

**FLAG – Financial instrument for clean
energy transition**

**LIFE Programme of the European
Union**

Grant Agreement № 101076662 --
LIFE21-CET-PDA-FLAG FICET -- LIFE-
2021-CET



SUMMARY REPORT

REPORT ON FUND FLAG'S METHODOLOGY FOR MUNICIPAL CREDITWORTHINESS ASSESSMENT





GENERAL OVERVIEW

The report has been prepared as a result of the implementation of Task T.2.5. Development of a methodology for green project evaluation and improvement of the methodology for assessing the creditworthiness of municipalities in Bulgaria, Work Package 2 - Analysis of the supply and demand for CET project financing of the Project LIFE „FLAG - Financial instrument for clean energy transition“, 101076662 -- LIFE21-CET-PDA-FLAG FICET -- LIFE-2021-CET.

The purpose of the report is to prepare a proposal for improving Fund FLAG’s methodology for assessing the creditworthiness of municipalities for the future implementation of the innovative financial instrument to be developed under Project LIFE „FLAG - Financial instrument for clean energy transition“, 101076662 -- LIFE21-CET-PDA-FLAG FICET -- LIFE-2021-CET.

RESEARCH TASKS

The objective has been achieved through the implementation of the following research tasks:

- Analysis of the methodology for assessing the creditworthiness of municipalities in Bulgaria, which Fund FLAG currently uses in the implementation of its four financial instruments.
- Analysis of the methodologies of selected commercial banks for assessing the creditworthiness of municipalities as potential borrowers.
- Comparison of the analysed methodologies according to selected criteria and deriving the parameters that can be improved.

The analysis has been developed based on desk research of documents and interviews with experts from Fund FLAG and commercial banks responsible for assessing the creditworthiness of municipalities.

STRUCTURE OF THE REPORT

The report’s structure is based on the logic of the above research tasks.

- **SECTION ONE** presents an analysis of Fund FLAG’s methodology for assessing the creditworthiness of municipalities in Bulgaria.
- **SECTION TWO** analyses the methodology for assessing the creditworthiness of municipalities of selected commercial banks.
- **SECTION THREE** provides a comparative assessment between Fund FLAG’s and the commercial banks’ methodologies.

MAIN CONCLUSIONS

Based on the analysis, it is concluded that Fund FLAG's approach to assessing the creditworthiness of municipalities coincides with that of commercial banks, and generally includes analyses and assessments in accordance with the necessary theoretical provisions and international practices.

The practical implementation of the creditworthiness assessment methodology is carried out using a financial model in MS Excel. The analysis of the financial model shows that the information and the calculations are organized in a correct and logical manner in order to reach a fair assessment and make justified management decisions. The model has been developed by Fund FLAG's team as a result of the practical implementation of the creditworthiness assessment methodology and is continuously updated as the budget framework changes.

Fund FLAG's financial model can be applied without modifications for the purpose of assessing the creditworthiness of municipalities under the innovative financial instrument to be implemented under the LIFE Project "FLAG - Clean Energy Transition Financial Instrument", 101076662 -- LIFE21-CET-PDA-FLAG FICET -- LIFE-2021-CET. It should be specifically noted that if in the course of the development of the innovative financial instrument and the evaluation of the projects, it is found necessary to modify the creditworthiness assessment methodology, this will be done in accordance with the identified needs.