

22 January 2008

Dr. P.B. Jayasundara
Secretary to the Treasury
Ministry of Finance and Planning
The Secretariat
Colombo 01
Sri Lanka

Dear Dr. Jayasundara

Subject: Loan No. 2201-SRI (SF): LOCAL GOVERNMENT INFRASTRUCTURE IMPROVEMENT PROJECT — Amendment to the Loan Agreement (Special Operations)

1. This refers to the Loan Agreement (Special Operations) between the Socialist Democratic Republic of Sri Lanka (the Borrower) and the Asian Development Bank (ADB), for the Local Government Infrastructure Improvement Project, duly signed on 19 January 2006 (hereinafter referred to as the Loan Agreement).

2. Upon the requests made by the Borrower, the Loan Agreement (Special Operations) is hereby amended as follows:

(a) Amendment to Article 1.

(i) Section 1.02 (t) is amended in full to read as follows:
"PCs means the nine Provincial Councils in Sri Lanka established under the Thirteenth Amendment of the Constitution and "PC" refers to any one of the PCs."

(b) Amendment to Schedule 3.

(i) Paragraph 6 (b), is amended in full to read as follows:

"(b) The statement of expenditures (SOE) procedure may be used for reimbursement of eligible expenditures and to liquidate advances provided into the imprest account, in accordance with ADB's Loan Disbursement Handbook and detailed arrangements agreed upon between the Borrower and ADB."

(c) Amendment to Schedule 4.

(i) Paragraph 7, is amended in full to read as follows:

"7. Civil works contracts estimated to cost the equivalent of \$750,000 may be awarded on the basis of local competitive bidding among contractors in accordance with the standard procurement procedures of the Borrower and acceptable to ADB. Prequalification, selection and engagement of contractors shall be subject to the approval of ADB. As soon as the bids received have been evaluated, the proposal for award of contract shall be submitted to ADB for approval. For this purpose, ADB shall be furnished with three copies of (i) an account of the public opening of bids; (ii) a summary and evaluation of the bids; (iii) the proposal for award; and (iv) a draft contract or a draft letter of acceptance. Promptly after each contract is awarded, ADB shall be furnished with three copies of the contract as executed. For the subsequent contracts, bid evaluation and award of contracts shall be subject to post review by ADB"

(d) Amendment to Schedule 6

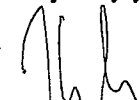
(i) Paragraph 13 is amended in full to read as follow:

"The Borrower and LLDF shall ensure that the interest rate for the Subloans shall be at 9% per annum. Subject to ADB approval, the Borrower and LLDF may revise the interest rate when deemed necessary."

3. If this is acceptable to you, kindly have both copies of this letter countersigned in the space indicated below. Please retain one copy for your record and return one original copy to ADB.

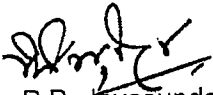
With best regards,

Very truly yours,



Kurio Senga *CS WC*
Director General
South Asia Department

Confirmed:
Democratic Socialist Republic of Sri Lanka


Mr. P. B. Jayasundera
The Secretary
Ministry of Finance and Planning

Date 19/02/2008

cc: Mr. Richard Vokes, Country Director, ADB SLRM
Secretary, Ministry of Provincial Councils & Local Government
Mr. Lal Induruwage, Project Director, LGIP
Mr. U.M. Ranaweera, Chief Executive Officer, LLDF