December 24, 2014

H.E. Zoran Stavreski
Deputy Prime Minister and Minister of Finance
Ministry of Finance
Dame Gruev 12
Skopje

Subject: Municipal Services Improvement Project (Loan No. 7699-MK)
Amendment No. 2 to the Loan Agreement

Your Excellency:

We refer to the Loan Agreement for the above-referenced Project ("Agreement")
between the former Yugoslav Republic of Macedonia ("Borrower") and the International Bank
for Reconstruction and Development ("Bank"), dated June 29, 2009, as amended on June 7, 2012
and to our correspondences regarding amendments to the Agreement. The Bank accordingly
proposes to amend the Agreement as follows:

1. The first paragraph is hereby amended and replaced in its entirety to read as the following paragraphs:

   "Agreement dated June 29, 2009, between the Borrower and the
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
("Bank").

   WHEREAS, the European Commission (the "Donor") has agreed to finance the
EC IPA Rural Investment Single-Donor Trust Fund (the "Trust Fund"), administered by
the Bank, to finance an additional part of the Project titled "Component E: IPA Rural
Investment Window", to improve the delivery of targeted municipality services in the
Borrower's territory, pursuant to the terms of the grant agreement entered into by the
Borrower and the Bank dated December 24, 2014

   NOW, therefore, the Borrower and the Bank hereby agree as follows:"
2. A new part titled “Component E” is added to Schedule 1 to the Agreement as follows:

“Component E: IPA Rural Investment Window

1. Provision of Investment Sub-Grants to EC IPA Participating Municipalities.

2. Provision of technical assistance in the form of consulting services, including technical assistance, surveys, studies and training to EC IPA Participating Municipalities, for the preparation of technical documentation, relevant analysis and studies for potential sub-projects, assistance on procedural and accounting issues, facilitation of workshop on common constraints, lessons learnt and best practices, etc. The technical assistance is to ensure that all EC IPA Participating Municipalities are able to benefit from Investment Sub-Grants.

3. Financing of operational expenditures of the PMU related to the implementation of the part titled Component E.”

3. Section IV.B.2 of Schedule 2 to the Agreement is amended and replaced in its entirety to read as follows:

“2. The Closing Date is March 31, 2019.”

4. A new paragraph 4 is added to the Appendix to the Agreement, and subsequent paragraphs are renumbered, as follows:

“4. “EC IPA Participating Municipality” means local self-government unit as defined in the Law on Territorial Organization of the Local Self Government of the Recipient (OG 55/04 and its subsequent amendments) and beneficiary, or eligible to benefit, of an Investment Sub-Grant.”

5. A new paragraph 8 (formerly 7) is added to the Appendix to the Agreement, and subsequent paragraphs are renumbered, as follows:

“8. “Investment Sub-Grant” means a grant from the Borrower to an EC IPA Participating Municipality under the part titled Component E of the Project.”

Defined terms used in this letter and not defined herein shall have the meanings given to them in the Loan Agreement.

All other terms of the Loan Agreement shall remain the same.
Please confirm your agreement with the foregoing, on behalf of the Borrower by signing, dating and returning to us the enclosed copy of this letter. Upon receipt by the Bank of a countersigned copy of this letter, the amendment will become effective as of the date of the countersignature; provided, however, that the amendment in this letter shall be deemed not accepted if the Bank has not received the countersigned copy of this letter within 90 days after the date of signature of this letter by the Bank, unless the Bank shall have established a later date for such purpose.

Very truly yours,

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

[Signature]

Tatjana Proskuryakova
Country Manager
World Bank Office, Skopje

CONFIRMED AND AGREED:

MINISTRY OF FINANCE

By: [Signature]

Authorized Representative

Name: Zoran Stavreski

Title: Deputy Prime Minister and Minister of Finance

Date: 24.12.2014