouraged by the Company's pioneering efforts to use tools, developed as part of its ESMS, to change the behavior of its suppliers. To ensure sufficient

mitigative measures were adopted, Amaggi agreed to carry out an EIA for the silos that were to be built. IFC and Amaggi recognized that the ESMS was a preliminary step and continuous enhancements of the system would be needed.

The main arguments for IFC's re-categorization of this project evolve around the need to have sufficient mitigative measures to prevent the growth of soybean cultivation at the expense of habitat destruction. It is through partnership with Amaggi that IFC has been addressing these important issues by raising awareness of better management practices, increased training and technical assistance to its third-party suppliers. The continuous challenge in achieving change throughout the supply chain is, of course, the Company's limited market share (less than 20% of the Mato Grosso market and less than 4% of Brazil's total soy volume). The Company's strategy to avoid habitat destruction includes four essential elements: (i) ensuring that its own direct operations are in full compliance with the law and IFC requirements; (ii) applying specific conditionality to suppliers to whom it is providing finance; (iii) training and awareness raising to its supply chain; and (iv) collaboration with other industry players to establish a sector wide approach to protect important habitat.

In addition to these more strategic efforts IFC also required full EIAs for the silos. The scope of work and level of detail for these assessments were very clear but were not meant to assess indirect impacts along the supply chain. This was because, at the sector level, regulatory and policy measures are being taken to protect habitat and, at the project level, Amaggi is taking a leadership role in establishing better practices to ensure that habitat is protected as provided by the law and consistent with IFC policy. Rather than request our client to undertake further studies, we collaborated with them in their pioneering efforts to establish the basis of what we hope will become a sector wide soy certification scheme.

In our recent supervision IFC rigorously reviewed the Company's ESMS, in line with our commitment to the CAO, to ensure that it is sufficiently comprehensive to meet IFC's requirements. The main findings of this supervision visit are that:

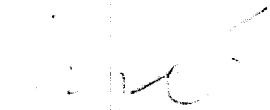
- The Company has continued to work closely with its pre-financed suppliers to ensure compliance with state regulations; this includes requirements to present property titles and licenses and, in the case of farms near the transitional zone forests, use of current satellite images to monitor legal conversion is being undertaken for all suppliers;
- Amaggi is working with several civil society organizations including Fundacion Mato Grosso's, IPAM (Institute for Amazon Research) on activities to enhance awareness of forestry protection needs with other suppliers, and this will be supported by IFC's Corporate Citizenship Facility;
- Amaggi is starting an ISO 14001 certification process for the environmental component of the ESMS;
- Other components of the ESMS not covered by ISO 14001 (occupational health and safety, social development) are being improved with the intent of eventually certifying the entire ESMS as an integrated management system; and

- The ESMS is consistent with international good practice, and fulfills IFC's requirements.

We believe that the innovative steps that Amaggi has taken to build an effective ESMS, including the screening of its suppliers, is now beginning to have the sectoral impact that we would like to achieve. Other industry participants are starting to implement similar schemes in what we hope will become a sector wide certification scheme. Amaggi's role in the founding of the Soy Sustainability Round Table played a role in making progress on this issue and IFC remains interested in working with partners on the issues around commodity certification more generally.

We hope that the positive findings of the recent supervision, demonstrating the strong and continued commitment of Amaggi to help build a sustainable soy industry, will help answer questions raised by CAO about the effectiveness of IFC's assessment of the company's ESMS.

Your sincerely,



Rachel Kyte
Director

Environment and Social Development



Jean-Paul Pinard
Director
Agribusiness

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