



Technical Assistance Report

Project Number: 40608
December 2006

Mongolia: Strengthening the Pension System (Cofinanced by the Government of Luxembourg)

CURRENCY EQUIVALENTS

(as of 08 December 2006)

Currency Unit	–	togrog (MNT)
MNT1.00	=	\$0.000858
\$1.00	=	MNT1,165.00

ABBREVIATION

ADB	–	Asian Development Bank
BOM	–	Bank of Mongolia
CSP	–	country strategy and program
HFC	–	Housing Finance Corporation
MOF	–	Ministry of Finance
MSWL	–	Ministry of Social Welfare and Labor
SSIGO	–	State Social Insurance General Office
TA	–	technical assistance

TECHNICAL ASSISTANCE CLASSIFICATION

Targeting Classification	–	General intervention
Sector	–	Finance
Subsector	–	Pensions, insurance, social security and contractual savings
Themes	–	Sustainable economic growth, inclusive social development, capacity development
Subthemes	–	Promoting macroeconomic stability, other vulnerable groups, institutional development

NOTE

In this report, "\$" refers to US dollars.

Vice President	C. Lawrence Greenwood Jr., Operations Group 2
Director General	H. S. Rao, East Asia Department (EARD)
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I. INTRODUCTION

1. During the 2006 Country Programming Mission, the Government of Mongolia requested Asian Development Bank (ADB) technical assistance (TA) to support the strengthening of the pension system. The Fact-Finding Mission visited Ulaanbaatar from 6 to 17 November 2006 to discuss with the Ministry of Finance (MOF), Ministry of Social Welfare and Labor (MSWL), and other relevant agencies the impact, outcome, outputs, inputs, cost and financing arrangements, terms of reference, and implementation arrangements for the TA.¹ The design and monitoring framework is in Appendix 1.

II. ISSUES

2. The state pension system falls under the Social Insurance Law of 1994 and is one of five major programs in social insurance. MSWL is mainly responsible for formulating pension policies and the State Social Insurance General Office (SSIGO), an organization established under MSWL, is responsible for implementing the pension scheme including collection of premiums and payment of benefits. The pension fund and other state funds are not independent from the treasury function and MOF is responsible for managing these funds. However, public sector employees, private sector employees, and the self-employed including herders are subject to different pension schemes, and the fund is managed on an aggregate basis.

3. The pension system currently operates on a pay-as-you-go basis with each year's contribution income used to finance that year's benefit payments. The pension fund currently has an annual deficit of about MNT44.4 billion (approximately \$37.7 million) and projections show that the deficit is likely to grow in the near future since the growth rate of benefit payments is exceeding the growth rate of collected pension premiums. Legislation adopted in 1999 set out a different way of computing pensions for workers born after 1960. With this new approach, the amount that each individual contributes toward his/her pension is notionally accumulated for him/her in his/her own retirement account. At retirement, the individual receives a monthly pension equal to the balance in the individual's account divided by the individual's expected life. In practice, however, each year's contribution under the new system is not accumulated and invested but is used to finance that year's benefit payments. On the basis of preliminary estimations, underfunded pension obligations reached MNT200 billion, which is around 7–8% of the gross domestic product (GDP) in 2005, and are growing at the rate of MNT40 billion–50 billion per year. If the problem of underfunded pension obligations is not properly addressed in the near future, it can have a significant negative impact on the fiscal stability of the country. The initial poverty and social assessment is in Appendix 2.

4. One way of improving the viability of the pension fund is to improve the collection rate, given the underreporting of wages and salaries by employers in the payment of social insurance contributions. Employers are also treating some employees as self-employed who are not subject to the contribution requirements. Improvements in the collection of contributions would strengthen the financial status of the pension fund without an increase in the level of contributions, but will not be enough to deal with the problem.

5. The category of the self-employed covers some 350,000 herders (the numbers vary) and 130,000 self-employed in the informal economy, about 50% of Mongolia's workforce. They are eligible to participate in the current programs on a voluntary basis, but only 4% do so. Many people, who have already retired from self-employment or herding are entitled to pension

¹ The TA first appeared in *ADB Business Opportunities* on 11 December 2006.

benefits (usually the minimum pension) on the basis of work prior to the transition to the market economy. Those retiring in the future are unlikely to have enough coverage to qualify for any pension under social insurance. The Government aims to provide adequate protection to herders and other self-employed people through a separate contributory pension scheme with a subsidy structured in such a way that the largest subsidy goes to those with the least ability to make contributions, since the voluntary program has not worked.

6. The current pension benefit policies should also be reviewed to ensure the sustainability of the system. The practice of early retirement has been prevailing and the ratio of pensioners to the population above 60 years is close to 2. The average replacement rate stands at 65% of average wage, which represents almost 100% replacement as pension benefits are not taxed. A white paper on pension system reform prepared by MSWL under ADB Loan 2010-MON² proposed raising the age when one becomes eligible for pension benefits on a gender-neutral basis.

7. The pension fund needs to be restructured and reestablished as an independent agency to function as a defined contribution system, for, in the past, the pension system has sometimes been exploited as a financing vehicle for fiscal deficits. If the independence of the pension fund is ensured, then at the next stage appropriate amendments should be introduced in legislation to allow the fund to engage in investment activities. The expected development of mortgage-backed securities markets will expand the investment opportunities for the pension fund. Recently, commercial banks and the Bank of Mongolia (BOM, the country's central bank) agreed to establish the Housing Finance Corporation (HFC). HFC is expected to function as a vehicle to enable commercial banks to transfer the risk of long-term housing loans by issuing mortgage-backed securities. The pension fund needs to diversify its investment, including investing in other financial products such as corporate shares, corporate bonds, and government bonds. There is a need for sound investment policies and guidelines for the pension fund.

8. The restructuring of the pension fund and its engagement in investment activities will, in turn, promote the development of capital markets. Currently, lack of institutional investors is one of the major constraints to the development of capital markets. If the pension fund emerges as a major institutional investor in the capital markets, it will substantially increase the capacity of the market to absorb new issuance of securities and help improve corporate governance of securities issuers.

9. MSWL is now drafting a law to increase the collection rate, expand the coverage of the pension system, raise the retirement age, and allow the pension fund to invest in financial products. The draft law is being developed on the basis of recommendations made under Loan 2010-MON and the broad strategy for the social security sector developed under Loan 1836-MON.³ The draft law is expected to be submitted to parliament during the spring session of 2007. The implementation of the law being drafted is expected to contribute to improving the sustainability of the pension system. As a long-term goal, the Government is envisaging the development of the pension system into a three-pillar system: (i) the first pillar as a basic pension for maintaining basic life, (ii) the second pillar in proportion with the salary and

² ADB. 2003. *Report and Recommendation of the President to the Board of the Directors on a Proposed Program Cluster of Loans and Technical Assistance Loan to Mongolia for the Second Phase of the Governance Reform Program*. Manila.

³ ADB. 2001. *Report and Recommendation of the President to the Board of the Directors on a Proposed Loan and Technical Assistance Grant to Mongolia for the Social Security Sector Development Program*. Manila.

contribution level, and (iii) the third pillar as a voluntary pension scheme and supplementary pension insurance products.

10. The proposed TA for strengthening the pension system is in line with the 2006–2008 country strategy and program (CSP). The CSP has indicated that the lack of appropriate financial instruments increases the susceptibility of the aged to poverty. The policy recommendations under the proposed TA will be developed on the basis of the achievements under ADB's previous activities to ensure consistency in approach.

III. THE TECHNICAL ASSISTANCE

A. Impact and Outcome

11. An adequate, affordable, self-sustaining, and operationally effective restructured pension system will be the expected impact of the TA. The outcome will be the adoption by the Government of the proposed recommendations on pension reforms.

B. Methodology and Key Activities

12. The TA will review the current pension policies and practices and existing plans for pension reforms, identify merits and shortcomings of the current system and existing plans, and recommend a strategy for further pension reforms. Key activities will include

- (i) reviewing current policies and practices on pension contributions and benefit payments and operations of the pension system;
- (ii) reviewing the progress of pilot programs to extend the coverage to the self-employed and herders;
- (iii) assessing the affordability to existing and potential contributors of pension premiums and necessary amounts for meeting the basic needs of retirees;
- (iv) reviewing MSWL's plans for pension reforms reflected in the draft law from the viewpoint of adequacy, affordability, self-sustainability, and operational efficiency;
- (v) reviewing enforcement measures for collection and SSIGO's practices and institutional capacities in premiums collection and personal account management;
- (vi) reviewing experiences in other countries in moving from a pay-as-you-go system to a notional defined contribution system, and in the development of a three-pillar pension system in selected other countries to extract lessons and identify models;
- (vii) proposing a strategy to further reform the pension system including measures to (a) improve financial sustainability of the pension system while taking into account its affordability to pension contributors and pensioners, (b) further increase the collection ratio in the private sector, (c) further expand coverage of the pension system, and (d) improve operational efficiencies and effectiveness;
- (viii) assessing the impacts, both positive and negative, of the pension reforms on vulnerable people;
- (ix) proposing a road map to develop a three-pillar pension system; and
- (x) identifying further needed external assistance to implement the strategy to further reform the pension system.

13. The TA will also review the potential of financial products as investment tools and provide guidance on the investment and management of pension funds. Key activities will include

- (i) assessing current market conditions and the potential for the development of markets of various financial products;
- (ii) reviewing legal and regulatory environment and other infrastructure for the above financial products and identifying impediments to the development of these financial products;
- (iii) reviewing capacities of staffs and institutions in charge of managing pension funds and other state funds, and of the private sector; and
- (iv) recommending policies and guidelines on investment and portfolio management for restructured pension funds.

14. The TA will provide legal assistance to implement the recommended pension reforms and to facilitate the investment and management activities of the pension fund. Key activities will include, but will not be limited to,

- (i) reviewing existing legislation and regulations governing pension policies and operations and MSWL's draft amendments to the laws;
- (ii) reviewing legislation and regulations that may affect the pension fund's operations and investment activities after restructuring; and
- (iii) drafting legal amendments to implement the further reform strategy and facilitate the investment activities of the pension fund.

15. The TA will also support activities to increase public awareness of the benefits of the pension system and the importance of pension reforms. Workshops and conferences will be organized to disseminate the project's findings and recommendations and lessons from the experience in other countries to various stakeholders and invite comments from them. The TA will also conduct training activities for operational staff on measures to improve efficiency, for fund management staff of the pension fund and other institutional investors on investment policies and portfolio management, and for actuarial practitioners on actuarial calculation. A short-term study tour for key government officials will be organized to learn from the experience in pension reforms in another country, which can be a model for Mongolia's pension reforms.

C. Cost and Financing

16. The total cost of the TA is estimated at \$770,000 equivalent. The Government has requested ADB to finance \$650,000 equivalent. The TA will be financed on a grant basis with \$150,000 equivalent from ADB's TA funding program and \$500,000 equivalent from the Government of Luxembourg, to be administered by ADB. The Government of Mongolia will finance the remaining \$120,000 local currency equivalent in kind, to cover office accommodation, counterpart staff, and other related services. Detailed cost estimates and the financing plan are in Appendix 3.

D. Implementation Arrangements

17. MOF is the Executing Agency for the TA. MSWL and SSIGO are the implementing agencies. MOF, MSWL, SSIGO, the Financial Regulatory Commission, BOM, and the Mongolian Stock Exchange will form a coordination committee led by the Director General of the Financial Policy and Coordination Department of MOF for effective coordination in implementing the TA. A project implementation team comprising counterpart staff from MOF and MSWL will be established for daily implementation and monitoring of the project and communication with the consultant team. MOF and MSWL will provide the necessary office space and other related services to the consultants.

18. The TA will engage four international consultants (person-months are in parentheses)—a pension system expert/team leader (5), a fund management expert (4.5), a legal expert (3.0), and an actuarial expert (1.5)—and four national consultants (total of 20) whose background will be in the above four areas, associated with international consultants. A separate budget will be provided to engage resource persons to cover specific areas or to participate in seminars and conferences. The terms of reference for consultants are in Appendix 4. Consultants will be recruited through their firms, and selected under the quality- and cost-based selection method using the simplified technical proposal in accordance with ADB's *Guidelines on the Use of Consultants* (April 2006, as amended from time to time). Equipment will be purchased under the consultants' contract in accordance with ADB's *Procurement Guidelines* (April 2006, as amended from time to time) and ownership of which will be transferred to the Ministry of Finance after completion of the technical assistance. Advance payment procedures will be adopted to facilitate timely organization of study tours, training, and workshop activities.

19. The TA is expected to begin in February 2007 and end in December 2007. The consultants will submit (i) an inception report 3 weeks after their services start, (ii) an interim report 10 weeks after the start of services; (iii) a draft final report 3 months before the conclusion of the contract; and (iv) a final report after incorporating comments from MOF, ADB, and the participants of the workshops. All reports must be submitted in English and Mongolian.

IV. THE PRESIDENT'S DECISION

20. The President, acting under the authority delegated by the Board, has approved (i) ADB administering a portion of technical assistance not exceeding the equivalent of \$500,000 to be financed by the Government of Luxembourg on a grant basis, and (ii) ADB providing the balance not exceeding the equivalent of \$150,000 on a grant basis to the Government of Mongolia for Strengthening the Pension System, and hereby reports this action to the Board.

DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets/Indicators	Data Sources/Reporting Mechanisms	Assumptions and Risks
<p>Impact An adequate, affordable, self-sustaining and operationally effective restructured pension system</p>	<p>Reduced annual deficit of the pension fund (from MNT44.4 billion in 2005 to MNT15 billion in 2010)</p> <p>Increase in number of contributors to the public pension system (from 370,000 in 2005 to 500,000 in 2010)</p> <p>Pension fund independent from treasury function of MOF by 2010</p>	<p>Economic reports and official statistics from MOF, MSWL, and IMF</p> <p>Government gazette</p> <p>Ministerial/presidential decree reflecting such approval/proposition</p>	<p>Assumption</p> <ul style="list-style-type: none"> • Recommendations to improve adequacy, affordability, self-sustainability, and operational effectiveness acceptable to stakeholders. <p>Risks</p> <ul style="list-style-type: none"> • Resistance from people with vested interests successfully stops, delay, or nullify the reform. • Lengthy legislative process delays needed legal amendments.
<p>Outcome Adoption by the Government of the proposed recommendations</p>	<p>Strategy and investment policy and guidelines approved by the Government by March 2008</p> <p>Draft legal amendment submitted to Parliament by June 2008</p>	<p>Government gazette</p> <p>Ministerial/presidential decree reflecting such approval/proposition</p> <p>ADB technical assistance completion report</p>	<p>Assumption</p> <ul style="list-style-type: none"> • Recommendations are acceptable to the Government. <p>Risk</p> <ul style="list-style-type: none"> • Changes in the Government's priority delay the adoption of the proposed recommendations.
<p>Outputs</p> <ol style="list-style-type: none"> 1. Recommendations on a strategy to further reform the pension system 2. Investment policy and guidelines for restructured pension fund 3. Draft legal amendments to implement the strategy 4. Strengthened capacities of pension staff in collecting pension premiums, managing individual accounts, and investing accumulated fund 	<p>Draft strategy prepared by July 2007</p> <p>Investment policies and guidelines prepared by July 2007</p> <p>Draft legal amendments to implement the strategy prepared by October 2007</p> <p>More than 60 pension staff members in charge of premiums collection and individual account management trained by November 2007</p> <p>More than 60 fund management and actuarial calculation personnel trained by</p>	<p>Reports of the consultants and MOF</p> <p>Workshops to disseminate the findings and recommendations and to invite comments</p> <p>ADB review missions</p> <p>Training materials and list of participants</p> <p>Workshop and conference materials and list of participants</p>	<p>Assumptions</p> <ul style="list-style-type: none"> • Timely availability of data • Effective participation of stakeholders in conference/workshops • Participants in conference/workshops disseminate their knowledge to their colleagues and fellows. <p>Risk</p> <ul style="list-style-type: none"> • Transfer or resignation of trained personnel and other government officials involved in the project results in loss of institutional memory and of the reform momentum.

Design Summary	Performance Targets/Indicators	Data Sources/Reporting Mechanisms	Assumptions and Risks
5. Raised public awareness of the benefit of pension systems	November 2007 More than 120 people including representatives from various stakeholders, parliament members, and mass media participating in workshops and conferences by October 2007		
Activities with Milestones 1.1 Review the existing pension scheme and MSWL's pension reform plans, pension operations, and institutional capacities, and experience in selected other countries, and identify issues that need to be addressed by May 2007. 1.2 Draft by July 2007 a strategy for further reforming the pension system. 1.3 Finalize the strategy for further reforming the pension system by October 2007. 2.1 Review the prospects of the development of various financial instruments and their markets, capacities of fund management professions, and identify issues that need to be addressed after the pension fund is allowed to invest its fund by May 2007. 2.2 Draft investment and portfolio management policies and guidelines for the pension fund by July 2007. 3.1 Review the existing legislation and regulations related to a pension scheme and MSWL's draft amendments, and identify issues that need to be addressed by May 2007. 3.2 Review legislation and regulations that may affect the pension fund's operations and investment activities after and identify issues that need to be addressed by May 2007. 3.3 Draft by October 2007 legal amendments to implement the further reform strategy and facilitate the investment activities of the pension fund. 4.1 Conduct training on daily operations for pension fund staff from August to November 2007 and give recommendations to improve efficiency. 4.2 Conduct training activities for fund managers and actuarial specialists from August to November 2007. 5.1 Conduct workshops and conferences to disseminate the benefits of the pension system, experience of other countries, and the project's findings and recommendations to various stakeholders, parliament members, and mass media from May to October 2007.		Inputs <ul style="list-style-type: none"> • Government of Luxembourg financing (ADB administering) \$500,000 <ul style="list-style-type: none"> - Consultancy: 14 person-months of international and 20 person-months of national consulting services - Contingencies • ADB financing \$150,000 <ul style="list-style-type: none"> - Equipment - Training, seminars, and conferences activities - Miscellaneous Administration and support costs - Contingencies • Government of Mongolia \$120,000 for counterpart staff, office accommodation, and related services 	

ADB = Asian Development Bank, IMF = International Monetary Fund, MOF = Ministry of Finance, MSWL = Ministry of Social Welfare and Labor.

Director, EARG

Director General, EARD

INITIAL POVERTY AND SOCIAL ASSESSMENT

A. Linkages to the Country Poverty Analysis

Is the sector identified as a national priority in country poverty analysis? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	Is the sector identified as a national priority in country poverty partnership agreement? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Contribution of the sector or subsector to reduce poverty in Mongolia:	
<p>The financial sector contributes to poverty reduction through its pivotal role in facilitating sustainable economic growth. By mobilizing savings and channeling them to productive investment in the real sector, the financial sector promotes economic growth and creates jobs, thereby reducing poverty. In 2003, the Government finalized a national poverty reduction strategy in the form of the Economic Growth Support and Poverty Reduction Strategy and the National Action Plan for 2004–2008. The private sector is identified as the major driver for growth, and financial sector development is considered one of the keys to inducing growth. The strengthening of the pension fund and its function as institutional investor will promote the development of a broad-based financial sector.</p> <p>The country strategy and program (CSP) for Mongolia identifies underdevelopment of the financial sector as a cause of poverty. The CSP also points out that limited access to credit, and saving and insurance instruments makes the poor particularly vulnerable to income shocks, and the lack of appropriate financial instruments increases the susceptibility of the aged to poverty. Strengthening the pension system and widening its coverage will help safeguard the poor and the vulnerable segments of the population from losing income when they retire or become disabled.</p>	

B. Poverty Analysis

Targeting Classification: General Intervention

What type of poverty analysis is needed?
<p>The analysis will</p> <ul style="list-style-type: none"> (i) identify how the pension system reform relates to national priorities identified in the country poverty analysis; (ii) assess needs of and constraints on poor urban migrants, the self-employed, herders, women, and other vulnerable people; and (iii) assess the effects of pension system reform on its beneficiaries, especially the benefits for vulnerable people.

C. Participation Process

Is there a stakeholder analysis? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
<p>Main stakeholders include the Ministry of Social Welfare and Labor, Ministry of Finance, pension funds, financial institutions, fund managers and actuarial practitioners, pensioners, and contributors. Current institutional capacities and institutional arrangements between stakeholders will be assessed during the technical assistance (TA).</p>
Is there a participation strategy? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
<p>The TA will be conducted in a collaborative and participatory process to ensure a high level of congruence of goals between all major government and non government stakeholders and the development partners. During implementation, participatory planning workshops with all major stakeholders will be conducted to present findings and recommendations and invite comments.</p>

D. Gender Development

Strategy to maximize impacts on women:
<p>An analysis to assess gender-related issues will be conducted during the TA. Findings and recommendations will be incorporated in the strategy for pension reforms.</p>
Has an output been prepared? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

The outputs will be prepared in the process of TA implementation.

E. Social Safeguards and Other Social Risks

Item	Significant/ Not Significant/ None	Strategy to Address Issues	Plan Required
Resettlement	<input type="checkbox"/> Significant <input type="checkbox"/> Not significant <input checked="" type="checkbox"/> None	A resettlement plan is not required.	<input type="checkbox"/> Full <input type="checkbox"/> Short <input checked="" type="checkbox"/> None
Affordability	<input type="checkbox"/> Significant <input checked="" type="checkbox"/> Not significant <input type="checkbox"/> None	Affordability will be assessed during TA implementation and the results of the assessment will be reflected in the recommendations.	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Labor	<input type="checkbox"/> Significant <input type="checkbox"/> Not significant <input checked="" type="checkbox"/> None	No labor retrenchments are envisaged as a result of the project.	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Indigenous Peoples	<input type="checkbox"/> Significant <input type="checkbox"/> Not significant <input checked="" type="checkbox"/> None	The project is not expected to have adverse impacts on indigenous people. However, impacts on indigenous people will be assessed during TA implementation.	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Other Risks and/or Vulnerabilities	<input type="checkbox"/> Significant <input type="checkbox"/> Not significant <input checked="" type="checkbox"/> None	No other social risks are anticipated as a result of the ensuing project.	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

COST ESTIMATE AND FINANCING PLAN
(\$'000)

Item	Total Cost
A. Asian Development Bank (ADB) Financing^a	
1. Consultants	
a. Remuneration and Per Diem	
i. International Consultants	350.0
ii. National Consultants	40.0
b. International and Local Travel	40.0
c. Reports, Communications, Translation	15.0
2. Equipment ^b	10.0
3. Training, Seminars, and Conferences	
a. Facilitators	10.0
b. Training Program	40.0
c. Workshops	30.0
d. Resource Persons	20.0
e. Study Tour	10.0
4. Miscellaneous Administration and Support Costs	10.0
5. Contingencies	75.0
Subtotal (A)	650.0
B. Government of Mongolia	
1. Office Accommodation	50.0
2. Remuneration and Per Diem of Counterpart Staff	50.0
3. Others	20.0
Subtotal (B)	120.0
Total	770.0

^a \$150,000 financed by ADB's technical assistance funding program, and \$500,000 from the Government of Luxembourg to be administered by ADB.

^b Including computer hardware and software, printer, photocopier, and other equipment to be purchased under the consultants' contract, in accordance with procedures acceptable to ADB, and ownership of which will be transferred to the Ministry of Finance after completion of the technical assistance.

Source: ADB estimates.

OUTLINE TERMS OF REFERENCE

A. The Consultants

1. Four international and four national consultants will be engaged.

1. Pension System Expert/Team Leader (international, 5 person-months)

2. As the team leader, the consultant will be responsible for overall management and implementation of the project, timely delivery of interim and final reports, management of other consultants, and recruitment and management of resource persons for various technical tasks. As pension system expert, the consultant will be responsible for the tasks related to pension schemes and policies, and organizational structures and operations of pension funds. The consultant must have sufficient knowledge and practical experience (over 10 years) in pension systems and pension operations and also have knowledge in moving from a pay-as-you-go system to a notional defined contribution system. Experience in working in Mongolia and sufficient knowledge of its pension system are desirable. Specifically, the consultant will do the following tasks:

- (i) Review the policies on pension contributions and benefit payments, separately for the public sector and for the private sector (private sector employees, self-employed, and herders), including contribution rates, formula to determine benefit payments, and conditions to be eligible to receive pension benefits; and identify issues that need to be addressed in further pension reforms.
- (ii) Review the progress of pilot programs to extend the coverage to the self-employed and herders, learn lessons from the pilot activities, and identify issues that need to be addressed in further pension reforms.
- (iii) Review the plans of the Ministry of Social Welfare and Labor (MSWL) for pension reforms reflected in the draft law to increase the collection rate, expand the coverage of the pension system, raise the retirement age, and allow the pension fund to invest in financial tools from the viewpoint of adequacy, affordability, financial sustainability, and operational efficiency; and identify issues that need to be addressed in further pension reforms.
- (iv) Assess the ability of existing and potential contributors to pay pension premiums, the necessary amount for retired people to meet basic needs in different locations and conditions, and the impacts of the proposed pension reforms under MSWL's plans, and identify issues that need to be addressed or taken into account in further pension reforms.
- (v) Review the enforcement measures to ensure compulsory contributions, and the practices and institutional capacities of the State Social Insurance General Office (SSIGO) in collecting pension premiums and managing personal accounts; and identify issues that need to be addressed in further pension reforms.
- (vi) Review the process of transition from a pay-as-you-go pension system to a notional defined contribution pension system and the process of establishing a three-pillar pension system in selected other countries, and identify models and extract lessons useful for further pension reforms in Mongolia.
- (vii) Based on the above reviews and reviews by other experts and in consultation with other experts, draft a strategy for further pension reforms. Include measures to (a) improve financial sustainability of the pension system while taking into account its affordability to pension contributors and pensioners, (b) further increase the collection ratio in the private sector, (c) further expand the coverage

- of the pension system, (d) effectively invest the fund in both domestic and foreign financial markets, and (e) improve operational efficiencies and effectiveness.
- (viii) Assess the impacts of recommended further pension reforms on beneficiaries, especially the benefits and negative impacts, if any, on vulnerable people.
- (ix) Design and conduct programs to increase public awareness of the scheme, requirements, and benefits of the pension system.
- (x) Conduct workshops to disseminate the findings and recommendations, and experience of pension reforms in other countries to various stakeholders, parliament members, and the mass media; and invite comments.
- (xi) Recommend measures to increase public awareness of the benefits of the pension system and the importance of the pension reforms.
- (xii) Finalize the strategy for further pension reforms by incorporating the comments gathered at the workshops.

2. Fund Management Expert (international, 4.5 person-months)

3. The consultant should take the lead in the tasks related to the investment policies of pension funds and a review of the capital markets. The consultant must have practical experience (over 5 years) in fund management in pension systems and sufficient knowledge about capital markets. Experience in working in Mongolia and sufficient knowledge of its capital markets are desirable. Specifically, the consultant will do the following tasks:

- (i) Review the current situation and the potential of financial markets (and impediments to their development) where the pension fund may be invested. Investments may be made in, among others, government bonds, asset-backed (especially mortgage-backed) securities, corporate bonds, corporate equities, and shares of investment funds.
- (ii) Review the infrastructure for capital market development including but not limited to rating agencies, clearing and settlement facilities, and credit enhancement mechanisms.
- (iii) Assess the capacities of fund managers in state funds and the private sector and capacities of the agencies supervising the activities of fund managers, and identify areas that need strengthening.
- (iv) In cooperation with the legal expert, analyze the various options regarding investment vehicles and identify the optimal vehicle for the pension fund and other state funds.
- (v) Draft investment policies and guidelines for the pension fund.
- (vi) Draft portfolio management policies for surplus funds of the pension fund and other state funds.
- (vii) Design and conduct a series of training seminars on investment policies and portfolio management for the pension fund, other state funds, and institutional investors.
- (viii) Study and identify the requirements and steps for drawing qualified international institutional investors to the domestic capital markets.

3. Legal Expert (international, 3 person-months)

4. The consultant will take the lead in the tasks related to reviewing and drafting laws and regulations. The consultant must have sufficient knowledge of and practical experience (over 10 years) in financial laws, with specific knowledge in legislation related to pension schemes and pension fund operations. Experience in working in Mongolia and sufficient knowledge of its legal system are desirable. Specifically, the consultant will do the following tasks:

- (i) Review existing legislation and regulations governing pension policies and operations and MSWL's draft amendments to these laws, and identify issues that need to be addressed.
- (ii) Review existing legislation and regulations that may affect the future activities of pension funds, including legislation and regulations related to the legal status of the pension fund, formulation and management of funds, relationship between the pension fund and management, and pension fund's investment in capital markets, and identify issues that need to be addressed.
- (iii) Review the legal and regulatory framework of financial products in which the pension fund may invest, identify legal and regulatory impediments to market development and pension fund's investment, and recommend necessary changes.
- (iv) In cooperation with the fund management expert, analyze the various options regarding investment vehicles, identify the optimal vehicle for the pension fund and other state funds, and identify needed legal amendments for the pension fund and other state funds to use the optimal investment vehicle.
- (v) Assist the pension system expert and fund management expert in formulating the strategy for further pension reforms and the investment policies and guidelines for the pension fund by advising on possible legal impediments in implementing the proposed measures and policies.
- (vi) Draft amendments to laws and regulations that are necessary to implement the strategy for further pension reforms.

4. Actuarial Expert (international, 1.5 person-months)

5. The consultant will take the lead in the tasks related to actuarial exercise. The consultant must be a certified actuary with practical experience (over 10 years) in actuarial exercise in pension funds. Experience in participating in the process of transition from a pay-as-you-go pension system to a notional defined contribution pension system and in working in Mongolia will be an advantage. Specifically, the consultant will do the following tasks:

- (i) Assist the pension system expert in reviewing the current pension system by providing inputs on actuarial calculation.
- (ii) Assist the pension system expert in formulating a strategy for further pension reforms by providing inputs on actuarial calculation.
- (iii) Design and conduct a series of training programs in actuarial calculation for actuarial practitioners in pension funds and other institutional investors.

5. Pension System Expert (national, 7 person-months)

6. A national pension system expert with in-depth country and sector knowledge and good contact with the Government will be recruited to assist the international pension system expert. The national expert will do the following tasks:

- (i) Help the international pension system expert quickly become familiar with his/her tasks in reviewing the existing system and policies by translating various documents into English and researching and compiling statistics and government policies and procedures.
- (ii) Advise the international pension system expert on the local situation and various constraints to ensure that the proposed measures and policies are suitable for the domestic situation.

- (iii) Assist the international expert in preparing, organizing, and conducting workshops.

6. Fund Management Expert (national, 6 person-months)

7. A national fund management expert with in-depth country and sector knowledge and good contact with the Government will be recruited to assist the international fund management expert. The national consultant will do the following tasks:

- (i) Help the international fund management expert quickly become familiar with his/her tasks in assessing capital market development and infrastructure by translating various documents into English and researching and compiling statistics and government policies, regulations, and procedures.
- (ii) Advise the international expert on the local situation and various constraints to ensure that the proposed investment and portfolio management policies and guidelines are suitable for the domestic situation.
- (iii) Assist the international expert in preparing, organizing, and conducting training activities.

7. Legal Expert (national, 4 person-months)

8. A national legal expert with in-depth country and sector knowledge, legal expertise and practical experience, and good contact with the Government will be recruited to assist the international legal expert. The national consultant will do the following tasks:

- (i) Help the international legal expert quickly become familiar with his/her tasks in reviewing legislation and regulations by translating various documents into English and researching and compiling statistics and government policies, legislation, and regulations.
- (ii) Advise the international expert on the local situation, legal structure, and various constraints to ensure that the drafted laws and regulations are suitable for the domestic situation.
- (iii) Assist the international expert in drafting laws and regulations and translate the drafted laws and regulations from English into Mongolian.

8. Actuarial Expert (national, 3 person-months)

9. A national actuarial expert with in-depth country and sector knowledge, practical experience in actuarial calculation, and good contact with the Government will be recruited to assist the international actuarial expert. The national consultant will do the following tasks:

- (i) Help the international actuarial expert quickly become familiar with his/her tasks in reviewing the capacities of actuarial practitioners by translating various documents into English and researching and compiling government policies, regulations, and procedures.
- (ii) Assist the international expert in conducting actuarial calculation.
- (iii) Assist the international expert in preparing, organizing, and conducting training activities.

B. Reporting Requirements

10. The consultants will submit the following reports in both English and Mongolian:

- (i) an inception report summarizing the initial findings of the consultants and detailed work plans for each consultant within 3 weeks after the technical assistance (TA) starts;
- (ii) an interim report summarizing the result of reviews of the current pension systems, pilot programs for expanding coverage, assessment of capital markets and investment opportunities, relevant laws and regulations within 10 weeks after the TA starts;
- (iii) a draft final report 3 months before the conclusion of the contract; and
- (iv) a final report after incorporating the comments of the Ministry of Finance and the Asian Development Bank and comments received at the workshops.