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## MUNICIPAL ECONOMIC GROWTH ACTIVITY

***MEGA Credit Analysis Software Tool (CAT) Welcomed and Utilized by Municipalities for Municipal Budget Planning for 2007, and as tool for Municipalities and Commercial Banks to Improve and Access to Loans for Investment, too.***



MEGA staff working with municipal finance managers on CAT

The MEGA project has developed and trained partner municipalities in the use of the Creditworthiness Analysis Tool (CAT), a software program designed to help municipalities understand their borrowing capacity, better plan their capital finance investments, and more effectively present bankable capital projects to financial institutions and donors. The model itself comprises 17 interconnected worksheets in Excel with a user-friendly interface. In April, MEGA conducted training to introduce CAT both to local government finance staff and to commercial bankers engaged in underwriting municipal credits. Since then, MEGA provided on-the-job training to staff in each MEGA municipality in entering four years of historical budget and debt data into the CAT and using the tool in their daily work. A number of the participating banks on their own initiative have made use of the tool as well.

The CAT program enables the user to projecting revenues and expenditures trends, to estimate indebtedness capacity, under different macroeconomic and political assumptions and credit conditions, and to calculate financial indicators. In contrast to official municipal financial reports, the CAT output provides a more accurate differentiation between current and capital revenues and expenditures which is crucial to understanding a municipality's ability to service its debt into the future. Due to this, it is very easy to calculate

indebtedness limits and recognize resources to repay loans.

At 9 MEGA Municipalities, Mayors, municipal councilors and heads of financial departments, started using the CAT in working with local finance department staff on budget planning for 2007. They observe that the CAT program, particular the ease of running different scenarios, has greatly eased the task of projecting a balanced budget. City officials use CAT to "play" with the numbers, testing the impact on their net operating surplus and overall creditworthiness of changes in tax policies, macroeconomic parameters, exchange rate and credit conditions.

Banks participants in the CAT training suggest that the program outputs and formats provide a sound framework for defining standards for publishing data on municipal financial condition. To the extent that municipalities develop the capacity to present complete and accurate data in this format it will greatly facilitate the task of bank underwriter's task of analyzing applications for credit—and thereby contribute to more ready municipal access to borrowed funds for investment on favorable terms. A number of banks have requested and been given copies of the CAT software for their own use.

In a mature municipal credit markets, it is the private financial institutions more than government regulation and audit procedures that imposes financial discipline on local governments. The involvement of commercial banks in the deployment of the CAT software and its underlying methodology is an important move in this direction.

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