

25 March 2009

Mr. Sumith Abeysinghe
Secretary to the Treasury
Ministry of Finance and Planning
The Secretariat
Colombo 01
Sri Lanka

Dear Mr. Abeysinghe,

Subject: **Loan Nr. 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 Democratic Socialist 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 requests made by the Borrower, the Loan Agreement (Special Operations) is hereby amended as follows:

(a) Amendment to Article 1:

Section 1.02 (y) is amended in full to read as follows:

"(y) "Project Area" means the entire territory of the Borrower, including the district of Colombo, but excluding the Municipal Councils within the district of Colombo."

(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 accounts, in accordance with ADB's Loan Disbursement Handbook and detailed arrangements agreed upon between the Borrower and ADB. Any individual payment to be reimbursed or liquidated under the SOE procedure shall not exceed the equivalent of \$100,000. "

- (ii) Paragraph 7 is amended in full to read as follows:

"7. Notwithstanding any other provision of this Loan Agreement, no withdrawals shall be made from the Loan Account for Categories 5 and 6 in the Table until each of the nine PCs has issued a letter of commitment to ADB (i) agreeing to implement the Project in its respective Province, and to implement the relevant terms and conditions of this Loan Agreement; and (ii) agreeing to enter, promptly as required, into a Guarantee Agreement with LLDF for the guarantee of the Subloans to be provided to the LAs under its jurisdiction."

- (c) Amendment to Schedule 4:

Paragraph 7 is amended in full to read as follows:

"7. Civil works contracts estimated to cost the equivalent of \$1,000,000 may be awarded on the basis of national 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 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."

- (d) Amendment to Schedule 5:

- (i) Paragraph 3 is amended in full to read as follows:

"3. Except as ADB may otherwise agree, and except as set forth in the paragraphs below, the Borrower shall apply quality- and cost-based selection for selecting and engaging consulting services."

- (ii) Paragraph 4 is amended in full to read as follows:

"4. The Borrower shall apply the following method for selecting and engaging the specified consulting services, in accordance with, among other things, the procedures set forth in the Procurement Plan:

Least-Cost Selection for design and supervision consultants for individual subprojects to be engaged by LAs

- (iii) Paragraph 5 is amended in full to read as follows:

"5. Except as ADB may otherwise agree, the Borrower, through LLDF, shall recruit the individual consultants for support to the LLDF, in accordance with procedures acceptable to ADB for recruiting individual consultants."

(e) Amendment to Schedule 6:

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

"7. A Provincial Steering Committee (PSC) shall be established at each of the nine PCs to provide overall strategic guidance and coordination support. The chief Secretary of the Province will chair the PSC and shall include the CLG, the Secretary of the Provincial Local Government Ministry, District secretaries, regional representatives of the Central Environment Authority, NWSDB, UDA and the chairpersons of selected LAs."

(ii) Paragraph 11 is amended in full to read as follows:

"11. The Borrower shall cause the LLDF to ensure that the LAs prepare the Subproject proposals in format agreed between the Borrower and ADB. The Subproject proposals shall be prepared by the LAs and submitted to the SPCU, under CLG which will assess the Subproject proposals based on the selection criteria as described in Appendix 4 to the RRP as agreed with the Borrower. Each CLG will present the Subproject proposals to LLDF for approval. ADB will assess the first two Subprojects from each of the five Subsectors. Subsequently, ADB will review all Subprojects over \$750,000."

(iii) Paragraph 15 (e), is amended in full to read as follows:

"(e) limit the maximum cumulative borrowing for an LA to three times its own revenues for revenue generating subprojects. However, for non revenue-generating subprojects, the limit shall be twice its own revenues."

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.

Very truly yours,



Kunio Senga
Director General
South Asia Department

HL

CPB

m.f.

Confirmed:
Democratic Socialist Republic of Sri Lanka



Mr. Sumith Abeysinghe
The Secretary
Ministry of Finance and Planning

Date: 19 May 2009