

**TRUST FUND AGREEMENT
FOR GRANT FROM
THE REPUBLIC OF ITALY**

CONFORMED COPY

January 9, 2003

International Bank for Reconstruction
and Development
International Development Association
1818 H Street, NW
Washington, D.C. 20433

Attn: Mr. Alastair J. McKechnie
Country Director for Afghanistan
South Asia Region

Dear Sirs:

Re: Letter of Agreement between the Republic of Italy and the International Bank of Reconstruction and Development (“IBRD”) and the International Development Association (“IDA”) for the Partial Clearance of Afghanistan’s Arrears to the International Monetary Fund (the “IMF”) and IDA

With reference to our recent discussions, we are pleased to confirm the intention of the Republic of Italy (the “Donor”) to make available to IBRD and IDA (collectively “the Bank”) the sum of three million Euro (€3,000,000) as a grant for the purpose of assisting the Transitional Islamic State of Afghanistan (“Afghanistan”) in settling a portion of the special drawing rights charges and membership assessments owed by Afghanistan to the IMF, and the overdue debt service payments owed by Afghanistan to IDA under various credit agreements (the “Grant”).

Promptly following confirmation of this Letter of Agreement by you, and in accordance with understandings reached between the Government of the Republic of Italy and the Bank in December 2002, the Bank will transfer the amount of three million Euro (€3,000,000) from the Italian Contribution for the Clearance of Multilateral Arrears of Developing Countries Trust Fund Account (TF021052) to Afghanistan Debt Arrears Trust Fund Account (TF051731). Immediately upon transfer of the funds to the Afghanistan Debt Arrears Trust Fund Account (TF051731), the Bank shall convert said

funds into United States dollars and further transfer them to the IBRD Cash Account "T" maintained with HSBC Bank, 140 Broadway, New York, NY 10005, United States of America (the "T-Account").

The Grant funds will be kept separate and apart from the funds of IBRD and IDA until disbursed from the T-Account in accordance with the terms of this Letter of Agreement. Until so disbursed, the Grant funds may be commingled with other trust fund assets maintained in the T Account. The Bank will invest and reinvest the Grant funds, in accordance with the Bank's normal procedures for the investment of trust fund assets maintained by the Bank, pending the disposition of the Grant funds in accordance with the terms of this Letter of Agreement. All investment income will be added to the Grant funds and treated as part thereof for purposes of this Letter of Agreement. The Grant funds may be freely exchanged by the Bank into other currencies as may facilitate their disbursement.

The Donor hereby authorizes the Bank to: (a) hold and disburse the Grant funds towards settling the special drawing rights charges and member assessments owed to the IMF by Afghanistan, with the balance of the Grant funds, if any, to be disbursed towards settling a portion of the overdue principal and/or service charge payments owed by Afghanistan to IDA under the credits referred to in the Attachment to this Letter of Agreement; and (b) do any and all such acts and things as may be necessary and appropriate to fully accomplish the foregoing. If the Grant funds are not used by January 31, 2003, this Letter of Agreement shall terminate unless the Bank and the Donor shall otherwise agree.

The Bank will exercise the same care in the discharge of the functions described in this Letter of Agreement as its exercises with respect to the administration and management of its own affairs and shall have no further liability to the Donor in respect thereof.

The Bank will maintain separate records and ledger accounts in respect of the Grant funds in the T-Account and disbursements made therefrom. Following completion of disbursement of the Grant or termination of this Letter of Agreement as provided hereinabove, the Bank will prepare a financial statement with respect to the Grant funds and forward a copy thereof to the Donor. Except as the Donor and the Bank may otherwise agree, any Grant funds remaining in the T-Account following completion of disbursement, or on termination of this Letter of Agreement, will be returned to the Donor and to all other donors to this Trust Fund on a pro-rata basis.

The Bank and the Donor will consult from time to time at the request of each other on all matters arising under this Letter of Agreement.

Any notice or request required or permitted to be given or made hereunder 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 mail, telephone, cable, telex or facsimile to the part

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 address so specified are:

For the Republic of Italy:

Mr. Lorenzo Bini Smaghi
Director for International Financial Relations
Ministry for Economy and Finance
Rome, Italy

Fax No.: 39.06.482.4770

For the Bank:

Afghanistan Country Management Unit
South Asia Region
International Bank of Reconstruction
and Development
International Development Association
1818 H Street, NW
Washington, D.C. 20433
United States of America

Fax No.: 202.522.3707

We propose that this Letter of Agreement shall, upon your confirmation in the manner indicated below, constitute an agreement between the Donor and the Bank.

Sincerely yours,

Lorenzo Bini Smaghi

Name: Lorenzo Bini Smaghi

Title: Director General

Date: January 21, 2003

Confirmed and Agreed:

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

Linda Van Gelder

Name: Linda Van Gelder

Title: Acting Country Director

Date: January 21, 2003

ATTACHMENT

IDA Credit Nos:

01580
02020
02480
02481
03740
03750
03800
04490
05390
05630
06270
06490
06740
07210
07780
07790

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