

CONFORMED COPY

CREDIT NUMBER 2013 BO

(Mining Sector Rehabilitation Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

CORPORACION MINERA DE BOLIVIA

Dated August 4, 1989

CREDIT NUMBER 2013 BO

COMIBOL PROJECT AGREEMENT

AGREEMENT, dated August 4, 1989, between INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) and CORPORACION MINERA DE BOLIVIA (COMIBOL).

WHEREAS (A) by the Development Credit Agreement of even date herewith between the Republic of Bolivia (the Borrower) and the Association, the Association has agreed to make available to the Borrower an amount in various currencies equivalent to twenty-six million five hundred thousand Special Drawing Rights (SDR 26,500,000), the terms and conditions set forth in the Development Credit Agreement, but only on condition that COMIBOL agrees to undertake such obligations toward the Association as are set forth in this Agreement;

(B) by a subsidiary loan agreement (the COMIBOL Subsidiary Loan Agreement) to be entered into between the Borrower and COMIBOL, part of the proceeds of the Credit will be made available to COMIBOL on the terms and conditions set forth in the said COMIBOL Subsidiary Loan Agreement; and

WHEREAS COMIBOL, in consideration of the Association's entering into the Development Credit Agreement with the Borrower, has agreed to undertake the obligations set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

Definitions

Section 1.01. Unless the context otherwise requires, wherever used in this Agreement, the several terms defined in the Development Credit Agreement, the Preamble to this Agreement and in the General Conditions (as defined in the Development Credit Agreement) have the respective meanings therein set forth, and the term "Fiscal Year" means the twelve-month period corresponding to any of COMIBOL's fiscal year which period coincides with the period October 1 to September 31 of each year.

ARTICLE II

Execution of the Project

Section 2.01. COMIBOL declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Development Credit Agreement, and, to this end, shall carry out Part A of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, mining and environmental practices.

Section 2.02. Except as the Association shall otherwise agree, procurement of the goods, works and consultants' services required for Part A of the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Section I and II of Schedule 3 to the Development Credit Agreement.

Section 2.03. COMIBOL shall carry out the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of this Agreement and Part A of the Project.

Section 2.04. COMIBOL shall enter into the COMIBOL Subsidiary Loan Agreement with the Borrower in accordance with the provisions of Section 3.01 (d) of the Development Credit Agreement, and shall duly perform all its obligations under the COMIBOL Subsidiary Loan Agreement. Except as the Association shall otherwise agree, COMIBOL shall not take or concur in any action which would have the effect of amending, abrogating, assigning or waiving the COMIBOL Subsidiary Loan Agreement or any provision thereof.

Section 2.05. (a) COMIBOL shall, at the request of the Association, exchange views with the Association with regard to the progress of Part A of the Project, the performance of its obligations under this Agreement and under the COMIBOL Subsidiary Loan Agreement, and other matters relating to the purposes of the Credit.

(b) COMIBOL shall promptly inform the Association of any condition which interferes or threatens to interfere with the progress of Part A of the Project, the accomplishment of the purposes of the Credit, or the performance by COMIBOL of its obligations under this Agreement and under the COMIBOL Subsidiary Loan Agreement.

Section 2.06. For the purposes of carrying out Part A of the Project, COMIBOL shall:

(a) establish and maintain, in a form and with functions satisfactory to the Association a project coordination unit in COMIBOL (the COMIBOL Project Coordination Unit) to, among other things, supervise the day-to-day implementation of Part A of the Project; and

(b) appoint a project coordinator (the COMIBOL Project Coordinator) having qualifications and experience and terms of employment all satisfactory to the Association to head the COMIBOL Project Coordination Unit.

Section 2.07. For the purposes of carrying out Part A.1 of the Project, COMIBOL shall:

(a) not later than September 30, 1989, prepare and submit, or cause to be prepared and submitted, to the Association, the following:

(i) a detailed program of: (A) mine works to be carried out to reduce the operating costs of the mines included in Part A.1 of the Project; and (B) exploration and mine development works to be carried out in such mines;

(ii) terms of reference, of such scope and in such detail as the Association shall reasonably request, for the carrying out of: (A) the studies referred to in Part A (1) (c) (i) of the Project; (B) the studies referred to in Part A (1) (c) (ii) of the Project; and (C) the studies referred to in Part A (1) (c) (iii) of the Project;

(b) not later than June 30, 1991, review with the Association: (i) the results of the programs referred to in Section 2.07 (a) of this Agreement in respect of the following mines: San Jose, San Vicente, Unificada, Caracoles and Viloco; and (ii) the results of the studies referred to in Section 2.07 (a) (ii) of this Agreement; and

(c) promptly thereafter carry out the programs and findings of the studies referred to in paragraphs (a) and (b) of this Section, modified as needed to take into account the comments made by the Association thereon.

Section 2.08. For the purposes of carrying out Part A of the Project, COMIBOL shall, not later than June 30, 1990, prepare and submit, or cause to be prepared and submitted, to the Association, and thereafter carry out or cause to be carried out, in a manner satisfactory to the Association, the following:

(a) a plan of action, acceptable to the Association, for the compliance by COMIBOL with all applicable occupational health and safety rules and regulations of the Borrower, and for the improvement of working conditions in COMIBOL's mines and related facilities; and

(b) a training program for purposes of Part A (2) (b) (i) of the Project and a program for the development of the managerial and technical skills of its workforce.

Section 2.09. (a) Not later than January 31, 1990, and annually thereafter at the request of the Association, representatives of COMIBOL shall meet with representatives of the Association for the purposes of reviewing the status of COMIBOL's then operational and non-operational mining properties. COMIBOL shall take all action necessary to enter promptly into joint venture arrangements, leasing arrangements, management arrangements or other contractual arrangements, or any combination thereof, with third parties in respect of its non-operational mining concessions. In the event COMIBOL does not successfully conclude any such arrangement, within a reasonable time therefrom COMIBOL shall take all action necessary to apply the provisions of the Mining Code (Decreto Supremo of May 7, 1965), as such code may be revised, including, but without limitation to, the provisions of Titles VI and VII thereof for the treatment of said concessions.

(b) COMIBOL shall promptly take all action necessary to comply with the provisions of Supreme Decree No. 21377 of August 25, 1986, and in particular with the provisions of Title VI thereof, in respect of its unprofitable mines.

Section 2.10. For the purposes of carrying out Part A of the Project, COMIBOL shall, not later than June 30, 1990:

(a) establish, and thereafter maintain, a compensation scheme, acceptable to the Association, for middle and senior level managers, which scheme shall be consistent with the Borrower's public sector compensation policies; and

(b) establish and thereafter maintain a special unit in COMIBOL, in a form and with staffing and functions all satisfactory to the Association, for the purposes of carrying out Part A (3) of the Project.

Section 2.11. Without limitation to the provisions of Section 2.10 (a) above, COMIBOL shall: (i) unless the Association shall otherwise agree, maintain a permanent workforce which shall not be increased by more than ten percent (10%) above its permanent workforce determined as of December 31, 1988; and (ii) at all times apply to its personnel employment and wage rules and policies which shall be consistent with the promotion of COMIBOL's economic and financial viability.

Section 2.12. (a) COMIBOL shall prepare and submit, or cause to be prepared and submitted, to the Association an environmental protection program, acceptable to the Association, for, inter alia, the disposal of liquid and solid waste generated by COMIBOL's mining and related operations, which program shall consist of an action plan and an implementation schedule.

(b) COMIBOL shall carry out the environmental protection program referred to in paragraph (a) above in a manner satisfactory to the Association.

Section 2.13. COMIBOL shall enter with the Borrower into the agreement referred to in Section 3.05 (b) of the Development Credit Agreement, and shall perform all its obligations therein set forth in accordance with the terms and conditions of such agreement.

ARTICLE III

Management and Operations of COMIBOL

Section 3.01. COMIBOL shall carry on its operations and conduct its affairs in accordance with sound administrative, financial, managerial, engineering, mining and environmental practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers.

Section 3.02. COMIBOL shall at all times operate and maintain its mines, plants, facilities, machinery, equipment and other property, and from time to time, promptly as needed, make all necessary repairs and renewals thereof, all in accordance with sound administrative, financial, managerial, engineering, mining and environmental practices.

Section 3.03. COMIBOL shall take out and maintain with responsible insurers, or make other provision satisfactory to the Association for, insurance against such risks and in such amounts as shall be consistent with appropriate practice.

ARTICLE IV

Financial Covenants

Section 4.01. (a) COMIBOL shall maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations and financial condition, including separate records and accounts adequate to reflect all resources and expenditures in respect of Part A of the Project.

(b) COMIBOL shall:

- (i) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) for each Fiscal Year audited, in accordance with appropriate auditing principles consistently applied by independent auditors acceptable to the Association;
- (ii) furnish to the Association as soon as available, but in any case not later than six (6) months after the end of each such year: (A) certified copies of its financial statements for such year as so audited; and (B) the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested;
- (iii) furnish to the Association such other information concerning said records, accounts and financial statements as well as the audit thereof, as the Association shall from time to time reasonably request; and
- (iv) without limitation to the provisions of Section 4.01 (b) (ii) above, not later than June 30, 1990, furnish to the Association, COMIBOL's financial statements (balance sheets, statements of income and expenses and related statements) for its Fiscal Years 1987, 1988 and 1989 audited in accordance with appropriate auditing principles consistently applied by independent auditors acceptable to the Association.

Section 4.02. (a) Except as the Bank shall otherwise agree, COMIBOL shall maintain a ratio of current assets to current liabilities of not less than 1.2.

(b) Before June 30 in each of its Fiscal Years, COMIBOL shall, on the basis of forecasts prepared by COMIBOL and satisfactory to the Bank, review whether it would meet the requirements set forth in paragraph (a) in respect of such year and the next following Fiscal Year and shall furnish to the Bank the results of such review upon its completion.

(c) If any such review shows that COMIBOL would not meet the requirements set forth in paragraph (a) above for COMIBOL's Fiscal Years covered by such review, COMIBOL shall promptly take all necessary measures in order to meet such requirements.

(d) For the purposes of this Section:

- (i) The term "current assets" means cash, all assets which could in the ordinary course of business be converted into cash within twelve (12) months, including accounts receivable, marketable securities, inventories and pre-paid expenses properly chargeable to operating expenses within the next Fiscal Year;
- (ii) The term "current liabilities" means all liabilities which will become due and payable or could under circumstances then existing be called for payment within twelve (12) months, including accounts payable, customer advances, debt service requirements, taxes and payments in lieu of taxes, and dividends;
- (iii) The term "debt service requirements" means the aggregate amount of repayments (including sinking fund payments, if any) of, and interest and other charges on, debt; and
- (iv) Whenever for the purposes of this Section it shall be necessary to value, in terms of the currency of the Borrower, debt payable in another currency, such valuation shall be made on the basis of the prevailing lawful rate of exchange at which such other currency is, at the time of such valuation, obtainable for the purposes of servicing such debt, or, in the absence of such rate, on the basis of a rate of exchange acceptable to the Association.

Section 4.03. (a) Except as the Association shall otherwise agree, COMIBOL shall not incur any debt, if after the incurrence of such debt the ratio of debt to equity shall be greater than 50 to 50.

(b) For purposes of this Section:

- (i) The term "debt" means any indebtedness of COMIBOL maturing by its terms more than one year after the date on which it is originally incurred;
- (ii) Debt shall be deemed to be incurred: (A) under a loan contract or agreement or other instrument providing for such debt or for the modification of its terms of payment on the date of such contract, agreement or instrument; and (B) under a guarantee agreement, on the date the agreement providing for such guarantee has been entered into;
- (iii) The term "equity" means the sum of the total unimpaired paid-up capital, retained earnings and reserves of COMIBOL not allocated to cover specific liabilities; and
- (iv) Whenever for the purposes of this Section it shall be necessary to value, in terms of the currency of the Borrower, debt payable in another currency, such valuation shall be made as stipulated in Section 4.02 (d)(iv) of this Agreement.

Section 4.04. (a) Except as the Association shall otherwise agree, COMIBOL shall not incur any debt unless a reasonable forecast of the revenues and expenditures of COMIBOL shows that the estimated net revenues of COMIBOL for each Fiscal Year during the term of the debt to be incurred shall be at least 1.3 times the estimated debt service requirements of COMIBOL in such year on all debt of COMIBOL including the debt to be incurred.

(b) For the purposes of this Section:

- (i) The term "debt" has the same meaning stipulated in Section 4.03 (b)(i) of this Agreement, and the manner by which debt shall be deemed to be incurred shall be the same as stipulated in Section 4.03 (b)(ii) of this Agreement;
- (ii) The term "net revenues" means the difference between:

- (A) the sum of revenues from all sources related to operations and net non-operating income; and
 - (B) the sum of all expenses related to operations including administration, adequate maintenance, taxes and payments in lieu of taxes, but excluding provision for depreciation, other non-cash operating charges and interest and other charges on debt.
- (iii) The term "net non-operating income" means the difference between:
- (A) revenues from all sources other than those related to operations; and
 - (B) expenses, including taxes and payments in lieu of taxes, incurred in the generation of revenues in (A) above.
- (iv) The term "debt service requirements" means the aggregate amount of repayments (including sinking funds payments, if any) of, and interest and other charges on, debt.
- (v) The term "reasonable forecast" means a forecast prepared by COMIBOL not earlier than twelve (12) months prior to the incurrence of the debt in question, which both the Association and COMIBOL accept as reasonable and as to which the Association has notified COMIBOL of its acceptability, provided that no event has occurred since such notification which has, or may reasonably be expected in the future to have, a material adverse effect on the financial condition or future operating results of COMIBOL.
- (vi) Whenever for the purposes of this Section it shall be necessary to value, in terms of the currency of the Borrower, debt payable in another currency, such valuation shall be made as stipulated in Section 4.02 (d)(iv) of this Agreement.

Section 4.05 (a) Not later than December 31 of each of its Fiscal Years, COMIBOL shall prepare and submit, or cause to be prepared and submitted, for the Association's approval its proposed operating and investment budget for its immediately following Fiscal Year, which budget shall include financial projections and foreign currency requirements in respect of COMIBOL's operations for the corresponding Fiscal Year.

(b) Unless the Association shall otherwise agree, COMIBOL shall neither commit to undertake nor carry out any investments in fixed assets related to its operations, which investments shall be estimated to cost in the aggregate more than the equivalent of five million dollars (\$5,000,000) in excess of the amounts budgeted under COMIBOL's operating and investment budget for the corresponding Fiscal Year referred to in paragraph (a) of this Section.

ARTICLE V

Effective Date; Termination; Cancellation and Suspension

Section 5.01. This Agreement shall come into force and effect on the date upon which the Development Credit Agreement becomes effective.

Section 5.02. (a) This Agreement and all obligations of the Association and of COMIBOL thereunder shall terminate on the earlier of the following two dates:

- (i) the date on which the Development Credit Agreement shall terminate in accordance with its terms; or
- (ii) the date twenty (20) years after the date of this Agreement.

(b) If the Development Credit Agreement terminates in accordance with its terms before the date specified in paragraph (a) (ii) of this Section, the Association shall promptly notify COMIBOL of this event.

Section 5.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General

Conditions.

ARTICLE VI

Miscellaneous Provisions

Section 6.01. Any notice or request required or permitted to be given or made under this Agreement and any agreement between the parties contemplated by this Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telegram, cable, telex or radiogram to the party to which it is required or permitted to be given or made at such party's address hereinafter specified or at such other address as such party shall have designated by notice to the party giving such notice or making such request. The addresses so specified are:

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:

440098 (ITT),
248423 (RCA) or
64145 (WUI)

For COMIBOL:

Corporacion Minera de Bolivia
Casilla: 349
La Paz, Bolivia

Cable address:

COMIBOL

Telex:

242 COMIBOL BV

Section 6.02. Any action required or permitted to be taken, and any document required or permitted to be executed, under this Agreement on behalf of COMIBOL, or by COMIBOL on behalf of the Borrower under the Development Credit Agreement, may be taken or executed by the President and General Manager of COMIBOL or such other person or persons as the President and General Manager of COMIBOL shall designate in writing, and COMIBOL shall furnish to the Association sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 6.03. This Agreement may be executed in several counterparts, each of which shall be an original, and all collectively but one instrument.

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.

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ S. Shahid Husain

Regional Vice President
Latin America and the Caribbean

CORPORACION MINERA DE BOLIVIA

By /s/ Carlos Delius

Authorized Representative

