

TECHNICAL NOTE



**Pension Reform and ADB Interventions**



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By Michiel Van der Auwera

The views expressed in this paper are those of the author and do not necessarily reflect the views and policies of the Asian Development Bank or its Board of Governors or the governments they represent. Michiel Van der Auwera is Social Security Specialist of the Southeast Asia Department. The author wishes to acknowledge the valuable comments received from Armin Bauer, Hans-Peter Brunner, Henry Ma, Ashraf Mohammed, Fan Zhai, Masato Miyachi, and Renato Limjoco. The author would also like to thank the Gender, Social Development and Civil Society Division for the overall publication support provided. The cover photo is from Ilaria Caetani.

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## ABBREVIATIONS

ADB	–	Asian Development Bank
ADTA	–	advisory technical assistance
DB	–	defined benefit
DC	–	defined contribution
DMC	–	developing member country
GDP	–	gross domestic product
IPD	–	implicit pension debt
NDC	–	notional defined contribution
PAYG	–	pay-as-you-go
PPTA	–	project preparatory technical assistance
RETA	–	regional technical assistance
TA	–	technical assistance
WB	–	World Bank

## GLOSSARY

*Defined-benefit scheme:* pension plan where the insurer guarantees that a benefit based on a prescribed formula will be paid

*Defined-contribution scheme:* pension plan based on individual accounts in which the periodic contribution is prescribed and the benefit depends on the contributions paid in plus the investment return

*Fully funded:* The accumulation of pension reserves that are 100% of the present value of all pension liabilities owed to current members

*Implicit pension debt:* present value of outstanding pension obligations, minus accumulated pension reserves

*Multi-pillar pension system:* pension system with a first pillar that is public (generally PAYG), a second pillar that is mandatory and funded, and a third pillar that is voluntary and funded

*Notional defined-contribution scheme:* a defined-contribution pension plan that mimics the structure of a funded defined-contribution plan but remains unfunded (except for a potential reserve fund)

*Old-age dependency ratio:* the number of people aged 65 years or older in relation to the working age population aged 15–64 years

*Partial funding:* method of financing whereby current outlays on pension benefits are paid out in part by returns of liquidation of investment and partly by contributions from the next generations of contributors

*Pay-as-you-go:* method of financing whereby current outlays on pension benefits are paid out of current revenues from an earmarked tax, often a payroll tax

*Provident fund:* a fully funded, defined-contribution scheme in which funds are managed by the public sector

*In this publication, “\$” refers to US dollars.*

## CONTENTS

	<b>Page</b>
<b>ABSTRACT .....</b>	<b>iv</b>
<b>I. INTRODUCTION.....</b>	<b>1</b>
<b>II. SOCIOECONOMIC CHANGES.....</b>	<b>2</b>
<b>III. EXISTING PENSION SYSTEMS IN ASIA AND THE PACIFIC.....</b>	<b>3</b>
<b>IV. ADB INTERVENTIONS IN PENSION REFORM.....</b>	<b>6</b>
<b>V. LESSONS LEARNED.....</b>	<b>9</b>
A. The Multi-pillar Pension System.....	9
B. Project Planning.....	11
C. ADB's Policy and Institutional Concerns.....	13
<b>VI. CONCLUSIONS AND RECOMMENDATIONS .....</b>	<b>14</b>
A. Pension Reform Needs in Asia and the Pacific .....	14
B. Proposed ADB Pension Reform Approach.....	14
C. Tools for Pension Reform .....	16
<b>REFERENCES .....</b>	<b>17</b>
<b>APPENDIXES.....</b>	<b>19</b>
Appendix 1: List of ADB Projects in Support of Pension Reform.....	19
Appendix 2: Objectives and Outputs/Activities of ADB Projects in Support of Pension Reform .....	20

## ABSTRACT

This note provides a brief introduction to pension issues in Asia and the Pacific and proposes an Asian Development Bank (ADB) pension reform approach for future interventions. The changing socioeconomic landscape in Asia and the Pacific influenced by the ageing population increased rural-to-urban migration, and globalization requires adjustments and reforms to pension systems in the region. Currently, public pension systems in the region commonly have low coverage, often limited to public sector workers and some private sector employees in the formal sector. The region still largely depends on the informal social safety nets, a support structure that is gradually losing its impact due to the growing work force mobility.

The three main types of public pension systems in the region are: provident funds, defined-benefit systems in market economies, and pension schemes in transition economies. Coverage under private occupational plans is of limited importance, except in Hong Kong, China. While the magnitude and nature of problems differ from country to country, most pension schemes have common problems such as affordability, poor returns on financial assets, inadequate service levels, and inefficient administration. Overall, the policy and regulatory framework and the management of the pension systems in the region need improvement.

Although ADB has had occasional interventions in pension reform since the early 1990s, the involvement increased substantially after the 1997 Asian financial crisis with the intention to strengthen the non-bank financial sector. While these interventions were appropriate in the aftermath of the crisis, new challenges such as maturing pension schemes and the ageing population are emerging, requiring focus on the affordability of the pension schemes and the extension of coverage to a growing elderly population.

This Technical Note indicates the potential role and opportunity for ADB to assist developing member countries in the Asia and Pacific region in pension reform programs, especially in middle-income countries, where both the deepening of financial markets and the extension of pension coverage are becoming increasingly important.

*The problem is not just one of affording a large, independent, elderly population. Perhaps even more important is that DMCs may not have the necessary political and economic institutions in place that are essential in ageing societies, including efficient and secure pension systems, well-run financial institutions, regulatory and accounting practices that meet international standards ... No challenge is greater than assuring the economic and social security of the region's future elderly.*

Asian Development Bank. *Key Indicators 2002: Population and Human Resource Trends and Challenges.*

## I. INTRODUCTION

1. This technical note has been prepared with the intention to initiate a discussion on the current pension reform approach of the Asian Development Bank (ADB) and to identify the needs that the pension systems in developing member countries (DMCs) are facing in order to update ADB's pension approach.

2. Traditionally, ADB considers pension programs as a component of financial market development. Pension funds are regarded as instruments that allow increasing long-term savings to promote greater market stability and provide capital for investments to spur economic growth.

3. ADB's involvement with pension reform intensified after the 1997 Asian financial crisis. In response to the crisis, ADB assisted DMCs to strengthen their financial market institutions and supported activities intended to reduce the concentration of assets held in weak banking systems. A core element of this strategy was to provide technical assistance (TA) to enlarge the role of pension funds in Asian capital markets.

4. New challenges are emerging, bringing new needs for pension reform in the DMCs. The maturing of existing publicly mandated pension schemes is resulting in mounting fiscal pressure in most DMCs. Over time, fiscal pressure will rise even further given the rapid ageing of populations in the Asia and Pacific region. At the same time, existing pension schemes have low coverage in the region. Traditionally, the family and community provided the necessary support to the elderly, making the need for old-age protection less urgent. With growing rural-to-urban migration, this informal support is crumbling and the need for some kind of old-age support to keep the elderly out of poverty is becoming more apparent.

5. Despite the increased need for pension reform in the region, the number of ADB interventions in pension reform is decreasing, limited primarily to follow up TA on projects initiated in the aftermath of the Asian financial crisis.

6. Since economic stability has returned to the region, it is timely to approach pension reform more broadly, taking into account not only the fiscal issues—focusing on the affordability and sustainability of pensions—but also the social issues, giving attention to the adequacy of pensions to prevent old-age poverty and the expansion of coverage of existing pension schemes.

7. ADB should address the need for pension reform while analytic work is being undertaken for country partnership strategy formulation. Analytic work should be undertaken in DMCs where pension issues are identified as a major concern. The initial work should result in a pension reform road map, or a pension component in a larger financial sector strategy, spelling out the planned interventions. Pension reform is a complex and long-term undertaking. Once ADB is committed to support in the sector, it should be prepared to provide assistance over an extended period, combining TA for analytic work and capacity building, and loan programs to support the implementation process.

## II. SOCIOECONOMIC CHANGES

8. Changes in the socioeconomic environment, such as ageing population, increased rural-to-urban migration, and globalization, generate challenges that require adjustments and reforms to pension systems over time.

9. The Asia and Pacific region is going through a demographic transition from high to low rates of fertility and mortality. While this transition took 1 or 2 centuries in Europe, it is being compressed into a few generations in Asia and the Pacific. Mortality rates started falling around the late 1940s, resulting in accelerated population growth. Fertility rates began to fall in the late 1960s at a pace that varied considerably in the region. East Asia experienced the steepest drop—by the early 1990s, the total fertility rate there reached around two births per woman, resulting in zero growth of the population—while the South Asian population kept growing with a higher fertility rate. Projections indicate that the large gap in population growth between East and South Asia will disappear in the coming 30 years.<sup>1</sup>

10. Increasing life expectancy and falling fertility rates mean that the Asian population is ageing rapidly. The share of elderly as part of the total population is expected to almost triple during 2000–2050. While most pronounced in the People’s Republic of China (PRC) and the rest of East Asia, most countries in the region will face fairly soon an ageing challenge, as illustrated in Table 1.

**Table 1: Ageing Populations in Asia and the Pacific**  
(Share of elderly, age 65 or older/total population, %)

Region	Country	2000	2025	2050
Asia		5.9	10.0	16.8
East and Central Asia	PRC	6.8	13.4	22.9
	Kazakhstan	6.9	12.0	20.0
Mekong	Thailand	5.4	11.7	21.5
Pacific	Tonga	5.5	6.3	14.1
South Asia	Bangladesh	3.1	5.3	11.3
	India	4.9	8.2	14.4
	Pakistan	3.6	4.8	8.4
Southeast Asia	Indonesia	4.8	8.4	16.9

PRC = People’s Republic of China.

Source: United Nations, 2002.

11. A consequence of the ageing population is that fewer people of working age will support those retiring. The old-age dependency ratio—the proportion of people aged 65 years or older in

<sup>1</sup> Asian Development Bank (ADB). 1997. *Emerging Asia. Changes and Challenges*. Manila: ADB.

relation to the working age population between 15 and 64 years—is expected to grow in Asia from 10% today to 27% by 2050.<sup>2</sup> This means that by 2050, there will be about four people of working age—as opposed to 10 now—for every person aged 65 or older. As populations age, the decisions made by older workers on whether to keep working until a later age will become increasingly important. Throughout Asia, as in most of the world, however, older workers are withdrawing from the labor force at a younger age. The trend toward earlier retirement is a persistent feature of economic development. Many workers are retiring at an earlier age because they can afford to do so.<sup>3</sup>

12. If the past relationship between demography and public spending on age pensions continues, the proportion of national income devoted to pensions in Asia, excluding the People's Republic of China (PRC), is estimated to rise on average from around 2% in 1990 to 10% by 2050. In the PRC, the increase will be from 3% to over 13%.<sup>4</sup>

13. So far, the limited coverage of the existing pension schemes in the region has not been problematic because, traditionally, Asian families provide for elderly relatives. However, social changes are weakening filial ties. Families are becoming more mobile and move from rural to urban areas, with fewer children living close to their parents. Faltering family support will increasingly need to be substituted or supplemented by official pension schemes or private provisions. Given this trend, pension financing is more and more becoming a matter of public policy.

14. The globalization of the economy, resulting in the increased integration of markets for goods and services and in growing mobility of the labor force, will require more flexibility across labor markets and changes to public programs, including pension schemes. Such mobility is hampered where there are separate pension schemes for different population groups, such as public and private sector workers. Pension schemes will require a benefit and financing design that accommodates the mobility of the labor force, not only between public and private sectors, but also across states.

### III. EXISTING PENSION SYSTEMS IN ASIA AND THE PACIFIC

15. Public pension systems in Asia and the Pacific commonly have a low coverage rate. Usually, coverage is limited to public sector workers and to some private sector employees working in the formal sector. The extent of coverage of private sector employees, however, is strongly related to the structure of the labor market. In countries with large agricultural and urban informal sectors, coverage tends to be lower than in countries with a more organized private sector. In India, for instance, less than 10% of the working population is protected for old age. In the PRC, the coverage is around 20%. Only in more industrialized countries, such as the Republic of Korea, Malaysia, and Singapore, does coverage exceed 60%.<sup>5</sup> Coverage under private occupational plans is of limited importance, except in Hong Kong, China.

16. In addition to the public pension schemes, governments operate widely varying programs to provide financial support for the needy elderly. The levels of support provided are

<sup>2</sup> Allianz Global Investors. 2005. *Asia-Pacific Pensions*. Munich.

<sup>3</sup> ADB. 2002. *Key Indicators 2002: Population and Human Resource Trends and Challenges*. Manila.

<sup>4</sup> James, Estelle, and Bank Team. 1994. *Averting the Old Age Crisis. Policies to Protect the Old and Promote Growth*. Washington, DC: World Bank.

<sup>5</sup> Holzmann, R., I. MacArthur, and Y. Sin. 2000. *Pension Systems in East Asia and the Pacific: Challenges and Opportunities*. Washington, DC: World Bank.

generally low and typically fall below accepted standards of adequacy.<sup>6</sup> Informal support for the elderly in the region is expected to remain important in the future.

17. The pension landscape in Asia and the Pacific is diverse, with three main kinds of pension systems for the private sector—national provident fund systems, defined-benefit systems in market economies, and a blend of defined-benefit and defined-contribution systems in transition economies (Table 2).

**Table 2: Mandatory Pension Systems for the Private Sector in Asia and the Pacific**

Provident Funds	Defined-benefit Pension Schemes in Market Economies	Pension Schemes in Transition Economies
Indonesia India (partially) Malaysia Nepal Pacific Islands Singapore Sri Lanka	India (partially) (1995) Japan (1941) Korea, Republic of (1988) Pakistan (1976) Philippines (1957) Thailand (1998)	Azerbaijan (DB) PRC (DC-funded) Kazakhstan (DC-funded) Kyrgyz Republic (NDC-partially funded) Lao PDR (DB) Mongolia (NDC) Uzbekistan (DB) Viet Nam (DB)

DB = defined benefit, DC = defined contribution, Lao PDR = Lao People's Democratic Republic, NDC = notional defined contribution, PRC = People's Republic of China.

Source: Based on Social Security Administration. 2005. *Social Security Programs Throughout the World: Asia and the Pacific, 2004*. Washington, DC: Office of Research, Evaluation, and Statistics.

18. **National Provident Funds.** Several countries in the region have a national provident fund system for private sector employees. These are mostly former British colonies, such as Malaysia, Singapore, the Pacific Islands, and most South Asian countries. Provident funds operate on the basis of defined contribution (DC) and are fully funded. This, in principle, provides a strong benefit-contribution link, avoiding the risk of financial unsustainability. Traditionally, these provident funds are centrally managed, with limited public accountability (Box 1). The investments of the fund resources are, in general, strictly regulated, and weighted heavily toward public sector products and bank deposits, resulting in low rates of return. Upon retirement, most provident funds pay out a lump-sum benefit, leaving the pensioner at risk of outliving his/her income. Major issues to be considered for reform are:

- governance and management of the scheme,
- investment policy and performance, and
- availability of market institutions and tools.

19. **Defined-benefit Schemes in Market Economies.** A few DMCs with a market economy have fairly recently adopted a national contributory defined-benefit (DB), partially funded pension scheme for private sector employees. These schemes were, by and large, not designed with proper linkage between contributions and benefits. Although they are currently in a strong financial position in cash terms, this situation will change as the schemes mature in the next 15–20 years and as the population ages. The present value of the pension promise is calculated as implicit pension debt (IPD). Currently, the IPD is close to 80% of gross domestic product (GDP)

<sup>6</sup> International Labour Organization (ILO). 1997. *Ageing in Asia: The Growing Need for Social Protection*. Bangkok: ILO.

in the Philippines and almost 40% of GDP in the Republic of Korea. If no reforms are introduced, the IPD will increase to around 140% and 195%, respectively, by 2050 (footnote 5). Areas of concern are

- fiscal sustainability,
- need to strengthen the link between contributions and benefits, and
- governance and investment of the existing reserve funds.

### **Box 1: The Pension System in Singapore**

Singapore's retirement system consists of state-mandated and state-managed individual retirement accounts. While the Central Provident Fund (CPF) is administering well its housekeeping functions, there is little transparency in its investment function and the return on investment has been poor. At the end of 1996, the majority of its assets were invested in nonmarketable government bonds, issued specifically to the CPF Board to meet their interest obligations. The interest on these bonds is identical with the average of short-term deposit rates of four local banks. For the last decade, the effective real rate of return on the bonds has been close to zero. The money raised from issuing bonds to the CPF Board is invested by the Singapore Government Investment Corporation. Its portfolio and investment performance are not made publicly available. Thus, CPF members do not know the ultimate deployment of their funds.

Source: Asher, Mukul. 1999. The Pension System in Singapore. *Social Protection Discussion Paper No. 9919*. Washington, DC: World Bank.

20. **Pension Schemes in Transition Economies.** In the transition DMCs, pension schemes before the transition were primarily designed for urban public sector employees. They were invariably DB, pay-as-you-go (PAYG) schemes, with benefits that had little linkage with the contributions paid. Financing was mostly the responsibility of the employer (state-owned enterprises). Due to the poor performance of state-owned enterprises, the burden has largely shifted to the national budget. Expenditure has risen significantly due to rising benefit take-up and weakened contribution collection. In almost all these DMCs, pension reforms of some kind were initiated to make the pension schemes more compatible with a market-oriented environment. Reforms are needed in

- pension design,
- improving the link between contributions and benefits,
- strengthening their administration, and
- further development of financial markets if there is a shift toward fully funded schemes.

21. In most DMCs, public sector workers are covered by DB pension schemes that are, partially or fully, financed from the budget. The promised benefits, often still calculated on the last salary paid, are typically very high relative to the real value of lifetime earnings and often considered as a compensation for low remuneration during active life. Such a pension structure implies high current and high future public expenditure. At the same time, it hampers mobility between the public and the private sectors, and privatization of public enterprise. In some DMCs,

pension reform has become a priority because the growth of pension expenditure for the public sector has become a fiscal threat.

22. While the magnitude and exact nature of problems differ from country to country, most pension schemes have common features that need to be addressed. Most schemes are government owned and managed. In the majority of DMCs, the policy and regulatory framework is in need of major reform. The pension promises in most DB schemes well exceed the contributions paid. In most schemes, the returns on financial assets are poor, service levels are poor, and the organizations are run by executives who lack the necessary managerial and financial skills. In almost all cases, the institutions need better accounting, more rigorous management and financial controls, and extensive computerization and staff skills upgrading.<sup>7</sup>

23. The most important single indicator of how public pension reserves are being managed is the rate of return. Throughout the region, provident funds and/or partially funded pension plans have received below-market rates of return, the exceptions being Japan, Republic of Korea, and the Philippines, where funds show returns that are more than 1% higher than deposit rates. The direct causes for underperformance include government interference in investment through imposition of social and development objectives on the pension funds, often at interest rates lower than available on the market; forcing pension funds to finance deficits;<sup>8</sup> and prohibition on investment abroad, which poses a major challenge to public pension fund managers to diversify their country-specific risk.<sup>9</sup>

24. Besides the efficiency of fund management, the financial sustainability of a pension system depends to a large extent on the efficiency of its administration, such as registration of the members, collection of contributions, and service provision. Poor performance in even one of these functions damages the credibility of the scheme and results in higher evasion and lower coverage, and eventually reduces the scope and size of old-age protection provided.

#### IV. ADB INTERVENTIONS IN PENSION REFORM

25. The primary vehicle for ADB assistance in pension reform so far has been TA grants. While TA is predominantly being used to assist in designing pension reform, the loan program has assisted implementation, rather than preparatory design, of pension reform. An overview of ADB interventions in pension reform is given in Table 3; a more detailed list is in Appendix 1.

26. Although ADB has had occasional interventions in pension reform since the early 1990s, its involvement increased substantially as a result of the 1997 Asian financial crisis, which revealed serious weaknesses in the systems of financial regulation. Volatility in currency and capital markets was far greater than appeared to be justified by economic fundamentals. In response to the crisis, ADB aimed to strengthen financial market institutions throughout Asia, with the intention to reduce the concentration of assets held in weak banking systems.

<sup>7</sup> Centennial Group Holding. 2004. *An Overview of Past ADB Assistance for Pensions and Insurance Reforms*. ADB: Washington.

<sup>8</sup> For instance, following the Russian crisis in 1998, the Kazakhstan Government "encouraged" pension funds to exchange government bonds held before the currency devaluation for new issues, effectively reducing the rate of return.

<sup>9</sup> World Bank. 2000. Public Management. Part I. How Well Do Governments Invest Pension Reserves? *Pension Reform Primer*. Washington, DC.

**Table 3: Number of ADB-funded Pension Projects, 1990–2004<sup>a</sup>**

Region	DMC	1990–1996	1997–1999	2000–2004
Regional			1 RETA	
East and Central Asia	Kazakhstan		1 loan, 1 PPTA, 4 ADTAs	
	Kyrgyz Republic		1 PPTA	
	PRC		1 ADTA	
Mekong	Lao PDR	1 ADTA		
	Thailand		1 ADTA <sup>b</sup>	1 ADTA
Pacific	Cook Islands			1 ADTA
	Tonga	1 ADTA		
South Asia	Bangladesh	1 ADTA	1 ADTA <sup>b</sup>	
	Bhutan		1 ADTA	1 ADTA
	India		1 ADTA	2 ADTAs
	Pakistan		1 ADTA	1 TA loan <sup>b</sup>
Southeast Asia	Indonesia	1 ADTA <sup>b</sup>	1 ADTA	

ADTA = advisory technical assistance, Lao PDR = Lao People's Democratic Republic, PPTA = project preparatory technical assistance, PRC = People's Republic of China, RETA = regional technical assistance, TA = technical assistance.

<sup>a</sup> The table covers projects focused on pensions only. Projects covering broader areas, such as social security—of which pensions are a part—are not included.

<sup>b</sup> Project attached to financial sector program loan.

Source of basic data: ADB Technical Assistance Documents Database .

27. The ADB pension reform projects initiated during this period were strongly influenced by the World Bank study on pension reform (footnote 4). This study argued that financial security for the aged, as well as economic development and growth, could be better served through a multi-pillar pension system, separating the redistribution and savings function of pensions. The first pillar, a publicly managed system with mandatory participation, was intended to redistribute income to reduce poverty among the elderly. The second pillar, a fully funded, mandatory savings system, and the third pillar, a voluntary occupational or personal savings plan, focused on savings to smoothen consumption between working life and retirement.<sup>10</sup>

28. So far, ADB's assistance in pension reform has been predominantly focused on developing the second and third pillar fully funded schemes, while strengthening the governance and administration of existing pension systems. It has become increasingly apparent that in many countries, existing pension programs suffer from major managerial and financial problems and are in need of reform to become financially viable in the long run. The types of ADB interventions in pension reform are in Table 4; a detailed list is in Appendix 2.

<sup>10</sup> The World Bank has updated its multi-pillar pension system and added two additional pillars: a noncontributory "zero pillar" that provides a minimal level of protection, and an informal support pillar, covering intra-family and intergenerational sources of both financial and nonfinancial support to the elderly, including access to health care and housing (Holzmann, Robert, and Richard Hinz. 2005. *Old-Age Income Support in the Twenty-first Century: An International Perspective on Pension Systems and Reform*. Washington, DC: World Bank).

**Table 4: Types of Interventions of ADB-funded Pension Projects, 1990–2004<sup>a</sup>**

	1990–1996	1997–1999	2000–2004
First Pillar			
First and Second Pillars		3 ADTAs	2 ADTAs, 1 TA loan
Second Pillar	1 ADTAs	1 loan, 1 PPTA, 9 ADTAs	2 ADTAs
Second and Third Pillars	2 ADTAs	1 ADTA	
Third Pillar	1 ADTA		1 ADTA

ADTA = advisory technical assistance, PPTA = project preparatory technical assistance, TA = technical assistance.

<sup>a</sup> Classification by the author, based on project descriptions.

Source of basic data: ADB Technical Assistance Documents Database

29. Following the Asian financial crisis, ADB interventions primarily focused on enhancing the role of second-pillar public pension schemes, with the common objective of increasing the flow of long-term funds into the capital markets to promote economic growth. The TAs were intended to introduce (or strengthen) the institutions and legal and regulatory infrastructure needed for fully funded pension systems to operate successfully, including a regulatory agency; investment guidelines and restrictions; and rules and regulations governing the activities of pension funds, investment managers, and custodian banks. In addition, they were intended to develop the analytic and theoretical capacities of those involved in promulgating pension policy and to provide policy makers with specific recommendations for reforms.<sup>11</sup>

30. ADB's experience in the use of loan projects in pension reform is still very limited.<sup>12</sup> In 1997, ADB approved the extension of a pension reform program loan to the Republic of Kazakhstan.<sup>13</sup> The loan was valued at \$100 million and funded through ADB's ordinary capital resources. The project supported the transition from the existing PAYG public pension system to a pension system based on fully funded, individual DC accounts. The focus was primarily on issues related to the implementation of the Government's pension reform program rather than its design. To complement its policy-based lending, ADB provided four TA grants to the Government to strengthen institutional capabilities, train staff, and conduct public education campaigns in support of the reform.

31. In its pension reform interventions, ADB has paid considerable attention to the dissemination of policy options of pension reform to sensitize and build the capacity of policy makers in the region. After the Asian financial crisis, a regional TA<sup>14</sup> was initiated to support a regional workshop to identify major issues and challenges in the design and implementation of pension reform. At a later stage, subregional policy conferences and training workshops were organized in collaboration with the Asian Development Bank Institute (ADBI), on pension reform in South Asia<sup>15</sup> and in Asian transitional economies.<sup>16</sup>

<sup>11</sup> ADB. 2003b. *Technical Assistance Performance Audit Report on the Reform of Pension and Provident Funds in Selected Developing Member Countries*. (TPA: REG 2003-31). Manila.

<sup>12</sup> This is in stark contrast with the World Bank's pension reform activities. During the last 20 years, the World Bank has been involved in more than 200 loans with some pension reform component. The entire range of loan projects was used to support pension reform, varying from technical assistance loans (financing comprehensive and extended technical advice) and project loans (financing, for example, the computerization of pension administration) to program loans (financing, in part, the transition costs of the new pension scheme).

<sup>13</sup> ADB. 1997. *Proposed Loan and Technical Assistance Grant to the Republic of Kazakhstan for the Pension Reform Program*. (Loan 1589-KAZ). Manila.

<sup>14</sup> ADB. 1998. *Technical Assistance for Policy Options for Pension Reform in Asia: Challenges in Design and Implementation*. (TA 5808-REG). Manila.

<sup>15</sup> Asian Development Bank Institute (ADBI). 2000. *Reforming Pension Systems in South Asia*. New Delhi.

32. The use of pension reform as a vehicle to promote long-term, domestic capital formation became less of an emergency once the worst impacts of the Asian crisis were overcome. Consequently, the number of ADB interventions in pension reform fell drastically. At the same time, the scope of pension reform interventions broadened. There is a growing recognition that pensions are an important part of social policy and poverty reduction, and that there is a need to extend old-age income protection beyond civil servants and the formal sector income earners. As a result, ADB has become increasingly interested in supporting efforts to extend their reach to informal sector workers in a fiscally sustainable way. In 2003, ADB initiated a nationwide study in India<sup>17</sup> in preparation for the development of a pension scheme for the unorganized sector, which makes up almost 90% of the total Indian workforce.

33. Many public pension schemes that were introduced a few decades ago, of which the vast majority is unfunded, are now maturing. The pension obligations exist but no assets are set aside to pay for them. This not only puts a burden on the current budget but also strains the future budget by committing a future stream of revenues to pay off pension promises. In 2004, ADB started to assist selected state governments in India<sup>18</sup> in preparing for the reform of their civil service pensions from unfunded DB schemes to fully funded DC schemes to better control the future pension burden.

## V. LESSONS LEARNED

34. Most ADB interventions initiated in the aftermath of the Asian financial crisis have been completed. The first lessons to be learned can be drawn. The completion reports of these projects provide a major source of information. In addition, ADB's Operations Evaluation Department (OED) prepared two evaluation studies on pension reform projects. One study covered five TA grants approved between 1997 and 1999, which were designed to promote pension reform (footnote 11), and another study reviewed the pension reform program loan in Kazakhstan.<sup>19</sup> These interventions were supplemented with international best practice, predominantly based on World Bank experience.

### A. The Multi-pillar Pension System

35. ADB's involvement in pension reform has so far predominantly been driven by its commitment to promote capital market development through the promotion of fully funded schemes. Based on experience during the Asian financial crisis, where domestic capital formation was instrumental in promoting stability in financial markets, ADB's support was relevant, targeted, and timely. However, this approach has some major limitations, as illustrated by the lessons learned from the Kazakhstan loan program (Box 2).

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<sup>16</sup> ADBI. 2001. *Reforming Pension Systems in the Asian Transitional Economies*. Tokyo.

<sup>17</sup> ADB. 2003a. *Technical Assistance to India for Pension Reforms for the Unorganized Sector*. (TA 4226-IND). Manila.

<sup>18</sup> ADB. 2004. *Technical Assistance to India for State Level Pension Reforms*. (TA 4548-IND). Manila.

<sup>19</sup> ADB. 2003c. *Program Performance Audit Report on the Pension Reform Program in Kazakhstan*. (PPA: KAZ 31091). Manila.

### **Box 2: Lessons Learned from the Kazakhstan Loan Program**

The introduction of a funded pension system, in the absence of other mechanisms to assure a minimum level of benefit adequacy and effect a reasonable degree of income redistribution from the comparatively well-off to the less fortunate, may not provide effective, long-term social insurance to the working population.

Shifting from a pay-as-you-go pension system to a partially or fully funded system also deprives the government of resources for addressing social issues and should only be pursued if additional resources can be obtained to ease the cost of the transition.

The success of a funded pension system in providing adequate income replacement depends on the capacity of the capital markets to absorb substantial inflows of investment capital and generate adequate returns to fund participants. In countries with nascent capital markets, the inflow of capital may exceed the absorption capacity of the markets and could expose invested assets to inappropriate risks.

Source: ADB. 2003. *Program Performance Audit Report on the Pension Reform Program in Kazakhstan*. Manila.

36. There is a general agreement that a multi-pillar system with a solid funded component offers greater retirement income security than a single PAYG system because diversified investments allow higher rates of return, and political and systemic risks can be spread between the public and private sectors.

37. However, how and when countries should make the transition from a PAYG system to a multi-pillar system with a funded component is less obvious. The transition will temporarily increase the fiscal deficit because the government must continue to pay pension benefits, while additional contributions will need to be paid into the funded system. Thus, countries should first be advised to achieve fiscal sustainability through expenditure rationalization and revenue reform, including parametric reforms to their pension systems, before embarking on a multi-pillar system. Countries with high levels of public debt may not be able to take on the additional debt associated with the start of funded systems.<sup>20</sup>

38. Not all DMCs are ready to introduce a funded pillar. DMCs with sound financial systems that have relatively high per capita income, credible macroeconomic policies, and free capital movements are highly suitable to initiate a funded pillar, even when the financial system is still incomplete. DMCs with chronic macroeconomic imbalances and other limitations, such as poor governance, provide little room for developing funded pensions (footnote 10).

39. While a funded system can provide autonomy from government, it remains vulnerable to corruption and weak governance. As a result, strong regulation and supervision of the pension funds, asset managers, and other financial intermediaries are essential if multi-pillar systems are to operate prudently and effectively (footnote 20).

40. As demonstrated in the Singapore case, risk management aspects of funded systems are in need of reform. Investment regulations are often overly prescriptive. Pension funds are

<sup>20</sup> World Bank. 2006. *Pension Reform and the Development of Pension Systems. An Evaluation of World Bank Assistance*. Independent Evaluation Group. Washington, DC.

still often diverted toward government securities with a low rate of return and the possibility for international diversification, allowing for a wider spread of risk, is often limited or nonexistent.<sup>21</sup>

41. A funded pillar needs to be designed carefully to benefit the economy. The indirect effects could be positive; for example, when a pool of long-term savings is created and effectively channeled into projects that increase economic growth, or when pension funds contribute to greater liquidity and depth in domestic capital markets. However, these indirect effects can also be negative, such as when governments use the savings to increase wasteful public consumption or when high contribution rates add to the incentives for small firms to remain in the informal sector. In civil service pensions, the program may also begin to crowd out other social programs as the pension bill eats up a rising share of tax revenues.<sup>22</sup>

*The need for ADB to revisit the implicit—but flawed—assumption underlying all of these TAs that the use of pension reform as a vehicle for promoting long-term domestic capital formation also represents appropriate social policy, particularly for the most vulnerable groups of society. (Technical Assistance Performance Audit Report (TPA) REG 2003-31)<sup>23</sup>*

42. The Asian financial crisis also brought to bear the need for social safety nets to alleviate hardship during crisis periods. While a funded element, if properly structured, might have a positive effect on national savings and economic growth, it is not sufficient to provide income protection to a large part of the population. If budgetary resources are available, each country should have provisions for securing basic income protection for the lifetime poor, as well as for informal and formal sector workers who reach old age with insufficient resources. Poverty reduction programs must be well designed to minimize any detrimental effect, such as creating a culture of dependency and promoting perverse incentive structures that weaken competitiveness. Informal systems should not be destroyed but rather supported through pro-family policies and appropriate incentives, such as tax brakes.

43. The importance of the poverty prevention role of the government will only increase with economic development. As the likelihood of poverty in old age declines with (pro-poor) economic growth, the pooling of the risk across individuals becomes increasingly appropriate (footnote 21).

## **B. Project Planning**

*Pension reform is typically a long-term endeavor...even if the political will exists to make changes rapidly. (TA 2995-THA)*

44. Pension reform is one of the most controversial and politically charged public policy challenges facing any government. Changes in pension policy ultimately benefit some at the expense of others. Changes in benefits within a pension system can severely affect the welfare of the elderly in their retirement. For many businesses, the size of the contributions to the pension scheme represents an incentive to underreport wages and hire workers outside formal labor arrangements. For governments, contributions for pensions represent a source of

<sup>21</sup> Gill, I., T. Packard, and J. Yermo. 2005. *Keeping the Promise of Social Security in Latin America*. Washington, DC: World Bank.

<sup>22</sup> Bhardwaj G., and A. Bordia, eds. 2003. *Rethinking Pension Provision for India*. New Delhi: Tata McGraw Hill.

<sup>23</sup> The quotations in this section are from the evaluation studies on pension reform projects, prepared by ADB's Operations Evaluation Department, and from the completion reports of the respective pension technical assistance projects cited after each quotation.

financing. As a consequence, pension reform requires governments to balance competing social and practical interests.

45. Given such political complexity, undertaking a successful and sustainable pension reform requires a long-term effort. Based on the political economy of reform, three phases have been identified: commitment building, coalition building, and implementation (footnote 10). The reform process starts with an initial period of debate, where the stakeholders are able to express their views. At this stage, a strong emphasis needs to be placed on public education of both policy makers and the broader public. During the next phase, once the government has decided on a reform concept, a coalition needs to be formed to support the reform. At that moment, a champion is needed to spearhead the political process. The quality of the concept is of critical importance: it should be based on tested knowledge, bringing in the experience of other countries; have long-term projections; and respond to genuine concerns of the population with the existing system. This phase concludes with dissemination of the concept and its translation into a specific legislative proposal. The most critical phase, implementation, starts with the passage of the legislation.

46. Past interventions have highlighted both the importance of policy and institutional reforms and their complexity. ADB's strategy to use TA as the primary instrument to assist DMCs prepare for policy reform appears to have been appropriate. TA can make important contributions by helping policy makers understand better the issues they are charged with managing and by providing forward-looking recommendations to guide policy decisions. The experience also demonstrates that reform efforts take a long time to materialize. Therefore, ADB needs to remain involved over a sustained period, with repeater operations, if necessary. The World Bank experience demonstrates that lending prior to reform is small, but grows substantially as pension reform progresses. About half the World Bank's total pension lending was made in the 2 years following the reform (footnote 20).

*Strong government ownership is the key to the success of TA implementation. (TA 2915-BAN)*

47. The sustainability of ADB's activities to promote pension reform depends almost entirely on the political commitment of the governments involved and the successful engagement of various stakeholder groups, including pensioners, trade union representatives, and employers. It is essential that TAs should be designed and implemented in response to the government's stated intention to enact pension reform. It is also important that the assistance provided should also be relevant and introduced in a timely manner.

48. There is tension between political readiness and administrative preparation. Almost invariably, the administration is insufficiently equipped to implement the new system. The best time to decide on the reform law is when the political opportunity emerges and expectations of continued commitment are sufficiently high. The best moment to begin implementation is when the administrative preparation is sufficiently advanced and problems are expected to be manageable. Continued, active political support is needed throughout implementation for the reform effort to be successful (footnote 20).

*RETA findings underscored the need for giving careful consideration to individual country circumstances, rather than adopting prescriptive pension reform models. (TA 5808-REG)*

49. Sound and comprehensive analysis of the existing situation is needed prior to the formulation of any reform activities. The design of pension systems has to reflect country-specific circumstances, including the level of development, demographic trends, macroeconomic policies, institutional capacity and infrastructure, and depth and breath of financial markets. Detailed analysis of pension reform issues at the design stage can help limit the objective and scope of a TA to a practical level.

*It is critical that the TA design and terms of reference avoid an overambitious scope, keeping in view the budget and time frame allowed for implementation. (TA 3116-INO)*

50. TA designs should be based on an assessment of institutional capacity, constraints, and commitment of the executing and implementing agencies to avoid undertaking tasks prematurely, wasting resources on politically unappealing tasks, and introducing flaws that hinder implementation. Overly ambitious designs for countries with low levels of institutional development are bound to fall short of expectations. Advisory TAs dealing with such complex public policy issues should be implemented over a 15–18 month period.

51. In anticipation of implementation, there are several TA design issues to consider. The executing agency should be carefully selected. If the agency does not have authority over all issues the TA is designed to address, coordination of TA implementation becomes difficult. The steering committee responsible for overseeing project implementation should be carefully constituted to ensure that it does not inadvertently slow down project progress.

52. Continuity of TA management by both ADB and the executing agency improves the likelihood that the project will make lasting contributions and achieve its desired outputs. The technical competency and commitment of ADB staff and of international consultants can improve the probability of success of TAs addressing such politically difficult issues.

*Donor cooperation and close coordination proved to be beneficial, given the TA resource constraints, and it also helped in continuous flow of information between the ADB and WB teams. (TA 3134-UZB)*

53. In a number of DMCs, ADB has been working in close collaboration with other aid agencies, such as the World Bank. Such cooperation takes advantage of the respective institutions' expertise, helps improve information flow, and prevents the provision of conflicting advice.

### **C. ADB's Policy and Institutional Concerns**

*Improve cross-departmental coordination between financial sector and social sector staff during the design and implementation of pension reform activities. (TPA: REG 2003-31)*

54. Voluntary, private pension plans constitute an appropriate step in financial market development and have only limited social impact. Compulsory public pension schemes address both savings and poverty reduction issues, and require inputs from both fiscal and social perspectives. So far, there has been no collaboration between ADB staff from the financial and

social sectors on pension reform. Mechanisms should be put in place to assure adequate cross-departmental collaboration over policy reform of mandatory pension schemes.<sup>24</sup>

*Improve the skills and knowledge of staff working on pension issues. (TPA: REG 2003-31)*

55. A one-dimensional approach to pension reform—as a means for furthering capital market development without regard for social policy concerns—is inadequate, given ADB’s mandate and commitment to poverty reduction. Pension reform must adequately address social policy concerns, even if the primary objective of the reforms is financial. ADB requires greater expertise in social policy issues if it intends to support DMC pension reform initiatives adequately.

## VI. CONCLUSIONS AND RECOMMENDATIONS

### A. Pension Reform Needs in Asia and the Pacific

56. To date, ADB has focused its pension reform interventions on promoting pension funds as vehicles for mobilizing long-term savings, which are instrumental in the development of modern capital markets. This kind of intervention was most appropriate for the Asian financial crisis, where there was an urgency to stabilize financial markets. During 1997–1999, ADB was intensively involved in pension reform that focused on restoring economic stability.

57. Now, DMCs are facing new challenges, such as keeping their pension systems affordable and providing adequate pensions to all. Existing public pension schemes are becoming increasingly unsustainable, limiting the fiscal space of governments and threatening long-term growth and stability. At the same time, pension coverage remains limited, leaving the majority of the elderly to the care of their families. With growing work force mobility, this support is diminishing, leaving more elderly people in a vulnerable situation.

58. So far, most DMCs have been involved in pension reform, but none have arrived at a pension system that can meet the challenges posed by maturing pension schemes and ageing populations. Pension reform in Asia and the Pacific is lagging behind the rest of the world.<sup>25</sup>

### B. Proposed ADB Pension Reform Approach

59. ADB has a role and opportunity to assist in pension reform programs in the Asia and Pacific region. To raise awareness among policy makers, ADB can provide regional TA to review existing pension systems and identify the challenges that DMCs are facing, with a special focus on middle-income countries, where both the deepening of financial markets and the extension of coverage are increasingly important.

60. ADB’s OED report on pension reform in selected DMCs following the Asian financial crisis included recommendations to develop further ADB’s pension reform approach. The report advised that ADB should first develop an institutional framework for pension reform, before

<sup>24</sup> One of the findings of the World Bank’s pension reform evaluation was that loans led by the social protection and financial sectors were more likely to have satisfactory development outcome ratings for the pension component than those led by the economic policy sector.

<sup>25</sup> More than 75% of the World Bank’s pension interventions between 1989 and 2003 took place in Latin America and the Caribbean, and in Europe and Central Asia. East Asia and the Pacific accounted for 5% and South Asia for 2%.

launching any new initiatives in support of pension reform (footnote 11). The framework should include three aspects:

- determine the conditions for timely introduction of funded pension schemes (legal and regulatory preconditions, capital market preconditions, and fiscal constraints surrounding an increase in funding);
- take into account the distributional impact, while reforming pensions toward a funded pension scheme; and
- introduce pension reform interventions in a phased way tailored to the national context and based on the institutional framework.

61. Generally, a multi-pillar pension system, with a solid funded component, is considered the most suitable structure to deal with these challenges. This structure, however, remains a theoretical framework that needs to be adjusted to local conditions. As such, it is more useful to focus on objectives and reform criteria than on structure. The primary objective of a pension system is to deliver adequate and affordable benefits in a sustainable way. The pension provisions should be adequate for all by providing the means to smoothen consumption for the majority of the population, in addition to reducing poverty among the most vulnerable elderly citizens. The pension systems should be affordable for both the individuals and the government, and not interfere with other more pressing needs or have untenable fiscal consequences. The pension systems should also be sustainable and financially sound, now and in the future (footnote 10).

62. A number of initial conditions need to be in place before any reform toward a multi-pillar pension system with a funded component can be successfully initiated. Stable monetary and fiscal policies should be in place for a multi-pillar system to achieve long-run retirement-income objectives. Large macroeconomic imbalances, high inflation, and excessive debt burdens create uncertainty and destabilize financial markets. High inflation rates can push price increases above yields of the fund investments. Moderate fiscal deficits contribute to economic stability. A high public debt may hinder a government from financing transitional deficits through multi-pillar pension reform. Countries receiving a high proportion of development assistance relative to gross national income are unable to function independently without donor resources and are not fiscally independent (footnote 20).

63. Other initial key factors are the political commitment to reform and the institutional capacity of pension administration. Countries starting a funded system need at least a small number of sound and well-functioning banks and insurance companies coupled with a willingness to implement capital market reforms and openness to foreign expertise. Parametric reforms are preferable when initial macroeconomic and financial sector conditions are not in place (footnote 20).

64. Further, country-specific conditions should be taken into account in preparing pension reform. The existing pension system and other related public programs will be crucial in determining the future pension reform design. Crucial features to be observed are the multiplicity of the schemes, fiscal costs, rate of return, impact of the system on the labor market, and extension of coverage (footnote 10).

65. So far, ADB has paid limited attention to the extension of coverage and to the poverty prevention aspect of pensions. Only a limited part of the population is covered by existing pensions. The most vulnerable elderly are still largely excluded from pension coverage and are

totally dependent on support from their families. Improving the policy framework and performance of the existing schemes is an essential first step but not sufficient to address the pressing need of these people. More explicit and direct efforts to cover the elderly and the workers in the informal sector are needed. The importance of this poverty reduction intervention as a public responsibility will only increase with economic development.

### **C. Tools for Pension Reform**

66. Once pension issues are identified as a major concern in the DMC and ADB decides to provide assistance, ADB should address the need for pension reform when analytic work is being undertaken for country partnership strategy formulation. The initial analytic work should result in a pension reform road map or in a pension component of a larger financial sector strategy, spelling out the planned interventions. A sector-wide approach is advisable, with support provided for an extended period, combining the use of TA for policy preparation and capacity building with the use of loans in support of the implementation.

67. So far, ADB has mainly used TA grants to provide assistance in pension reform. TA has proven to be suitable in preparing pension reform through support of the analysis and the design of pension reform options, as well as by strengthening the local reform capacity and ownership. Given the complex nature of pension reform and long-term implementation, however, a one-shot operation is unlikely to achieve the intended results.

68. Unlike the World Bank, ADB has only limited experience in providing support in pension reform through loan projects. Based on the World Bank's experience, the use of loans has proven to be highly suitable for implementing pension reform programs. The World Bank uses the entire range of loan projects to support pension interventions in the form of direct support for specific reforms through TA loans and project loans, and in the form of indirect support through program loans and development policy loans (footnote 10).

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## APPENDIXES

### Appendix 1: List of ADB Projects in Support of Pension Reform

Country	Project Type	Project Name	Year of Approval	Amount (\$)
Indonesia	ADTA*	Review of the Pension Fund Industry (TA 1347-INO)	1990	85,000
Lao PDR	ADTA	Pension Fund and Leasing Legislation (TA 1844-LAO)	1993	100,000
Bangladesh	ADTA	Study of the Insurance Industry and Pension/ Provident Fund Operation (TA 1993-BAN)	1993	577,000
Tonga	ADTA	Review NPF/Pension Options (TA 1994-TON)	1994	100,000
Kazakhstan	PPTA	Pension Reform (TA 2780-KAZ)	1997	100,000
Kazakhstan	ADTA	Enhancing Pension Management and Information System (TA 2829-KAZ)	1997	100,000
Pakistan	ADTA	Reform of Pension and Provident Funds (TA 2867-PAK)	1997	600,000
Kazakhstan	ADTA	Capacity Building for Pension Reform (TA 2910-KAZ)	1997	1,000,000
Bangladesh	ADTA*	Insurance Industry and Pension and Provident Fund Reforms (TA 2915-BAN)	1997	500,000
Kazakhstan	ADTA	Financial Sector Capacity Building to Support Pension Reform (TA 2945-KAZ)	1997	680,000
Thailand	ADTA*	Pension and Provident Funds Reform (TA 2955-THA)	1997	1,150,000
Kyrgyz Rep.	PPTA	Pension Reform (TA 2963-KGZ)	1997	680,000
Kazakhstan	ADTA	Public Information and Education in Support of Pension Reform (TA 3082-KAZ)	1998	840,000
Kazakhstan	Program Loan	Pension Reform Program (Loan 1589-KAZ)	1998	100,000,000
Bhutan	ADTA	Upgrading the Royal Insurance Corporation of Bhutan, Restructuring the Government Employees Provident Fund and Introducing a Pension Scheme (TA 3111-BHU)	1998	500,000
Indonesia	ADTA	Reform of Pension and Provident Funds (TA 3116-INO)	1998	870,000
PRC	ADTA	Pension Reform (TA 3148-PRC)	1998	2,400,000
Uzbekistan	ADTA	Pension Reform (TA 3134-UZB)	1998	850,000
Regional	RETA	Policy Options for Pension Reform in Asia: Challenges in Design and Implementation (TA 5808-REG)	1998	375,000
India	ADTA	Reform of the Private Pension and Provident Fund System and Employees' Provident Fund Org. (TA 3367-IND)	1999	1,000,000
Cook Islands	ADTA	Review of Pension (Superannuation) and Insurance Schemes (TA 3554-COO)	2000	100,000
Bangladesh	PPTA	Insurance and Pension Funds Development (TA 3590-BAN)	2000	(600,000) cancelled
Bhutan	ADTA	Institutional Development of the National Pension and Provident Fund Bureau (TA 3796-BHU)	2001	300,000
Thailand	ADTA	Pension System Design (TA 4011-THA)	2002	600,000
Pakistan	TA loan*	Strengthening of Pension, Insurance and Savings Systems (Loan 1956-PAK)	2002	3,000,000
India	ADTA	Pension Reform for the Unorganized Sector (TA 4226-IND)	2003	1,000,000
India	ADTA	State Level Pension Reforms (TA 4548-IND)	2004	750,000

ADTA = advisory technical assistance, PPTA = project preparatory technical assistance, PRC = People's Republic of China, RETA = regional technical assistance, TA = technical assistance.

\* = project attached to financial sector program loan.

Source: ADB Technical Assistance Documents Database

## Appendix 2: Objectives and Outputs/Activities of ADB Projects in Support of Pension Reform

Project Name	Type of reform	Impacts/Outcomes	Outputs/Activities
TA 1347-INO*	Second and third pillars	Improve financial intermediation functions and encourage long-term deployment of their funds to support financial markets	Review pension fund industry to assist in formulation of suitable policy framework for pension funds
TA 1844-LAO	Third pillar	Support financial markets	Review progress of legal framework in financial sector and recommend draft legislation for pension fund and leasing industry
TA 1993-BAN	Second and third pillars	Improve the capacity and capability of both the insurance industry and pension/provident funds to undertake institutional investments in the capital market	Review insurance industry and pension/provident fund operations
TA 1994-TON	Second pillar	Support financial markets	Review pension fund and pension options, and formulate proposals to cover both public and private sectors
TA 2780-KAZ	Second pillar	Support in undertaking pension reform	Prepare sector development program loan: translate proposed concepts for pension reform into a sound, implementable action plan conducive to the country's overall economic development
TA 2829-KAZ	Second pillar	Ensure that the information systems and regulatory and institutional frameworks are appropriately designed and implemented. Ensure that public opinion supports the transition to the new pension system	Establish the institutional and regulatory framework. Develop comprehensive public awareness campaign. Develop outreach program to attract foreign institutions
TA 2867-PAK	First and second pillars	Support financial markets	Examine the major structural problems as well as social, economic, and financial consequences of the prevailing pension and provident fund schemes
TA 2910-KAZ	Second pillar	Strengthen the government's capabilities in three areas critical to the successful introduction and implementation of a fully funded defined-contribution pension scheme	Strengthen the capacity of the National Pension Agency. Formulate a strategy to develop long-term capital markets. Develop strategy for the creation of an efficient, competitive insurance industry
TA 2915-BAN*	Second and third pillars	Progressive liberalization/deregulation of the sectors. Effective strengthening of the regulatory and supervisory functions of the concerned ministries	Establish an independent insurance regulatory authority. Prepare amendments to Insurance Act. Draft new guidelines for investment
TA 2945-KAZ	Second pillar	Support the Government's pension reform program by enhancing the efficiency of private asset management and insurance companies	Training to strengthen capacity in financial management and in the development of services to support their operations

Project Name	Type of reform	Impacts/Outcomes	Outputs/Activities
TA 2955-THA*	Second pillar	Mobilize long-term savings. Strengthen the social protection mechanisms	Strengthen institutional foundations through organizational restructuring, operations and procedures, and capacity building. Enhance the policy framework through the development of pension and provident fund master plan
TA 2963-KGZ	Second pillar	Develop a program of policy and institutional reform that will promote the development of a sustainable and equitable pension system	Development of an actuarially based computer model. Evaluation of the legal and regulatory framework for non-state pensions. Evaluation of the system of pension administration
TA 3082-KAZ	Second pillar	Develop a comprehensive and targeted public education and information campaign to ensure effective implementation of the new pension system	Design and production of a public information campaign. Training and education for all market participants. Support for implementing the campaign
Loan 1589-KAZ	Second pillar	Change the pension system from a defined-benefit system to a defined-contribution system	Support policy formulation and implementation associated with pension reform
TA 3111-BHU	First and second pillars	Promote efficiency of the financial sector	Rationalize the organization and management of Royal Insurance Corporation of Bhutan. Restructure Government Employees Provident Fund. Introduce a pension scheme
TA 3116-INO	Second pillar	Strengthen the financial sector by promoting the development of the nonbank financial sector. Reduce poverty and improve social protection by promoting the development of partially funded and fully funded pension schemes	Phase I: Review existing pension schemes: Actuarial analysis. In-depth analysis of impediments to develop employer pension funds. Feasibility study of restructuring Jamsostek. Audit of existing pension schemes Phase II: Recommendations for increasing the level of social security coverage and mobilization of additional resources. Formulating investment policies, guidelines, regulations, and legislation. Instituting operational procedures to encourage the professional management of pension and provident funds
TA 3148-PRC	Second pillar	Contribute to more secure and higher retirement incomes for the elderly. Develop financial markets and their capacity to mobilize long-term funds	Formulation and implementation of the administrative, legal, regulatory, and supervisory frameworks for the new pension system. Facilitate the development of financial and insurance markets in support of pension reform
TA 3134-UZB	First and second pillars	Support pension system reform	Offering recommendations for modernizing administrative and financial management processes in the current PAYG system. Developing an enabling operational, legal, and regulatory environment for the introduction of fully-funded voluntary private (non-state) pension funds
TA 5808-REG		Identify major issues and challenges in the design and implementation of pension reforms. Enhance knowledge and capacities of DMC officials. Support the development of ADB operational programs	International conference on pension reforms in Asia

Project Name	Type of reform	Impacts/Outcomes	Outputs/Activities
TA 3367-IND	Second pillar	Create a pension reform framework and present practical options for structuring a more efficient, equitable, transparent, and sustainable private sector pension and provident funds system	Review both formal and informal mechanisms of retirement income support. Prepare recommendations for improving the legal, regulatory, and tax frameworks. Build financial model to evaluate the fiscal health of the pension scheme and create a strategy to modernize the institutions. Develop a proposal for the establishment of a pension research institute
TA 3554-COO	Second pillar	Support financial markets	Review the availability and adequacy of pension and insurance services. Provide recommendations and action plan for establishing a proper regulatory framework
TA 3796-BHU	First and second pillars	Support good governance for the pension and provident funds program through institutional strengthening of the National Pension and Provident Fund Bureau (NPPFB)	Create master plan for NPPFB. Provide the necessary capacity-building assistance to institutionalize NPPFB as a sustainable agency, extending coverage from public to formal private sector entities
TA 4011-THA	Second pillar	Assist in the first phase of implementation of reforms for the integrated pension system	Draft legislation to establish the structure of a mandatory accumulation system. Prepare the necessary amendments to the civil code and other Thai laws required to pass pension reform legislation. Financial and actuarial modeling. Analysis and evaluation of adequacy of administrative systems and procedures. Training and public information campaigns
Loan 1956-PAK*	First and second pillars	Assess key issues in managing pension and saving liabilities. Recommend solutions to improve sustainability. Strengthen key public sector institutions	Establish an overall framework for pension provision. Financial assessment of civil and military pension schemes. Institutional reform and strengthening, and capacity building for investment management of key institutions
TA 4226-IND	Third pillar	Extend benefits of old-age security to the unorganized sector	Prepare a voluntary privately managed pension scheme. Prepare a regulatory, administrative management system for proposed pension scheme
TA 4548-IND	First and second pillars	Improve fiscal management and development of the domestic capital market to enhance economic growth. Provide social protection and promote old-age security in a sustainable manner	Assist in the reform of civil service pensions. Prepare an agenda for policy and institutional reforms. Facilitate liability estimation. Capacity development and education

ADB = Asian Development Bank, DMC = developing member country, TA = technical assistance.

\* = project attached to financial sector program loan

Source: ADB Technical Assistance Documents Database

## About the Asian Development Bank

The work of the Asian Development Bank (ADB) is aimed at improving the welfare of the people in Asia and the Pacific, particularly the nearly 1.9 billion who live on less than \$2 a day. Despite many success stories, Asia and the Pacific remains home to two thirds of the world's poor. ADB is a multilateral development finance institution owned by 66 members, 47 from the region and 19 from other parts of the globe. ADB's vision is a region free of poverty. Its mission is to help its developing member countries reduce poverty and improve the quality of life of their citizens.

ADB's main instruments for providing help to its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance. ADB's annual lending volume is typically about \$6 billion, with technical assistance usually totaling about \$180 million a year.

ADB's headquarters is in Manila. It has 26 offices around the world and has more than 2,000 employees from over 50 countries.

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