

## TECHNICAL ASSISTANCE COMPLETION REPORT

Division: SEGF

<b>TA No., Country and Name</b> TA 4011-THA : Pension System Design			<b>Amount Approved:</b> US\$600,000 <b>Revised Amount:</b> n/a																						
<b>Executing Agency:</b> Ministry of Finance (MOF)	<b>Source of Funding</b> TASF	<b>TA Amount Undisbursed:</b> US\$213,931.05	<b>TA Amount Utilized:</b> US\$386,068.95																						
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<b>Description</b> The Government of Thailand gave high priority to the reform of its pension system due to the sharp decline in birth rates in Thailand which, combined with rising life expectancy, implied greater number of years for which support will be needed. The basic pension (Pillar 1) provided by the Old Age Pension (OAP) office was insufficient as it replaces only 35 percent of average pay for pensioners. It was therefore necessary to introduce a defined mandatory contribution (Pillar 2) to supplement the OAP with a target replacement rate of another 15-20 percent of average pay for a total replacement rate of 50-55 percent of average pay, which was deemed an adequate pension to prevent poverty in old age. The Government also found it important to encourage savings needed to stimulate financial and capital markets development and labor market efficiency. Thus, it carried out a systematic analysis of pension issues and options through an ADB TA provided in 1997 on financial sector reforms. Based on this TA, on 17 October 2000, the Government formally approved an action plan for the introduction of Pillar 2 and authorized further work to determine its design and the time frame for its implementation. Further actuarial and policy analysis by ADB resulted in proposals for an integrated pension system and a blueprint for the phased introduction of the legal, regulatory, and administrative reforms necessary to implement the new system. In September 2002, the Government approved the early implementation of the pension reform. Consequently, on 4 December 2002 ADB approved TA 4011, for supporting the design phase (the first of three phases) of the pension system reform in Thailand. The TA was approved on 4 December 2002, became effective on 20 February 2003 and was originally expected to be completed on 31 December 2003. Although the TA has been in place since 2003, implementation was delayed because of the Government's decision to postpone the introduction of mandatory provident fund (Pillar 2) due to lack of consensus at senior levels of the Government. In April 2005, the Government reactivated its plan of action to take pension reforms to the next stage. Consulting services were resumed in February 2006 after the government was satisfied that it was ready to establish Pillar 2. It was envisaged that the TA would be completed by 31 December 2006. However, the political crisis caused by the dissolution of Parliament and the subsequent political developments did delay the process a bit though the draft final report was submitted to the Government in November 2006. Later, in December 2006, a presentation of the TA recommendations was made to the Government followed by a tripartite meeting on 14 December 2006. The Government was highly appreciative of ADB support and work under the TA and suggested that it would be worthwhile to have the TA report published and disseminated through a workshop during the first quarter of 2007. The final report, after incorporating the government comments was submitted in January 2007. The Government requested for an extension of the TA to have the report published and for the workshop to be held on 20 March 2007 to disseminate the TA findings to a larger audience.																									
<b>Expected Impact, Outcome and Outputs</b> The TA was expected to help develop a pension system that is institutionally sound, socially adequate, and financially sustainable over the long run and providing maximum social protection at the least cost in terms of budgetary resources and allocative distortions. The TA was expected to prepare the groundwork for expansion or introduction of the mandatory provident fund system (Pillar 2); and establishment of an independent supervisory and regulatory body. The successful completion of the TA were to consist primarily of a government endorsed design of a National Pension Fund (NPF) together with an implementation plan and proposed legislation for (i) creating NPF; and (ii) creating a new independent regulatory agency to supervise NPF and coordinate all of Thailand's retirement programs so that there is a rational, affordable and adequate level of replacement income which is soundly funded and administered. The final report and recommendations were expected to be disseminated through a workshop with the stakeholders. The TA was well designed and formulated and was relevant to the need for pension reform of the Government.																									
<b>Delivery of Inputs and Conduct of Activities</b> As part of the training program under the TA, a staff from the executing agency (EA) participated in a World Bank seminar on public pension fund management in May 2003. Inputs were provided by international and domestic consultants led by an international actuary/pension expert (team leader), international legal expert, domestic actuary, domestic legal specialists, and domestic capital markets specialist. A careful and deliberative approach to developing the design proposals including the use of a peer review was conducted by the pension expert. The final report was published but the planned workshop was cancelled. The consultants maintained a good relationship with the ministries and with different stakeholders. ADB provided timely support to the experts in the delivery of quality inputs and liaising with the Government. ADB's overall support of the work under the TA was considered highly																									

satisfactory by the Government; likewise, the Government considered the work of the consultants of superior quality. The performance of the EA was satisfactory, providing adequate office space, utilities and administrative support, and access by the experts of key official documents and statistical data. The EA held several meetings on various issues with stakeholders. The TA savings were due to non-implementation of conferences and workshops originally envisaged but which the Government did not pursue; also, individual consultants were hired instead of a consulting firm.

#### **Evaluation of Outputs and Achievement of Outcome**

The consultants produced well structured reports. The international annuities/pension expert developed a system for the delivery of annuity products and instruments. This system was to operate in conjunction with the existing OAP System, Provident Fund System (which includes Retirement Mutual Funds) and a mandatory system. The international legal expert formulated a draft legislation for the establishment of the Mandatory Provident Fund and creation of a Pension and Provident Fund Agency, the supervisory and regulatory body of the pension system. A National Provident Fund Preparatory Committee (NPF Working Group) was established as part of the NPF design and implementation efforts. The actuary/pension expert (team leader) formulated recommendations for creating a NPF for formal sectors as well as modifications to the existing OAP, integration of OAP and NPF with each other and with all existing Thai pension systems to promote labor mobility; his recommendations also included the creation of a Pension and Provident Fund Authority to regulate all Thai pension programs. The draft final report was submitted in August 2006. The EA responded with comments in November 2006. The draft final report was further revised to address most of the issues raised by the EA by bringing out a more extensive analysis of the OAP pension scheme and the proposed NPF design including an analysis of the pension systems in selected countries. At the request of the EA and to provide an independent peer review of the TA recommendations, Mr. Mukul Asher, a social security and public finance expert, was engaged under the TA. The TA team leader, Mr. Mitchel Wiener, presented different options developed under the TA to the Working Group in December 2006 followed by a tripartite meeting with the Government. Mr. Asher also recommended the multi-pillar system as the best option for pension reforms in Thailand. The TA Report provides options for parametric reforms of the OAP; and phased introduction of mandatory NPF for the Provident Funds. These reforms combined with a regulator, have the potential to provide adequate, sustainable, and robust pensions for formal sector employees in the private sector. One of the options is to have the benefits entirely financed through the OAP system. The other alternative is to have the benefits financed through a combination of OPA and the NPF. This is the "standard" multi-pillar model used in most of the world. Option 1 above is a defined benefit scheme with all risks resting with the government, highly vulnerable to adverse demographics and macroeconomic shocks, large unallocated reserves and a major contingent liability for the government budget. The second Option will depend on the ability of employers and low paid workers to pay and more time for its implementation. A variant of the second option was also recommended which provides for a phased introduction of the NPF. The NPF phase-in is to be mandatory for new entrants, provide a one-time voluntary option to existing workers to switch to the NPF or even consider compulsory transfer to NPF for workers under a specified age. The Government was highly appreciative of ADB support and work under the TA. The Fiscal Policy Office in MOF has submitted its recommendation to the Minister of Finance for consideration. The Ministry of Finance is in principle agreeable to introduce Pillar 2 but is yet to decide on the appropriate timing. The Government placed high value on the work the consultants rendered under the TA. The TA was well received and built upon a substantial policy dialogue with Thailand initiated in 1999.

There was a gap of 6 to 32 months between the contract termination dates of the consultants to the TA completion date of 31 December 2007. The performance evaluation requests that originated in April 2004, December 2006, January 2007, and June 2007, based on the original contract completion dates in the TA information system (TAIS) elapsed even before the TA completion date of 31 December 2007.

#### **Overall Assessment and Rating**

The TA outputs significantly met the original objectives of the TA; thus, the TA was considered highly successful.

#### **Major Lessons Learned**

The TA was expected to commence on 1 January 2003 and to be completed within a year; however, the TA was completed in four years mainly due to the need for further internal discussions within the Government with its various stakeholders, and its decision to put off the enforcement date of Pillar 2 from December 2004 to December 2007. Flexibility in implementation was therefore necessary given some political uncertainties. When implementation was resumed, further delay was encountered due to unsuccessful negotiations with the domestic consulting partner of the international consulting firm selected under the TA. Recruitment of consultants in an area where tasks are complex coupled with the need for more than one type of specialization meant recruitment within the ADB database could be limited. Flexibility was therefore adopted in recruitment by advertising in Thai newspapers to allow for a wider source of qualified experts. Coordination of the different systems such as the OAP and NPF is necessary for the purpose of reducing the risks of retirement in a single pension system. This was absent as the two schemes are being developed independently of each other.

#### **Recommendations and Follow-Up Actions**

The TA resulted in important recommendations on how the Government of Thailand can further proceed on adopting a sustainable pension system. In particular, the TA contributed to the Government's deeper understanding of the complex issues associated with the design of a comprehensive pension system. ADB should continue supporting the Government in the remaining two phases of the pension reform once the Government decides on its implementation.

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Designation: Principal Financial Sector Specialist