TERMS OF REFERENCE

Serbia: Developing the non-bank domestic institutional investor base in local currency debt markets

1. Background

The technical cooperation project is taking place within the European Bank for Reconstruction and Development (the “EBRD” or the “Bank”) Initiative on Local Currency and Capital Markets Development. This Bank-wide strategic Initiative aims to identify and support sequenced reforms and policies in EBRD’s countries of operations (CoO) that contribute to local currency (LCY) and local capital markets development. The EBRD pursues this role through policy dialogue, investments and targeted assistance to develop local equity and debt markets in its CoO.

The presence of a deep savings pool denominated in LCY is a major contributor to local capital market development. As countries move closer to advanced market status, the storage of LCY savings typically progressively diversifies from the banking sector to the growing non-bank institutional investor base (IIB) in LCY, including cash and debt. Thus in more developed markets, non-bank institutional investors, such as public and private pension funds, mutual funds, including money market funds, asset management companies, and insurance companies, are important participants in both money and capital markets. They participate as qualified investors not only in the spot markets but also in derivative financial transactions as the market develops, and can improve an economy’s overall risk allocation as well as financial stability. Their presence and influence also enhance transparency, governance, and credit rating functions of the market, which are beneficial for the entire financial ecosystem.

While non-bank institutional investors are key participants in advanced financial markets, empirical evidence shows that they are generally less developed in EBRD’s CoOs. For instance, the life insurance sector in Serbia displays a market penetration of below 2 percent, compared to 13 percent in the United Kingdom, which directly translates into assets under management. Support is needed in these countries to help advance the non-bank domestic IIB to provide LCY liquidity and LCY debt asset management capabilities, alongside the banking sector. In particular, the development of the non-bank IIB is beneficial for four key reasons: A well-developed non-bank domestic IIB is expected to (i) contribute to keep local savings denominated in LCY and within the domestic financial system, channelling them towards financing the local economy; (ii) diversify business models and investment strategies in the LCY debt and money markets, thereby improving market liquidity and extending the range of investment options with different risk return profiles; (iii) create a more steady demand for LCY debt assets as local investor demand is typically less volatile than international investor demand; and (iv) reinforce the attractiveness of the market to international investors who gain comfort from the presence of a local, well-established IIB.

Within this context, in January 2019, the EBRD initiated a project that analyses the key drivers of LCY debt markets and IIB sector development, which are dynamically interdependent, and the lasting benefits a local IIB can bring to the country. A preliminary study produced three main outcomes: First, a comprehensive and structured development framework was generated which captures the key drivers in the LCY debt market and its dynamic relationship, and insight into the drivers that authorities can directly influence to further develop the non-bank IIB in this market. Second, a high-level assessment produced a ranking of EBRD CoO’s potential for the development of IIB activity in the LCY debt market. Lastly, Serbia was identified as a country, where in-depth research on the non-bank domestic IIB and LCY debt markets shall be undertaken in order to prepare targeted recommendations and a
roadmap for relevant stakeholders to support the development of domestic non-bank institutional investors.

The Bank now intends to engage a company (the “Consultant”) to prepare a roadmap for the development of the domestic non-bank IIB in Serbia.

2. Objectives

Overall objective:
The overall objective of the project is to support the development of the non-bank domestic IIB as an economic sector managing LCY liquidity and LCY debt asset portfolios in Serbia.

Specific objective:
The specific objective of the project is to assess in-depth condition and specific characteristics of the non-bank domestic IIB in Serbia (Activity 1), to identify barriers and improvements levers to IIB development (Activity 2), and to recommend a comprehensive IIB development roadmap with a clearly sequenced, well-thought strategy, based on the diagnostic assessment, EBRD input and own experience, on how to develop the non-bank domestic IIB in LCY debt markets (Activity 3). In addition, the Project’s findings will complement the output of LC2’s other project, the Implementation of the Capital Markets Strategy Measures in Serbia (the “CMS Project”), of which the IIB is a cardinal part.

3. Scope of Work

In order to fulfil the objectives, the Consultant will carry out the following three detailed activities:

- Diagnostic assessment of the non-bank domestic IIB in LCY debt markets in Serbia, while building on the previous high-level analysis (Activity 1);
- Identification of barriers and improvements levers to IIB development (Activity 2); and
- Recommendation and formulation of a comprehensive roadmap for the development of the non-bank domestic IIB in Serbia with a clearly sequenced, well-thought strategy for its implementation, based on the outcomes of Activity 1 and 2, EBRD input and own experience (Activity 3).

It is expected that the Consultant will closely liaise with the EBRD to ensure a targeted approach.

Activity 1: Carry out a diagnostic assessment of the current condition and specific characteristics of Serbia’s non-bank domestic IIB and LCY debt markets.

The aim of Activity 1 is a preliminary assessment of Serbia’s non-bank domestic IIB and LCY debt markets to lay the foundations for the comprehensive development roadmap and strategy, and to better understand the markets.

The tasks of the activity will include:

(a) Prepare an inception report (the Inception Report), explaining the methodology, approach and timeline of the project, before starting the project. A particular focus should be on the methodology to identify the barriers and levers to IIB development.

(b) Carry out a preliminary desktop-based diagnostic assessment of Serbia’s money and debt capital markets and the non-bank domestic IIB to educe a general understanding of the country, its markets and the IIB and to generate the first foundation for this project. The assessment will:
1. review the LCY debt markets, covering products and instruments, used by issuers and investors, including government, municipalities, corporates, SMEs, banks, brokers, asset management companies, insurance companies, pension funds, etc.;

2. assess the environment of the non-bank domestic IIB and LCY debt markets, including the monetary policy framework, the exchange arrangements and exchange restrictions, the macroeconomic context, the legal and regulatory framework and the capital market infrastructure (including exchange platforms, CSD and custodians);

3. besides listed instruments, also cover private placement, direct lending if any, in particular as a provision of financing from institutional investors; and

4. share the findings and corresponding data with the EBRD and the Consultants of LC2’s CMS Project.

(c) Prepare a preliminary report (the Desktop Analysis Paper) summarising the outcome of the desktop-based diagnostic assessment of Serbia’s capital markets, highlighting data gaps, and further questions that cannot be answered within the desktop-based research.

Deliverables of Activity 1 will be the Inception Report and Desktop Analysis Paper to the assessment of Serbia’s capital markets.

Activity 2: Identify barriers to and improvement levers for the development of the non-bank domestic IIB in LCY debt markets.

Based on their findings from Activity 1, the Consultant will perform a detailed on-site diagnostic assessment in Serbia to identify obstacles to and improvement levers for the development of the non-bank domestic IIB in LCY debt markets. The assessment will include meetings with relevant local stakeholders.

The tasks of the activity will include:

(a) Conduct a kick-off workshop (the Kick-Off Workshop) with local stakeholders in Serbia to present the project.

(b) Carry out an in-depth on-site assessment of the non-bank domestic IIB and LCY debt markets in Serbia. The Consultant will meet with relevant market participants to gain information in addition to the desktop research of Activity 1, to fill data gaps and to answer all outstanding questions.

(c) Identify barriers to the further development of the non-bank domestic IIB in LCY debt markets with particular focus on the specific circumstances of the country, its LCY debt markets and the non-bank domestic IIB.

(d) Identify improvement levers while taking into account EBRD’s specific approach which amalgamates technical cooperation, policy dialogue, investments and the lending in LCY.

(e) Prepare an interim report (the Interim Report) where the findings of the meetings with relevant market participants will be added to the preliminary report. The Consultant will also elaborate on the barriers to and improvement levers for the development of the non-bank domestic IIB.

Deliverables of Activity 2 will be the Kick-Off Workshop and the Interim Report, in which the Consultant further develops the preliminary report by adding the outcomes from the meetings with
relevant market participants and highlights the barriers to and improvement levers for the non-bank domestic IIB development.

Activity 3: Recommend and formulate a comprehensive implementation roadmap for the non-bank domestic IIB development in Serbia, including a clearly sequenced strategy for its implementation, including immediate, medium and long-term actions.

Based on the desktop research and detailed on-site assessment of the non-bank domestic IIB and LCY debt markets in Serbia, the Consultant will formulate a comprehensive implementation roadmap, which includes recommendations of actions on barriers to and improvement levers for the development of the non-bank domestic IIB. The roadmap will be presented to local stakeholders of Serbia by the Consultant in collaboration with the EBRD (the Final Workshop).

The Roadmap methodology should follow a top-down approach. The roadmap will be phased and achievable; the Consultant must pay close attention to timing and sequencing, while factoring in priorities, time required, ease and feasibility of implementation. In addition, the Consultant should take into account legal, financial and operational impediments, and recommend solutions for overcoming these and factor them into the plan. The roadmap should furthermore pay attention to the potential complexities that might arise from implementing each of the recommendations across different sectors, asset classes and investors.

The tasks of the activity will include:

(a) **Prepare the comprehensive implementation roadmap** with the clearly sequenced strategy and recommendations of actions on barriers to and improvement levers for the development of the non-bank domestic IIB in Serbia.

(b) **Prepare a (draft) report** (titled “Strategy and Roadmap for the development of the non-bank institutional investor base in LCY debt markets”; the Final Report) and presentation slides (the Final Workshop Slides) to present to the relevant local stakeholders.

(c) **Workshop meeting in Serbia where the Consultant will present the (draft) Final Report** with the relevant local stakeholders to discuss the roadmap and specific recommendations.

(d) **Implement input from the relevant local stakeholders into the Final Report.**

Deliverable of *Activity 3* is the roadmap which includes country-specific recommendations and a clearly sequenced, well-thought strategy to develop the non-bank domestic IIB and the Final Workshop with the stakeholders in Serbia.

4. **Project Counterpart and Implementation Arrangements**

(1) **Project counterpart:** The project’s main counterparts will be the Ministry of Finance of Serbia and Securities Commission of the Republic of Serbia.

(2) **Management structure and project oversight:** The Consultant, through its Project Team Leader (TL), will have an overall responsibility for delivering the project’s assignments according to the agreed work plan. The TL will also be responsible for the communication between the authorities, the EBRD and the Consultant. At minimum, a monthly update on the Consultant’s progress should be provided via email or phone to the EBRD in addition to the regular reporting.

(3) **Project start and duration:** Indicative start date of the assignment is in Q4 2020 and the estimated project duration 12 months.
(4) **Project language:** Project language is English. All reports are to be delivered in English. However, the Final Report may be translated into Serbian.

(5) **Place of performance:** It is expected that the majority of Activity 1 will be carried out at the Consultant’s HQ. During Activity 2, the Kick-Off Workshop and consecutive meetings with relevant stakeholders will be held in Serbia. The on-site in-depth assessment of the non-bank domestic IIB needs to be conducted in the country. For Activity 3, the preparation of the roadmap will be carried out at the Consultant’s HQ. Again, the Final Workshop with relevant stakeholders will be held in Serbia. The final split between on- and off-site work days will be agreed with the EBRD during contract negotiations.

(6) **Study’s results:** The Project’s results will be incorporated into another EBRD project in Serbia, the implementation of the capital markets development strategy. For this reason, it is crucial that the project follows a stringent timetable and does not depart from its course.

(7) **International travel:** Within the frame of this project, it is expected that the International Consultant will be in close contact with the MoF of Serbia and the other Serbian authorities in the country. It is also expected that within this period, the International Consultant will undertake at least four (4) trips of a minimum one (1) week duration to Belgrade, Serbia. As the COVID-19 has imposed severe travel restrictions; and in case, these remain in place and render the Consultant unable to travel at any point of the Project, alternative arrangements will be sought, which will potentially involve changes to parts of the breakdown of costs and payment schedules. This will be examined on an ongoing basis.

### 5. Reports and Deliverables

The Consultant will provide the following reports and deliverables:

<table>
<thead>
<tr>
<th>Reporting</th>
<th>Details</th>
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<tbody>
<tr>
<td><strong>1. Inception Report</strong></td>
<td>This report should outline the methodology, approach and timeline of the project. It is subject to EBRD’s input.</td>
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<tr>
<td><strong>3. Kick-Off Workshop Materials</strong></td>
<td>The material should introduce the Consultant and give an overview of the Consultant’s approach to this project.</td>
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<tr>
<td><strong>4. Interim Report</strong></td>
<td>Conclusion of Activity 1 and 2. The Interim Report should incorporate all the outcomes from the desktop research on the LCY debt markets and the non-bank domestic IIB in Serbia and the on-site diagnostic assessment.</td>
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<td><strong>5. Implementation Roadmap (Final Report)</strong></td>
<td>Conclusion of Activity 3. The Implementation Roadmap should incorporate all the outcomes from Activity 1 and 2 and a clearly sequenced, well-thought strategy for its implementation, including recommendations on how to overcome barriers to and to make best use of improvement levers for the development of the non-bank domestic IIB in LCY debt markets.</td>
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<td>6</td>
<td><strong>Final Workshop Materials</strong></td>
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<tr>
<td>Activity 1: Carry out a diagnostic assessment of the current condition and specific characteristics of Serbia’s non-bank domestic IIB and LCY debt markets.</td>
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<td>7</td>
<td>Inception Report</td>
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<td>8</td>
<td>Databases</td>
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<tr>
<td>Activity 2: Identify barriers to and improvement levers for the development of the non-bank domestic IIB in LCY debt markets.</td>
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<td>9</td>
<td>PPT Slides for the Kick-Off Workshop</td>
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<tr>
<td>10</td>
<td>Summary of all On-Site Meetings</td>
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<tr>
<td>11</td>
<td>(Draft) Interim Report</td>
</tr>
<tr>
<td>Activity 3: Recommend and formulate a comprehensive roadmap for the non-bank domestic IIB development in Serbia, including a clearly sequenced, well-thought strategy for its implementation.</td>
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<tr>
<td>12</td>
<td>(Draft) Implementation Roadmap (Final Report)</td>
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<tr>
<td>13</td>
<td>PPT Slides for the Final Workshop</td>
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The exact timing of the deliverables will be set in the Inception Report as agreed with the EBRD. Other deliverables may become relevant as the project progresses. These will be included as agreed with the Consultant. All deliverables will be produced in English and submitted to the EBRD’s OL in electronic format. All deliverables should be in form and substance satisfactory to EBRD standards.

To ensure that critical milestones are being met, disbursement of funds will be phased and contingent upon certain implementation criteria being satisfied. The payment schedule will be based on the approval of deliverables and will be agreed during contract negotiations.
The Consultant must ensure that its project team is provided with the technical equipment needed for the implementation of the project. The Consultant should not expect that the EBRD will provide logistical support. Therefore, the Consultant should ensure that they have their own communications, interpretation/translation, and other assignment-related logistical support.

6. **Donor Visibility**

The donors for this project require adequate visibility of their contribution. The Consultant should ensure that donor visibility aspects are properly addressed during the project implementation and that donor visibility measures are summarised in the Final Report.