

CONFORMED COPY

CREDIT NUMBER 3218-MAG

Development Credit Agreement

(Second Structural Adjustment Credit)

between

REPUBLIC OF MADAGASCAR

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 10, 1999

CREDIT NUMBER 3218-MAG

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated June 10, 1999, between REPUBLIC OF MADAGASCAR (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received a letter (the Letter of Development Policy or LDP), dated April 12, 1999, from the Borrower describing a program of actions, objectives and policies designed to achieve structural adjustment of the Borrower's economy (hereinafter called the Program), declaring the Borrower's commitment to the execution of the Program and requesting assistance from the Association in support of the Program during the execution thereof;

(B) on the basis, inter alia, of the foregoing, the Association has decided in support of the Program to provide such assistance to the Borrower by making the Credit in three tranches as hereinafter provided; and

WHEREAS the Association has agreed, on the basis, inter alia, of the foregoing, to extend the Credit to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit

Agreements" of the Association, dated January 1, 1985 (as amended through December 2, 1997), with the modifications thereof set forth below (the General Conditions), constitute an integral part of this Agreement:

(a) A new paragraph (12) is added to Section 2.01 to read as set forth below, and the existing paragraphs (12) through (14) of said section are accordingly renumbered as paragraphs (13) through (15):

"'Participating Country' means any country that the Association determines meets the requirements set forth in Section 10 of Resolution No 183 if the Board of Governors of the Association, adopted on June 26, 1996; and 'Participating Countries' means collectively all such countries."

(b) Section 2.01, paragraph (12) renumbered as paragraph (13), is modified to read:

"'Project' means the Program, referred to in the Preamble to the Development Credit Agreement, in support of which the Credit is made."

(c) Section 4.01 is modified to read:

"Except as the Borrower and the Association shall otherwise agree, withdrawals from the Credit Account shall be made in the currency of the deposit account specified in Section 2.02 of the Development Credit Agreement."

(d) Section 5.01 is modified to read:

"The Borrower shall be entitled to withdraw the proceeds of the Credit from the Credit Account in accordance with the provisions of the Development Credit Agreement and of these General Conditions."

(e) The last sentence of Section 5.03 is deleted.

(f) Section 9.06 (c) is modified to read:

"(c) No later than six months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, the Borrower shall prepare and furnish to the Association a report, of such scope and in such detail as the Association shall reasonably request, on the execution of the program referred to in the Preamble to the Development Credit Agreement, the performance by the Borrower and the Association of their respective obligations under the Development Credit Agreement and the accomplishment of the purposes of the Credit."

(g) Section 9.04 is deleted and Sections 9.05, 9.06 (as modified above), 9.07 and 9.08 are renumbered, respectively, Sections 9.04, 9.05, 9.06 and 9.07.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth, and the following additional terms have the following meanings:

(a) "Deposit Account" means the account referred to in Section 2.02 (a) of this Agreement;

(b) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant an exchange of two letters signed by the Association on January 26, 1993 and August 2, 1994, and countersigned by the Borrower on February 19, 1993 and September 8, 1994, respectively.

(c) "AM" means Air Madagascar, a stock corporation established and operating pursuant to the corporate laws of the Borrower;

(d) "SOLIMA" means Solitany Malagasy, a state owned enterprise established and operating pursuant to Ordonnance 76/021, of the Borrower, dated June 25, 1976, as amended to the date of this Agreement;

- (e) "SOLIMA's oil operations" means any operations being carried out by SOLIMA with respect to refinery, storage and distribution of petroleum products;
- (f) "SOLIMA's ancillary operations" means any other operations being carried out by SOLIMA which does not qualify as an oil operation, and such term includes any land holdings by SOLIMA;
- (g) "TELMA" means Telecoms Malagasy, a stock corporation established and operating pursuant to the corporate laws of the Borrower;
- (h) The "Privatization Program" means the program adopted by the Borrower for the purposes of disengaging itself from the carrying out of commercial activities and which includes, inter alia, a list of 46 public enterprises slated for privatization by June 30, 2000;
- (i) "FMG" means the Borrower's currency;
- (j) "Fiscal Year" and "FY" means the fiscal year of the Borrower which runs from January 1 to December 31 of each calendar year;
- (k) "MB" means the Borrower's Ministry responsible for budget;
- (l) "SITC" means the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986);
- (m) "Tranche" means any of the following: the First Tranche, the Second Tranche, and the Third Tranche, as defined in this Section;
- (n) "First Tranche" means the Tranche referred to in Category (1) of paragraph 1 of Schedule 1 to this Agreement, to be released by the Association on or after the Effective Date;
- (o) "Second Tranche" means the Tranche referred to in Category (2) of paragraph 1 of Schedule 1 to this Agreement;
- (p) "Third Tranche" means the Tranche referred to in Category (3) of paragraph 1 of Schedule 1 to this Agreement;
- (q) "Ny Havana" means the Compagnie Malgache d'Assurance et de Réassurance, a stock corporation established and operating pursuant to the corporate laws of the Borrower;
- (r) "ARO" means the Compagnie Malgache d'Assurance et de Réassurance omnibranche, a stock corporation established and operating pursuant to the corporate laws of the Borrower;
- (s) "CNAPS" means the Caisse Nationale de Prévoyance Sociale, an "établissement public" established and operating pursuant to Ordonnance No 62-078 of the Borrower, dated September 29, 1962 as amended by law No 68-023 of the Borrower, dated December 17, 1978;
- (t) "CRCM" means the Caisse de Retraite Civile et Militaire, established pursuant to Decree No 62-244 of the Borrower, dated March 21, 1962;
- (u) "CPR" means the Caisse de Prévoyance et de Retraite, established pursuant to Decree No 61-642 of the Borrower, dated November 29, 1961; and
- (v) "FDHA" means the Fonds de Developpement Halieutique et Aquicole, established and operating pursuant to Ordonnance No 93/005, of the Borrower dated February 9, 1993.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and

conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to seventy three million five hundred thousand Special Drawing Rights (SDR 73,500,000).

Section 2.02. (a) The Borrower shall open, prior to furnishing to the Association the first request for withdrawal from the Credit Account, and thereafter maintain in its Central Bank, a deposit account in dollars on terms and conditions satisfactory to the Association. All withdrawals from the Credit Account shall be deposited by the Association into the Deposit Account.

(b) Subject to the provisions of paragraphs (c) and (d) of this Section, the Borrower shall be entitled to use the proceeds of the Credit withdrawn from the Credit Account and deposited into the Deposit Account in support of the Program.

(c) The Borrower undertakes that the proceeds of the Credit shall not be used to finance expenditures excluded pursuant to the provisions of Schedule 1 to this Agreement. If the Association shall have determined at any time that any proceeds of the Credit shall have been used to make a payment for an expenditure so excluded, the Borrower shall, promptly upon notice from the Association, (i) deposit into the Deposit Account an amount equal to the amount of said payment, or (ii) if the Association shall so request, refund such amount to the Association. Amounts refunded to the Association upon such request shall be credited to the Credit Account for cancellation.

(d) Promptly after the Effective Date, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and pay to itself the amount required to repay the principal amount of the Project Preparation Advance withdrawn and outstanding as of such date and to pay all unpaid charges thereon. The unwithdrawn balance of the authorized amount of the Project Preparation Advance shall thereupon be canceled.

Section 2.03. The Closing Date shall be December 31, 2001 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit account or canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment and service charges shall be payable semiannually on February 1 and August 1 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each February 1 and August 1, commencing August 1, 2009 and ending February 1, 2039. Each installment to and including the installment payable on February 1, 2019 shall be one percent (1%) of such principal amount, and each installment thereafter shall be

two percent (2%) of such principal amount.

(b) Whenever: (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by the Association of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by: (A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

(d) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the Association may, if so requested by the Borrower, further modify the terms of repayment to conform to the schedule of installments as provided in paragraph (a) above.

Section 2.08. The currency of the United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

ARTICLE III

Particular Covenants

Section 3.01. (a) The Borrower and the Association shall from time to time, at the request of either party, exchange views on the progress achieved in carrying out the Program.

(b) Prior to each such exchange of views, the Borrower shall furnish to the Association for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Association shall reasonably request.

(c) Without limitation upon the provisions of paragraph (a) of this Section, the Borrower shall exchange views with the Association on any proposed action to be taken after the disbursement of the Credit which would have the effect of materially reversing the objectives of the Program or any action taken under the Program.

Section 3.02. Upon the Association's request, the Borrower shall:

(a) have the Deposit Account audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;

(b) furnish to the Association as soon as available, but in any case not later than six months after the date of the Association's request for such audit, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

(c) furnish to the Association such other information concerning the Deposit Account and the audit thereof as the Association shall have reasonably requested.

ARTICLE IV

Additional Event of Suspension

Section 4.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional event is specified, namely, that a situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out.

ARTICLE V

Effective Date; Termination

Section 5.01. The following events are specified as additional conditions to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions, that:

(a) the macroeconomic framework of the Borrower is consistent with the objectives of the Program on the basis of indicators agreed upon with the Association;

(b) the Borrower has submitted to the Association an action plan (including an implementation schedule) acceptable to the Association describing, inter alia, the methodology to be followed to compute the amount of indemnities and severance payments to be made to employees declared redundant as a result of the execution of the Privatization Program;

(c) the Borrower has furnished evidence satisfactory to the Association that:
(i) with respect to the privatization of SOLIMA's oil operations, each of the joint-venture companies referred to under paragraph 17 of the LDP has been: (A) established in accordance with the provisions of the said paragraph 17 of the LDP (in particular with respect to the relevant share of the capital stock to be held by the Borrower in each of the said joint-venture companies); and (B) duly registered pursuant to the laws of the Borrower; and (ii) with respect to SOLIMA's ancillary operations, the Borrower has concluded with qualified private sector operators, contractual arrangements satisfactory to the Association aimed at transferring the ownership of the said operations to private sector entities in accordance with relevant applicable laws; and

(d) the Borrower has established: (i) a legal and regulatory framework for the petroleum sector aimed at promoting a business environment amicable to private sector investments into the said sector, all in form and substance satisfactory to the Association; and (ii) a regulatory authority for the petroleum sector, with functions, membership, budgetary resources and adequate staffing satisfactory to the Association, all in accordance with the provisions of paragraph 19 of the LDP.

Section 5.02. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VI

Representative of the Borrower; Addresses

Section 6.01. The Minister of the Borrower responsible for finance is designated as the representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance and Economy
Antananarivo 101
Madagascar

Cable address:

MINFIN

Telex:

22489

Antananarivo

For the Association:

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:

INDEVAS
Washington, D.C.

Telex:

248423 (MCI) or
64145 (MCI)

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

REPUBLIC OF MADAGASCAR

By /s/ Tantely Andrianarivo

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Jean-Louis Sarbib

Regional Vice President
Africa

SCHEDULE 1

Withdrawal of the Proceeds of the
Credit and Excluded Expenditures

1. Subject to the provisions of paragraphs 2 and 3 of this Schedule, the table below sets forth the amounts allocated to expenditures in support of the Program to be withdrawn from the Credit Account and deposited into the Deposit Account in support of the Program:

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) First Tranche	18,375,000	100%
(2) Second Tranche	22,050,000	100%
(3) Third Tranche	32,204,000	100%
(4) Refunding of the Project Preparation Advance	871,000	Amount due pursuant to Section 2.02 (d) of this Agreement
TOTAL	73,500,000 =====	

2. For purposes of Section 2.02 (c) of this Agreement, the proceeds of the Credit shall not be used to finance any of the following expenditures:

(a) expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower;

(b) expenditures for goods or services supplied under a contract which any national or international financing institution or agency other than the Bank or the Association shall have financed or agreed to finance, or which the Bank or the Association shall have financed or agreed to finance under another credit or a loan;

(c) expenditures for goods included in the following groups or subgroups of the SITC, or any successor groups or subgroups under future revisions to the SITC, as designated by the Association by notice to the Borrower:

Group	Subgroup	Description of Items
112	-	Alcoholic beverages
121	-	Tobacco, unmanufactured, tobacco refuse
122 containing	-	Tobacco, manufactured (whether or not tobacco substitutes)
525	-	Radioactive and associated materials
667 stones,	-	Pearls, precious and semiprecious unworked or worked
718 fuel elements non-irradiated, for nuclear reactors	718.7	Nuclear reactors, and parts thereof; (cartridges),
728	728.43	Tobacco processing machinery
897 group metals goldsmiths' or (including set gems)	897.3	Jewelry of gold, silver or platinum (except watches and watch cases) and silversmiths' wares
971 and	-	Gold, non-monetary (excluding gold ores concentrates)

(d) expenditures for goods intended for a military or paramilitary purpose or for luxury consumption;

(e) expenditures for environmentally hazardous goods (for purposes of this paragraph, the term "environmentally hazardous goods" means goods, the manufacture, use or import of which is prohibited under the laws of the Borrower or international agreements to which the Borrower is a party;

(f) expenditures (a) in the territories of any country which is not a member of the Bank or for goods procured in, or services supplied from, such territories; or (b) on account of any payment to persons or entities, or any import of goods, if such payment or import is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and

(g) expenditures under a contract in respect of which the Association determines that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Credit during the procurement or execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Association to remedy the situation.

If the Association shall have determined at any time that any proceeds of the

Credit shall have been used to make a payment for an expenditure so excluded, the Borrower shall, promptly upon notice from the Association, (i) deposit into the Deposit Account an amount equal to the amount of said payment, or (ii) if the Association shall so request, refund such amount to the Association. Amounts refunded to the Association upon such request shall be credited to the Credit Account for cancellation.

3. No withdrawals shall be made from the Credit Account:

(a) under Category (2) of the table in paragraph 1 of this Schedule unless the Association shall have been satisfied, after an exchange of views as described in Section 3.01 of this Agreement based on evidence satisfactory to the Association: (i) with the fulfillment of the requirements of Part A of Schedule 2 to this Agreement; (ii) that all the actions described either under Part B. 1 or under Part B. 2 of Schedule 2 of this Agreement have been taken in form and substance satisfactory to the Association; and (iii) that the actions specified in at least four paragraphs under Part C of said Schedule 2 have been taken, all in form and substance satisfactory to the Association; and

(b) under Category (3) of the table in paragraph 1 of this Schedule, unless the Association shall have been satisfied, after an exchange of views as described in Section 3.01 of this Agreement based on evidence satisfactory to the Association: (i) with the fulfillment of the requirements of Part A of Schedule 2 to this Agreement; and (ii) that all remaining actions specified under Parts B and Part C of Schedule 2 to this Agreement after the fulfillment of the conditions referred to in subparagraph (a) (ii) and (iii) above have been taken, all in form and substance satisfactory to the Association. 4. If, after said exchange of views, the Association shall have given notice to the Borrower that the progress achieved and actions taken are not satisfactory, and, within 90 days after such notice, the Borrower shall not have achieved progress and taken actions satisfactory to the Association, then the Association may, by notice to the Borrower, cancel the unwithdrawn amount of the Credit or any part thereof.

SCHEDULE 2

Requirements and Actions Referred to in Paragraph 3 of Schedule 1 to this Agreement

Part A: General Requirements

1. The Borrower has achieved progress satisfactory to the Association in the carrying out of the Program.
2. The macroeconomic policy framework of the Borrower is consistent with the objectives of the Program.

Part B: Core Conditions for the release of the Second and Third Tranches

1. With respect to air transport operations, the Borrower shall have:

(a) sold at least 65% of Air Madagascar's voting stock to a qualified and experienced private investor or a group of private investors; in accordance with a competitive bidding procedure satisfactory to the Association;

(b) established: (i) an adequate legal and regulatory framework for air transport operations aimed at promoting a business environment amicable to private sector investments into the said operations, by having revised, inter alia, in form and substance satisfactory to the Association, the laws and regulations in effect as of the date of this Agreement governing the carrying out of air transport operations; and (ii) an air transport regulatory authority with functions, membership, budgetary resources, and adequate staffing satisfactory to the Association, all in accordance with the provisions of paragraph 19 of the LDP; and

(c) invited airport operators to bid for the concessioning of at least two lots of airports infrastructure within the Borrower's territory.

2. With respect to telecommunication operations, the Borrower shall have:

(a) sold at least 34% of TELMA's voting stock to a qualified and experienced private investor or group of investors in accordance with a competitive bidding procedure satisfactory to the Association; and

(b) established: (i) an adequate legal and regulatory framework for telecommunications operations aimed at promoting a business environment amicable to private sector investments into the said operations; and (ii) a telecommunications regulatory authority with functions, membership, budgetary resources, and adequate staffing satisfactory to the Association, all in accordance with the provisions of paragraph 19 of the LDP.

Part C: Additional Conditions for the release of the Second and Third Tranches

1. With respect to the mining sector, the Borrower shall have:

(a) enacted: (i) a revised mining code; and (ii) all necessary implementation decrees required to give full effect to the provisions of the revised mining code; all in form and substance satisfactory to the Association; and

(b) adopted an action plan acceptable to the Association aimed at expediting the processing of mining exploration permits applications.

2. With respect to land tenure, the Borrower shall have:

(a) taken all the measures referred to in paragraph 12 of the LDP to facilitate access to land needed to foster the development of the private sector; and

(b) (i) established five tourism zones and five industrial zones in accordance with selection criteria referred to in paragraph 12 of the LDP; and (ii) invited investors to submit bids for the development of the said zones.

3. With respect to the business environment, the Borrower shall have:

(a) (i) on the basis of the results and recommendations of its ongoing study (Etude sur les lenteurs de la procédure judiciaire), adopted an action plan satisfactory to the Association for the purposes of improving caseload management within the judicial system; and (ii) achieved substantive progress satisfactory to the Association in the execution of the said action plan in accordance with the benchmarks set forth in the said action plan and the provisions of paragraph 11 of the LDP; and

(b) (i) on the basis of a consultative process involving all interested parties, including business community representatives, adopted an action plan satisfactory to the Association for the purposes of streamlining formalities and procedures required to carry out economic activities within the Borrower's territory; and (ii) achieved substantive progress satisfactory to the Association in the execution of the said action plan in accordance with the benchmarks set forth in the said action plan and the provisions of paragraph 10 of the LDP.

4. With respect to economic liberalization, the Borrower shall have: (a) granted at least two airport concessions to qualified and experienced private operators under contractual arrangements satisfactory to the Association; (b) invited telecommunications operators to bid for a license to provide telecommunication services within the Borrower's territory; and (c) enacted: (i) a law governing the fiscal regime of mining projects whose investment costs are estimated to exceed one trillion FMG; and (ii) all necessary implementation decrees required to give full effect to the law referred to in subparagraph (i) above, all in form and substance satisfactory to the Association.

5. With respect to public finance management, the Borrower shall have empowered the MB unit dedicated to the monitoring of public revenues through the collection, analysis and dissemination of all relevant data pertaining to public revenues, with adequate budgetary and human resources and shall have established within the said unit a cell to be responsible for formulating medium and long term fiscal policy under terms of reference satisfactory to the Association.

6. With respect to social sectors expenditures, the Borrower shall have:

(a) established an appropriate monitoring system to capture the implementation of the Borrower's social policies and expenditures actually incurred for primary education and basic health with respect to the specific budget items and sectoral policies specified in paragraph 24 of the LDP; and

(b) carried out a survey based on a methodology agreed upon with the Association and aimed at assessing the Borrower's performance in the delivery of primary education and basic health services within its territory.

7. With respect to the fisheries sector, the Borrower shall have:

(a) established an appropriate system, satisfactory to the Association, to allocate shrimp fishing licenses in a non-discretionary, competitive and transparent manner;

(b) adjusted annual shrimp fishing fees for licenses granted for the 1999 fishing campaign in accordance with the methodology adopted as a result of the revamped licensing system referred to in paragraph (a) above; and

(c) carried out the recommendations resulting from the technical and financial audits of the FDHA as agreed upon with the Association, all in accordance with the provisions of paragraphs 14 and 23 of the LDP.

8. With respect to insurance companies and social security institutions, the Borrower shall have: (a) carried out the financial, organizational and actuarial audits through independent consultants under terms of reference acceptable to the Association, for the following entities: Ny Havana, Aro, CNAPS, CRCM and CPR; and (b) adopted action plans satisfactory to the Association, based on the results and recommendations of the audits referred to above for the purposes of restructuring the said entities so as to improve their performance.

