

TECHNICAL ASSISTANCE PERFORMANCE AUDIT REPORT

ON THE

REFORM OF PENSION AND PROVIDENT FUNDS

IN SELECTED DEVELOPING MEMBER COUNTRIES

December 2003

ABBREVIATIONS

ADB	–	Asian Development Bank
BAN	–	Bangladesh
CMDP	–	Capital Market Development Program
CPF	–	Central Provident Fund
DGFI	–	Director General of Financial Institutions
DOI	–	Department of Insurance
EA	–	executing agency
EPF	–	employer pension fund
EPFO	–	Employees' Provident Fund Organization
FIPF	–	financial institution pension fund
FPO	–	Fiscal Policy Office
GPS	–	Government Pension Scheme
IND	–	India
INO	–	Indonesia
MOC	–	Ministry of Commerce
MOF	–	Ministry of Finance
MSM	–	Ministry of Social Maintenance
OEM	–	Operations Evaluation Mission
PAYGO	–	pay-as-you-go
PCR	–	program completion report
PIN	–	personal identification number
TA	–	technical assistance
TCR	–	technical assistance completion report
TOR	–	terms of reference
THA	–	Thailand
TPAR	–	technical assistance performance audit report
UZB	–	Uzbekistan

NOTES

- (i) Fiscal years (FYs) of the governments end as follows: Bangladesh, 30 June; India, 31 March; Indonesia, 31 December; Thailand, 30 September; and Uzbekistan, 31 December. FY before a calendar year denotes the year in which the fiscal year ends.
- (ii) In this report, "\$" refers to US dollars.

CURRENCY EQUIVALENTS

Bangladesh

Currency Unit – taka (Tk)

TA 2915-BAN		At TA Approval (November 1997)	At TA Completion (August 1999)	At Operations Evaluation (October 2003)
Tk1.00	=	\$0.022222	\$0.020202	\$0.017120
\$1.00	=	Tk45.000	Tk49.500	Tk58.410

India

Currency Unit – Indian rupee/s (Re/Rs)

TA 3367-IND		At TA Approval (December 1999)	At TA Completion (December 2001)	At Operations Evaluation (October 2003)
Re1.00	=	\$0.022994	\$0.020756	\$0.022087
\$1.00	=	Rs43.490	Rs48.180	Rs45.275

Indonesia

Currency Unit – rupiah (Rp)

TA 3116-INO		At TA Approval (December 1998)	At TA Completion (September 2000)	At Operations Evaluation (October 2003)
Rp1.00	=	\$0.000135	\$0.000121	\$0.000119
\$1.00	=	Rp7,400.000	Rp8,295.000	Rp8,385.000

Thailand

Currency Unit – baht (B)

TA 2955-THA		At TA Approval (December 1997)	At TA Completion (February 2000)	At Operations Evaluation (October 2003)
B1.00	=	\$0.022225	\$0.026389	\$0.025294
\$1.00	=	B44.994	B37.895	B39.535

Uzbekistan

Currency Unit – sum (SUM)

TA 3134-UZB		At TA Approval (December 1998)	At TA Completion (September 2000)	At Operations Evaluation (October 2003)
SUM1.00	=	\$0.009171	\$0.003455	\$0.001025
\$1.00	=	SUM109.040	SUM289.400	SUM975.250

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BASIC TECHNICAL ASSISTANCE DATA

TA 2915-BAN: Insurance Industry and Pension and Provident Fund Reforms¹

Cost (\$'000)	Estimated	Actual²
Foreign Exchange	445	437
Local Currency	55	46 ³
Total	500	483
Number of Person-Months (consultants)	18.0	20.5
Executing Agency	Ministry of Commerce	
Milestones		Date
President's/Board Approval		20 Nov 1997
Signing of TA Agreement		5 Aug 1998
Fielding of Consultants		1 Feb 1999
TA Completion: Expected		Aug 1998
Actual		5 Aug 1999 ⁴
TCR Circulation		23 May 2003
Mission Type	Number	Date
Fact-Finding	1	22–31 Jul 1997
Inception	1	1–4 Feb 1999
Review	2	30 May–3 Jun 1999 23–26 Jan 2000 ⁴
Tripartite Meeting cum Consultation	1	11–18 Jul 1999
Operations Evaluation ⁵	1	19 Aug–5 Sep 2003

TA 2955-THA: Pension and Provident Funds Reform⁶

Cost (\$'000)	Estimated	Actual²
Foreign Exchange	1,143	1,101
Local Currency	7	8 ³
Total	1,150	1,109
Number of Person-Months (consultants)	25.0	29.7
Executing Agency	Ministry of Finance	
Milestones		Date
President's/Board Approval		19 Dec 1997
Signing of TA Agreement		22 May 1998
Fielding of Consultants		11 Jan 1999
TA Completion: Expected		Mar 1999
Actual		29 Feb 2000 ⁷
TCR Circulation		10 Oct 2003 ⁸
Mission Type	Number	Date
Fact-Finding	1	17–30 Sep 1997
Review ⁹	1	18–22 May 1998
Special TA Administration ¹⁰	2	18–20 Jul 2001 ⁷ 23–25 Jan 2002 ⁷
Operations Evaluation ⁵	1	1–9 Jul 2003

ADB = Asian Development Bank, TA = technical assistance, TCR = technical assistance completion report.
Note: Footnotes on page iv.

TA 3116-INO: Reform of Pension and Provident Funds

Cost (\$'000)	Estimated	Actual
Foreign Exchange	620	662
Local Currency	250	208
Total	870	870
Number of Person-Months (consultants)	38.0	32.9
Executing Agency	Directorate General for Financial Institutions, Ministry of Finance	
Milestones		Date
President's/Board Approval		11 Dec 1998
Signing of TA Agreement		7 Jan 1999
Fielding of Consultants		14 Jun 1999
TA Completion: Expected		Feb 2000
Actual		7 Sep 2000 ¹¹
TCR Circulation		6 Jul 2001
Mission Type	Number	Date
Fact-Finding	1	3–8 Sep 1998
Seminar/Workshop	1	23–24 Aug 2000
Operations Evaluation ⁵	1	1–9 Jul 2003

TA 3134-UZB: Pension Reform

Cost (\$'000)	Estimated	Actual
Foreign Exchange	778	768
Local Currency	72	81
Total	850	849
Number of Person-Months (consultants)	46.5	59.2
Executing Agency	Ministry of Social Maintenance	
Milestones		Date
President's/Board Approval		22 Dec 1998
Signing of TA Agreement		21 Jan 1999
Fielding of Consultants		20 Aug 1999
TA Completion: Expected		Oct 1999
Actual		1 Sep 2000 ¹²
TCR Circulation		29 Aug 2001
Mission Type	Number	Date
Fact-Finding	1	12–23 Oct 1998
Inception ¹³	1	24 Aug–17 Sep 1999
Review	1	1–9 Mar 2000
Operations Evaluation ⁵	1	19 Aug–5 Sep 2003

**TA 3367-IND: Reform of the Private Pension and Provident Funds System Reform
and the Employees' Provident Fund Organization**

Cost (\$'000)	Estimated	Actual
Foreign Exchange	760	706
Local Currency	240	175
Total	1,000	881¹⁴
Number of Person-Months (consultants)	41.0	41.0
Executing Agency	Ministry of Labor	
Implementing Agency	Employees' Provident Fund Organization	
Milestones		Date
President's/Board Approval		26 Dec 1999
Signing of TA Agreement		7 Apr 2000
Fielding of Consultants		12 Jun 2000
TA Completion: Expected		Dec 2000
Actual		10 Dec 2001 ¹⁵
TCR Circulation		11 Jan 2002
Mission Type	Number	Date
Fact-Finding	1	24 Oct–3 Nov 1999
Inception	1	15–18 Aug 2000
Seminar/Workshop	2	Dec 2000
Review	1	Feb 2001
Operations Evaluation ⁵	1	Sep 2001
		19 Aug–5 Sep 2003

Footnotes

- ¹ Attached to Loan 1580-BAN(SF): *Capital Market Development Program*, for \$80 million, approved on 20 November 1997.
- ² Financed by the Japan Special Fund (i.e., private sector promotion activities).
- ³ Operations Evaluation Mission (OEM) estimates.
- ⁴ Final report was received by ADB in August 1999. Supplementary report was submitted on 1 June 2000.
- ⁵ The OEM comprised Naomi Chakwin, Principal Evaluation Specialist (Mission Leader), and was assisted by Christopher Bender, Staff Consultant (Pension Sector Specialist).
- ⁶ Attached to Loan 1600-THA: *Financial Markets Reform Program*, for \$300 million, approved on 19 December 1997.
- ⁷ Following submission of the final report in February 2000, the Government and ADB agreed to a second phase of TA implementation focusing on refining the policy options through public information campaigns, seminars, and workshops to generate greater public understanding and awareness. In 2002, two consultants provided legal and actuarial support to examine reform options and their socioeconomic implications.
- ⁸ TCR prepared as an appendix to the program completion report.
- ⁹ In conjunction with the review mission for Loan 1600-THA (footnote 6).
- ¹⁰ Based on mission authorization requests on file. There were no back-to-office reports on file.
- ¹¹ Computer equipment and software to enhance Pensions Directorate capacity and operations management was delivered and installed in June 2001.
- ¹² Consultant completed fieldwork in early July 2000. Final report was received by ADB in September 2000. Procurement of computers was completed in March 2001.
- ¹³ In conjunction with the fact-finding mission for the TA on Support Services for Small and Medium Enterprises in Uzbekistan, and the reconnaissance mission for the Support for Post-Privatization Initiatives in Kyrgyz Republic.
- ¹⁴ Active TA as of November 2003. TA account has been kept open after TCR circulation.
- ¹⁵ Final report was received in December 2001.

EXECUTIVE SUMMARY

Reforming pension systems across Asia assumed a greater significance and urgency for the Asian Development Bank (ADB) in the wake of the economic and financial crisis that began in 1997. In response to the crisis, ADB exerted concerted effort to strengthen financial market institutions throughout Asia and to support activities intended to reduce the concentration of assets held in weak banking systems. A core element of this strategy included technical assistance (TA) grants intended to enlarge the role of pension funds in Asian capital markets.

This technical assistance performance audit report (TPAR) covers five TA grants—totaling \$4.37 million¹ approved between November 1997 and December 1999—that were intended to promote pension reform in (i) Bangladesh (TA 2915-BAN), (ii) Thailand (TA 2955-THA), (iii) Indonesia (TA 3116-INO), (iv) Uzbekistan (TA 3134-UZB), and (v) India (TA 3367-IND). These TAs were selected because they represent a broad range of ADB experience in supporting pension reform across a number of dimensions, including the geographic distribution of the countries involved, their level of economic and social development, the depth and breadth of their capital markets, their institutional capacity, and the degree of aging in their underlying populations. Two of the TAs—TA 2915-BAN and TA 2955-THA—were attached to capital market development programs. The remainder were designed on a standalone basis.

The rationale of these TAs was first and foremost to contribute to financial market development. This is consistent with ADB's institutional approach to pension reform whereby it has, thus far, been viewed primarily—if not exclusively—as a vehicle for increasing the flow of long-term funds into the capital markets in order to promote greater market stability and provide capital for investments of greater duration to support broader economic growth objectives. This is reflected in their objectives, which broadly included the (i) designing of reforms intended to heighten the role of privately managed pension schemes; (ii) development or strengthening of the legal and regulatory framework, including the adoption of appropriate investment policies and guidelines for funded pension schemes; (iii) auditing of the public pension funds; and (iv) strengthening of operational procedures and the building of capacity on the part of market regulators and participants (to improve the professionalism of fund management) and on the part of counterparts (to improve their understanding of pension policy and options for reform).

Promoting long-term domestic capital formation was consistent with ADB's country and sector operational strategies, but the appropriateness of the designs of the TAs varied. TA 2915-BAN was predicated on two fundamental assumptions, including (i) that the recommendations of a prior TA had been accepted and that the Government was prepared to implement them, and (ii) that the only barrier to increased capital flow was the inadequacy of the regulatory structure and the inappropriateness of existing investment guidelines. Both assumptions proved to be incorrect. The designs of the other TAs, while less fundamentally flawed, still, in some cases, (i) overestimated the capacity of counterparts to fully appreciate the policy issues underlying the reforms being proposed (TA 2955-THA); (ii) misjudged the degree of political consensus surrounding the reforms the TAs were intended to implement (TA 2955-THA, TA 3116-INO, and TA 3367-IND); or (iii) were overly ambitious (TA 3116-INO).

Implementation of these TAs was completed between 7 and 12 months late, which suggests their implementation schedules were moderately optimistic. However, implementation was generally successful, and the delays themselves had no substantial impact on the achievement of their objectives. The number of consultants used, their level of effort (in person-

¹ ADB funds were augmented by \$890,000 in government financing.

months), and the division of labor between international and domestic consultants differed from what was planned in most cases, but many of the differences were modest. Arrangements with executing agencies were generally acceptable with the exception of TA 2915-BAN where there was no effective counterpart. The quality of ADB oversight varied, ranging from exemplary (TA 3134-UZB—which demonstrated [i] the value of continuity in the management of a TA from its design through its implementation, and [ii] the merits of counterpart engagement in TA design) to very poor (TA 2915-BAN).

The outputs and impacts of these TAs reflects the practical reality that pension reform is one of the most controversial and politically charged public policy challenges facing any government, whether in the developed or in the developing world. Pension reform requires governments to balance competing social and practical interests and—like all programs of insurance—changes in pension policy ultimately benefit some at the expense of others. Given such political complexity, pension reform is typically a long-term endeavor that can take many years, even if the political will exists to make changes rapidly. Against a realistic yardstick for what these TAs could have accomplished, their impacts varied, ranging from virtually none (TA 2915-BAN) to substantial (TA 2955-THA—where a cabinet Committee for Retirement and Old Age Policy was established and charged with the analysis of pension policy and the development a reform platform). Several of the TAs, while falling short of the entirety of their objectives, made important contributions in particular areas, including, for example, TA 3367-IND, which created and guided momentum for the operational restructuring of India’s provident fund.

The TAs covered by this TPAR are individually rated as follows: TA 2915-BAN—unsuccessful; TA 3367-IND—partly successful; and TA 3116-INO, TA 2955-THA, and TA 3134-UZB—successful. As a group, they are rated as successful. The evaluation criteria and ratings used to support this assessment include (i) relevance: relevant (a higher rating would have been assigned if the TAs had all been geared to the level of institutional development, needs, and appetite for reform actually found on the ground); (ii) efficacy: less efficacious (which reflects the fact that two of the TAs met only a portion of their objectives and one failed entirely to meet any of its primary objectives); (iii) efficiency: efficient (which measures primarily the degree to which schedules and cost targets were met, given the absence of performance measures); (iv) sustainability: likely to be sustained (which reflects the inevitability of pension reform across much of the region); and (v) impact: moderate (which reflects the practical reality that the countries covered by this TPAR lacked the institutional capacity and political will to enact the reforms along the timeframe these TAs envisaged).

The key issues that emerged from this TPAR include the need for ADB to (i) 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 in society; (ii) improve the skills and knowledge of staff working on pension issues; (iii) improve cross-departmental coordination between financial sector and human development staff during the design and implementation of pension reform activities; and (iv) explicitly address distribution issues—particularly those involving women and disadvantaged groups—in the design of any future pension reform activities.

The primary recommendation arising from this TPAR is that prior to launching any new initiatives in support of pension reform, ADB should first develop an institutional framework for pension reform that takes into account (i) the legal and regulatory preconditions for funded pensions (this requires not only the existence of the institutions themselves but the presence of

qualified regulators and an impartial and functioning judiciary to adjudicate claims); (ii) the capital market preconditions for funded pensions (this requires not only sufficient market depth and breadth to support portfolio diversification and secondary trading to support price formation but also sufficient market absorption capacity such that pension funds have reasonable assurance of being able to earn sufficiently positive real rates of return, net of administrative expenses, to generate reasonable levels of income replacement for plan participants); (iii) the fiscal constraints surrounding an increase in funding (reforms intended to eliminate pay-as-you-go pension programs will necessarily increase costs in the short and medium terms because some contributions are no longer available to pay benefits); and (iv) the distributional impacts of different reform options on women and disadvantaged groups (which must be evaluated within the context of ADB's mandate and commitment to poverty reduction). This framework should be applied on a country-by-country basis to construct a more appropriately phased program of pension reform, specific to each developing member country, that respects the constraints identified above and is appropriate to the country's level of institutional development, human capacity, and political appetite for reform.

I. INTRODUCTION

A. Background

1. Reforming pension systems¹ across Asia assumed a greater significance and urgency for the Asian Development Bank (ADB) in the wake of the economic and financial crisis that began in 1997.² In response to the crisis, ADB exerted concerted effort to strengthen financial market institutions throughout Asia and to support activities intended to reduce the concentration of assets held in weak banking systems. A core element of this strategy included technical assistance (TA) grants intended to enlarge the role of pension funds in Asian capital markets.³

2. The theoretical underpinnings of most pension reform initiatives launched by the multilateral development banks over the past decade can be traced to a seminal World Bank publication entitled *"Averting the Old Age Crisis."*⁴ This study argues that financial security for the aged, as well as economic development and growth, would be better served if governments set as their long-term objective the establishment of three tiers, or "pillars", of old age security including (i) a mandatory, tax financed, publicly managed pension scheme (the first pillar); (ii) a mandatory, fully funded, privately managed pension fund or funds (the second pillar); and (iii) voluntary, fully funded, privately managed pension funds (the third pillar). The first pillar is intended to effect income redistribution—both across generations and from the comparatively well off to the less well off within a given generation—in order to limit poverty among the aged. The second pillar is mandated savings, the objective of which is to smooth consumption between a person's working years and retirement. The third pillar is intended to provide a means for persons to voluntarily save more during their working years than what is provided by the mandated schemes. In combination, and if adequately managed and regulated, these three pillars are expected to provide reasonable security against the risks inherent in aging. By separating the redistribution function from the savings function, the public pillar—and the size of the payroll tax needed to support it—can be kept relatively small, thus avoiding many of the growth-inhibiting problems associated with large, pay-as-you-go (PAYGO) public pension systems. The establishment of these three pillars remains the long-term objective of most pension reform initiatives undertaken by the multilateral development banks. Considerable debate exists, however, in terms of how this long-term objective should be implemented over the short to medium terms across countries at different levels of economic and financial market development facing varying degrees of demographic pressure.

¹ For the purposes of this report, the terms "pensions" and "pension systems" are used to describe (i) provident funds, (ii) other types of contractual saving schemes intended to provide retirement income, and (iii) pay-as-you-go public pension schemes.

² Prior to 1997, ADB provided only four technical assistance (TA) operations in support of pension reform. These include TA 1347-INO: *Review of the Pension Fund Industry*, for \$85,000, approved on 3 August 1990; TA 1844-LAO: *Pension Fund and Leasing Legislation*, for \$100,000, approved on 25 January 1993; TA 2033-BAN: *Study in the Insurance Industry and Pension and Provident Fund Operations in Bangladesh*, for \$577,000, approved on 27 December 1993; and TA 2138-TON: *Pension Scheme for Civil Service*, for \$100,000, approved on 18 August 1994. From 1997 until 2003, ADB provided 17 TA operations in support of pension reform. Summary information for these TAs is contained in Appendix 1.

³ See the statement of the Vice President, dated 3 December 1998, from the 2-day conference on pension reforms at ADB Headquarters in Manila. This conference—which represented a major initiative by ADB to develop regional pension funds—was attended by delegates from over 22 countries.

⁴ World Bank. 1994. *Averting the Old Age Crisis*. New York: Oxford University Press.

3. The following five TAs, totaling just under \$4.4 million, were selected for this technical assistance performance audit report (TPAR):⁵

- (i) TA 2915-BAN: *Insurance Industry and Pension and Provident Fund*⁶ *Reforms*,⁷
- (ii) TA 2955-THA: *Pension and Provident Funds Reform*,⁸
- (iii) TA 3116-INO: *Reform of Pension and Provident Funds*,⁹
- (iv) TA 3134-UZB: *Pension Reform*,¹⁰ and
- (v) TA 3367-IND: *Reform of the Private Pension and Provident Funds System Reform and the Employees' Provident Fund Organization*.¹¹

4. These TAs—details of which are summarized in Appendix 2—were conducted in remarkably different contexts, not only in terms of the financial constraints faced at the time the TAs were designed and implemented (some of the countries were more affected than others by the financial crisis that started in 1997) but also in terms of the pension systems already in place, their level of economic development, and the underlying age structure of their populations. The two Southeast Asian countries—Indonesia and Thailand—can be characterized as rapidly modernizing countries. Several decades of economic gains have resulted in declining rates of fertility, lower infant mortality, and greater longevity which will result in the elderly constituting a larger share of the population and imposing greater long-term pressure on systems intended to provide retirement income than is the case in Bangladesh or, to a lesser extent, in India (see Figure 1 below).

⁵ These TAs were selected to represent a broad range of ADB experience in supporting pension reform across a number of dimensions, including regional distribution, financial and socioeconomic development, and the aging of the country's underlying population (i.e., demographics).

⁶ The term "provident fund" is commonly used to describe mandatory, fully funded defined contribution schemes managed by the public sector (second pillar institutions). In some places, a "provident" fund with outsourced private management of the investments is recommended as a way of reducing the wedge of high administrative costs created by having lots of funds competing for customers and running up huge marketing costs. The intent is to limit administrative costs while still benefiting from private investment management—both in terms of improving expected returns and in terms of making it more difficult for politicians to interfere with investment decisions in pursuit of legitimate or illegitimate ends. In some of these TAs, the provident funds are really voluntary employer-sponsored pension schemes (i.e., the third pillar institutions).

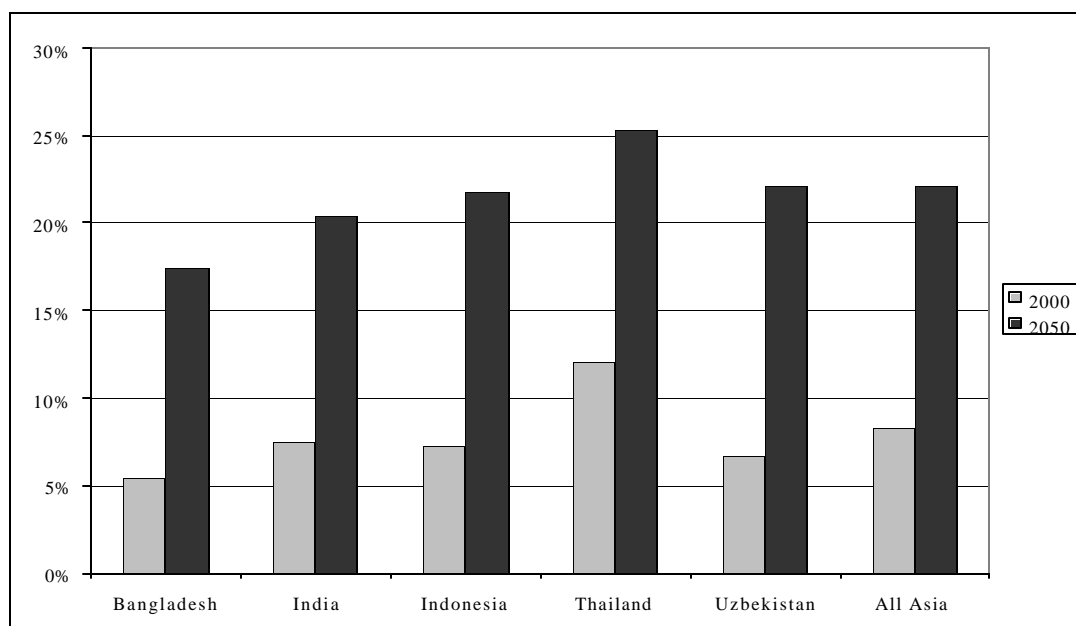
⁷ For \$500,000, approved on 20 November 1997.

⁸ For \$1.15 million, approved on 19 December 1997.

⁹ For \$870,000, approved on 11 December 1998.

¹⁰ For \$850,000, approved on 22 December 1998.

¹¹ For \$1 million, approved on 26 December 1999.

Figure 1: Actual and Projected Percentage of the Population Over Age 60

Source: World Bank. 1994. *Averting the Old Age Crisis*. New York: Oxford University Press.

B. Rationale and Concept

5. All five TAs were intended first and foremost to support greater access by industry to longer-term financing through capital market development. Two of the TAs—Bangladesh and Thailand—were attached to capital market reform programs.¹² Both were intended to promote the establishment of a three-pillar pension system, the primary focus of which was heightening the role of the second and third pillars to increase the flow of long-term capital into the capital markets. This was to be accomplished by the development of a policy framework for pension reform (in the case of Thailand) or the implementation of a policy framework developed under a prior ADB TA (in the case of Bangladesh) as well as by the strengthening of the legal and regulatory institutions overseeing contractual savings schemes, the elimination of tax disincentives, and the relaxation of investment restrictions governing pension funds.

6. The other three TAs—for Indonesia (TA 3116-INO), Uzbekistan (TA 3134-UZB), and India (TA 3367-IND)—were not attached to capital market programs. Although still focused largely on the objective of deepening the capital markets, these TAs did include components directed toward first pillar or social safety net concerns. A component of TA 3116-INO, for example, called for the audit of Jamsostek, Indonesia's provident fund for workers employed in the private sector. Given the debilitating impact of the Asian crisis on the financial sector, the financial health and sustainability of Jamsostek as well as private pension funds were of major concern. A component of TA 3367-IND was intended to provide capacity building for the Employees' Provident Fund Organization (EPFO), India's provident fund for workers employed in the private sector. While the situation in Uzbekistan differed in several key respects—as a country in the early stages of transition to a more market oriented economy and the only country in the group with an established and effectively universal first pillar pension system—one component of TA 3134-UZB was intended to help refine the existing system to make it

¹² TA 2915-BAN supported Loan 1580-BAN(SF): *Capital Market Development Program*, for \$80 million, approved on 20 November 1997. TA 2955-THA supported Loan 1600-THA: *Financial Markets Reform Program*, for \$300 million, approved on 19 December 1997.

financially sustainable over the long term, while others were intended to explore options for the introduction of voluntary, fully funded private pension funds.

C. Purpose and Scope

7. These TAs shared the common objective of increasing the flow of long-term funds into the capital markets to promote economic growth. They 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 analytical and theoretical capacity of those involved in the promulgation of pension policy. Appendix 3 summarizes the purposes, outputs, and expected outcomes for each of these TAs.

1. Bangladesh (TA 2915-BAN)

8. This TA was predicated on the assumption that prior recommendations developed under a previous TA¹³ had been accepted and would be implemented. As such, this TA was intended to assist the Government to implement recommendations to create an enabling environment for insurance products, pension funds, and provident funds through a two-pronged approach which included (i) progressive liberalization and deregulation of these business sectors, and (ii) strengthening of the regulatory and supervisory capacities of the oversight ministries. By pursuing both objectives, this TA was intended to facilitate the flow of long-term funds to the capital market and contribute to the market's development. The scope of the TA included three components: (i) insurance sector reform (introduction of regulatory best practices, establishment of prudential norms, and the design of a market surveillance system); (ii) pension and provident funds reform (strengthening of the regulatory and supervisory structure, development of new investment guidelines, and the preparation of a phased plan to shift from an unfunded pension system to a fully funded system); and (iii) training for regulators and market participants from both sectors.

2. Thailand (TA 2955-THA)

9. This TA was part of a larger reform program intended to promote financial market restructuring. By assisting the Government to promote the development of pension and provident funds, the TA was intended to mobilize long-term savings and, at the same time, strengthen mechanisms of social protection. Implicit in this approach was the presumption that the goal of mobilizing savings would necessarily lead to improved retirement security. In mobilizing long-term savings, the TA was intended to reduce the external resource gap, strengthen capital market development, and secure investment-induced stable growth. The scope of the TA included two components: (i) strengthening institutional foundations through organizational restructuring, operations and procedures, and capacity building; and (ii) enhancing the policy framework through the development of a pension and provident funds master plan addressing legal-regulatory processes, incentive systems, and investment guidelines.

¹³ From the technical assistance completion report, "TA 2915-BAN, attached to the Capital Market Development Program loan, was designed to implement the insurance legal, regulatory, and organizational reforms recommended under TA 2033-BAN: *Study of Insurance Industry and Pension and Provident Fund Operations in Bangladesh...*"

3. Indonesia (TA 3116-INO)

10. This TA was intended to (i) strengthen the financial sector by promoting the development of the nonbank financial sector and alternative sources of long-term financing for investment, and (ii) reduce poverty and improve social protection by promoting the development of partially funded or fully funded pension schemes. The scope provided for two phases. In the first phase, the scope required (i) the actuarial analysis of the financial sustainability of current and any proposed pension schemes; (ii) an in-depth analysis of the impediments to the development of employer pension funds and those sponsored by financial institutions; (iii) a feasibility analysis of the restructuring of Jamsostek, the provident fund for private sector employees; and (iv) the audit of existing pension schemes, supported by proposals for their restructuring. On the basis of what was learned in the first phase, the second phase called for recommendations for (i) increasing the level of social security coverage and mobilizing more resources; (ii) creating or modifying investment policies, guidelines, regulations, and legislation; and (iii) operational procedures to encourage the professional management of pension and provident funds in both the public and private sectors.

4. Uzbekistan (TA 3134-UZB)

11. This TA was intended to support the Government's pension reform agenda by (i) offering recommendations for modernizing the administrative and financial management processes in the current PAYGO system; and (ii) developing an enabling operational, legal, and regulatory environment for the introduction of fully funded private pension funds. The scope included (i) a review of the administrative and management processes and procedures of the existing public pension fund; (ii) an independent external (international) financial audit of the fund; (iii) the formulation of a sound legal and regulatory basis for the introduction of private pension funds; (iv) the identification of the legal and regulatory measures needed in the capital markets to support the introduction of private pension funds; (v) the identification of financial sector preconditions to facilitate pension reform—including operational, legal, and regulatory conditions within capital market institutions, insurance and asset management companies, and custodians, etc.—and an analysis of the impact of the reform on the capital markets; (vi) detailed sector studies to assess the feasibility of introducing private pension funds; (vii) an analysis of the social dimensions of the pension reform, particularly with regard to private pension funds; and (viii) the launch of a pilot project in Samarkand to improve data collection and processing.¹⁴

5. India (TA 3367-IND)

12. This TA was intended to create a pension reform framework and to present practical options, supported by cost analysis, for the structuring of a more efficient, equitable, transparent, and sustainable private sector pension and provident funds system. The scope included the (i) preparation of a study of both formal and informal mechanisms of retirement income support, including the identification of long-term requirements for an adequate national pension and provident fund system; (ii) crafting of recommendations for improving the legal, regulatory, and tax frameworks governing the provident fund and private sector pension funds;

¹⁴ The Samarkand pilot project was also supported by a World Bank TA, for \$350,000, which funded the (i) preparation of an actuarial model to analyze the financial implications of pension reform options based on alternative economic and demographic scenarios, (ii) implementation of the Samarkand pilot project and the development of a management information system, and (iii) preparation of a campaign to educate the public on the proposed new pension system. The results of the actuarial modeling exercise were intended to provide background data and information for the design of pension reform to be supported by ADB's TA.

(iii) development of a strategy for modernizing the provident fund; and (iv) creation of a proposal for the establishment of a pension research institute.

D. Completion and Self-Evaluation

13. Each of the TAs evaluated in this TPAR was evaluated by the operational department responsible for it. Although TA 2915-BAN was covered as part of the program completion report for Loan 1580-BAN(SF) (footnote 12), a separate technical assistance completion report evaluated the TA as partly successful. TA 2955-THA was evaluated in a separate appendix as part of the program completion report for Loan 1600-THA (footnote 12). This self-evaluation rated the TA as successful. The remaining TAs—TA 3116-INO, TA 3134-UZB, and TA 3367-IND—were self-evaluated on a standalone basis. All were rated as successful.

E. Operations Evaluation

14. An Operations Evaluation Mission (OEM) visited Indonesia and Thailand from 2 to 8 July 2003 and Bangladesh, India, and Uzbekistan from 19 August to 8 September 2003. The OEM held discussions with a large number of institutions, market participants, TA executing agencies (EAs), regulatory authorities, and other stakeholders. This TPAR is based on (i) a review of the rationale, purpose, and expected outcomes of each TA; and (ii) an analysis of actual outcomes and long-term objectives as revealed in discussions by the OEM. The OEM reviewed relevant ADB records, analyzed pertinent data collected in the field, and supplemented this information with follow-up discussions with ADB staff and additional research when needed. Special attention was given to assessing the achievement of the stated objectives and outcomes of the TA and the appropriateness of the underlying TA design. The implementation experiences of the EAs for each of the TAs were also taken into account. The OEM evaluated the TAs in terms of (i) the relevance of their design in relation to their underlying rationale and objectives, as well as their consistency with the government's priorities for the sector and ADB's sector strategy; (ii) the achievement of their design objectives; (iii) the efficiency of their implementation and the adequacy of their outputs; and (iv) their actual outcomes and institutional and other development impacts. The TAs have been rated individually (the evaluations are attached as Appendixes 4-8) and as a group (see Section IV). For reasons explained below, the OEM evaluations downgraded the self-evaluations for TA 2915-BAN (from partly successful to unsuccessful) and TA 3116-INO (from successful to partly successful).

II. PLANNING AND IMPLEMENTATION PERFORMANCE

A. Formulation and Design

1. Bangladesh (TA 2915-BAN)

15. This TA was intended to promote the growth of the capital markets through the liberalization and deregulation of the sector, together with the strengthening of the regulatory and supervisory functions of the oversight ministries. The design of this TA was predicated on the assumption that the recommendations of an earlier TA had been accepted and would be implemented (para. 8). When the consultants arrived in Bangladesh, however, the Government was not aware of the previous TA or its recommendations and was unprepared to implement them. In addition, the design of TA 2915-BAN was flawed in that it was predicated on the assumption that the only barrier to increased capital flow was the inadequacy of the regulatory structure and the inappropriateness of regulatory guidelines. Since almost all of the provident and pension funds currently operating in Bangladesh are unfunded (in the case of the Government Pension Scheme and the Central Provident Fund for public sector employees,

pensions are paid from general governmental revenues), simply relaxing the investment guidelines to permit broader investment would have had limited impact on the supply of capital for investment. The TA's stated objective and scope are silent on the contradiction between this reality and the objective of promoting long-term capital flows. Moreover, the most pressing issue facing the Government is not the need to liberalize and deregulate the insurance and pension fund industries or to strengthen the regulatory capacities of the oversight ministries, but the challenge of coping with a large and mounting pension payment liability. This issue—and the need for a policy reform framework to address it—is not addressed in the TA paper, although the task of evaluating the Government's unfunded liability is included as a major component of the scope of work for the actuary. Finally, at the time the TA was launched, there was—and there continues to be—no effective governmental counterpart for reforming the pension and provident fund industry in Bangladesh. The issues facing these industries are quite different than those facing the insurance industry, and the Ministry of Finance (MOF)—which served as the EA for the overall Capital Market Development Program (CMDP)—had no jurisdiction over (or interest in) the pension component of this TA. It is not apparent why the two sectors were aggregated under the same TA design, and no coordination mechanism was established to address this design flaw.

2. Thailand (TA 2955-THA)

16. The design of this TA was predicated on the understanding that governmental counterparts in Thailand—a relatively sophisticated, middle income country with a rapidly developing economy—would have already been exposed to the principles and choices available to them for reforming their pension system in line with recent international experience and developments. In addition, the design of the TA presumed that the Government had already made a commitment to the introduction of a three-pillar pension system, including the establishment of a mandatory, fully funded, privately managed pension system (i.e., second pillar). Both assumptions proved to be false. While it is true that Thailand's economy is financially sophisticated, the institutionalization of formal pension systems and an appreciation and understanding of them in the Thai culture was quite limited at the time the TA was launched. Informal systems of old age security through extended family arrangements were still very much the norm (although they were under considerable stress as a result of the financial crisis that began in 1997). Even today, a large percentage of Thais still expect to live with and to support their elderly parents. As a consequence, the expectations of the Government and the consultants—based on their terms of reference (TOR)—were quite different. Given this, the TA's design and desired outputs were more optimistic than was justified. Instead of implementing a pension reform framework, the consultants first had to develop an understanding among their counterparts of pension policy and theory, the choices for reform available to them, and the cost and social implications of those reform choices. These tasks were not envisioned under the original TOR, and the TA's design required significant subsequent adjustment.

3. Indonesia (TA 3116-INO)

17. The design of this TA was ambitious. Its TOR spanned two phases, totaling seven major tasks, including opinion surveys, a full financial and actuarial analysis of the existing pension schemes, a review of the legal framework, an actuarial and financial analysis of alternate reform scenarios, a review of tax policy, the crafting of recommendations to recover pension losses attributable to the financial crisis, the improvement of market oversight and the legal and regulatory framework, the drafting of legislation and the creation of the institutional framework for the proposed pension and provident fund system, the use of workshops to disseminate results and recommendations and increase public understanding, and the preparation of a final

report. Even under ideal conditions, these tasks could not have been accomplished within the proposed timeframe and budget of the TA. In addition, the design of the TA was flawed in that there was one EA—the Director General of Financial Institutions in MOF—but the task of implementation was handled by several other agencies including the Ministry of State-Owned Enterprises, the Ministry of Manpower, and the Ministry of Defense. Coordination between these implementing agencies was meant to take place through a high-level steering committee. In practice, this approach proved to be ineffective, and the consultants were unable to access much of the information they needed under the TOR and, ultimately, failed to gain consensus and buy-in for their recommendations.

4. Uzbekistan (TA 3134-UZB)

18. This TA had a limited scope that included providing support to the Government to strengthen the existing PAYGO public pension system and to lay the foundations for the introduction of voluntary private pensions. Its design benefited greatly from technical discussions with the Government held before the TA design was finalized. Many of the tasks under the TOR focused on diagnostic assessments, rather than the drafting of large roadmaps for reforms that the Government would have been unlikely to adopt. In this sense, the design was demand-driven, and it was the only TA among this group to have recorded its agreements in the form of a memorandum of understanding co-signed by the Government. The design also reflected a stronger emphasis on (i) social policy issues, including the alignment of contributions and benefits, and the need to address gender disparities in retirement ages and service requirements; and (ii) fiscal policy issues, including the need to separate pension fund accumulations from the reserve funds of the Ministry of Social Maintenance (MSM). The design included components intended to promote broader awareness of pension issues and help build consensus for reform. This TA was designed in collaboration with the World Bank and represents an effective example of inter-agency cooperation whereby the overall mission was divided between the two institutions to take advantage of their comparative strengths and available resources. The TORs for consulting services were well written and consistent with the objectives of the TA design.

5. India (TA 3367-IND)

19. This TA was designed to satisfy the Government's request for support for developing sources of long-term capital for investment. In this sense, the design of the TA met the Government's broad objectives. However, the design provided for a number of tasks—including an analysis of both formal and informal mechanisms for providing retirement income support to the elderly, recommendations for strengthening the legal, regulatory, and tax frameworks, and the design of a pension research institute—that had little government support and no obvious counterparts. India was not institutionally ready (or interested) in these components of the TA and, as a result, the consultants were unable to effectively engage the Government on these issues. Moreover, the decision to place the TA under the jurisdiction of the provident fund (EPFO) effectively isolated the team from addressing broader issues of pension policy (although it did improve the TA's effectiveness in addressing issues related to the strengthening of EPFO, in some measure because of a management change at EPFO which created a renewed demand for the TA's services).

B. Achievement of Outputs

20. The outputs from the TAs mainly comprised reports from consultants. These reports provided recommendations for the (i) identification of reform options for publicly and privately managed pension funds; (ii) development or strengthening of the legal and regulatory

framework, including especially the adoption of appropriate investment policies and guidelines for funded pension schemes; (iii) auditing of the public pension funds; and (iv) strengthening of operational procedures and the building of capacity on the part of market regulators and participants (to improve the professionalism of fund management) and on the part of counterparts (to improve their understanding of pension policy and their options for reform) (paras. 29–33).

C. Engagement of Consultants

21. All of the TAs were implemented through private consulting firms. In each case, the firms and consultants were selected in accordance with the procedures established by ADB's *Guidelines on the Use of Consultants*. The number of consultants used, their level of effort (in person-months), and the division of labor between international and domestic consultants differed from what was planned in most cases (Table 1), but many of the differences were modest.

Table 1: Consulting Services

Item	Planned			Actual		
	Int'l	Domestic	Total	Int'l	Domestic	Total
TA 2915-BAN						
Number of Consultants	4	2	6	4	2	6
Person-Months	12.0	6.0	18.0	13.2	7.3	20.5
TA 2955-THA						
Number of Consultants	8	0	8	11	0	11
Person-Months	25.0	0.0	25.0	29.7	0.0	29.7
TA 3116-INO						
Number of Consultants	3	4	7	3	4	7
Person-Months	16.0	22.0	38.0	17.5	15.4	32.9
TA 3134-UZB						
Number of Consultants	6	5	11	6	8	14
Person-Months	18.5	28.0	46.5	19.5	39.7	59.2
TA 3367-IND						
Number of Consultants	4	5	9	5	5	10
Person-Months	19.0	22.0	41.0	19.0	22.0	41.0

int'l = international.

Source: Operations Evaluation Mission.

D. Implementation

22. Implementation of the TAs was completed, on average, about 11 months later than originally planned (Table 2). However, these delays had little impact on the substance of TA outputs. Arrangements with the EAs were generally acceptable, with the primary exception of TA 2915-BAN (Appendix 4). While all of the TAs were designed to support capital market development as their overarching goal, it is noteworthy that MOF was the EA in only two of the countries—Indonesia and Thailand. Accordingly, these were the only two countries with sufficient institutional development to adequately absorb the capital market development

contributions these TAs were intended to provide.¹⁵ Support from the implementing agencies was patchy. In the case of the three standalone TAs—all of which called for a financial assessment or audit of the public pension system—there was clear reluctance to provide adequate access to information and data. In some cases, this forced delays in the implementation of these TAs and caused tension between ADB consultants and governmental counterparts.

Table 2: Implementation Delays and Effect on Outputs

TA Number	Delay (months)	Main Reason for Delay	Effect on Outputs
2915-BAN	12.0	Target completion date of 9 months after approval was not met since the TA agreement remained unsigned during that period. Consultants started fieldwork 13 months after TA approval.	No effect
2955-THA	11.0	Submission of consultant final report 11 months after target completion date. Subsequently, the Government and ADB agreed to a second phase of TA implementation focusing on refining policy options. In 2002, two consultants provided legal and actuarial support to examine reform options and their socioeconomic implications.	The delay actually provided time for the Government to absorb and refocus the TA outputs under new ADB staff administration with appropriate pension expertise.
3116-INO	7.0	Target completion date was not met due to (i) minor delays in the fielding of consultants, (ii) difficulties in obtaining information and data and counterpart support for actuarial analyses of public pension scheme, and (iii) insufficient time allotted to accomplish an overly ambitious scope of work.	No effect
3134-UZB	11.0	Target completion date was not met due to a combination of factors including (i) an overly optimistic schedule, (ii) delays in the fielding of consultants, and (iii) bidding difficulties during the procurement of computer equipment for the Samarkand Pilot Project (resolved only in late 2000).	No effect
3367-IND	12.0	Target completion date was not met due to delays in conducting workshops with senior Indian policy makers on the draft final report. This was attributable in part to constraints in the Government's schedule and the resulting need for an extension to give the Government time to (i) provide comments on the draft final report, and (ii) ensure that major issues were addressed by all parties involved.	No effect

ADB = Asian Development Bank, BAN = Bangladesh, IND = India, INO = Indonesia, TA = technical assistance, THA = Thailand, UZB = Uzbekistan.

Source: Operations Evaluation Mission.

¹⁵ The EAs for the other TAs were TA 2915-BAN—Ministry of Commerce, TA 3134-UZB—MSM, and TA 3367-IND—Ministry of Labor.

E. Organization and Management

23. The quality of administration of these TAs by ADB was inconsistent, ranging from exemplary (in the case of TA 3134-UZB) to very poor (in the case of TA 2915-BAN). Only in one case (TA 3134-UZB) was the TA administered by the staff who actually designed it. In most of the other cases, TA supervision was weak overall—in large part because the staff involved had limited technical expertise in the policy areas addressed by these TAs. The importance of effective administration and management was well illustrated in the case of both TA 2955-THA and TA 3116-INO where both TAs were floundering until new ADB staff—with sufficient technical competence and commitment—assumed responsibility for their supervision. Without these changes in oversight, both TAs would likely have been unsuccessful, wasting valuable and scarce resources.

24. TA 2915-BAN highlights the consequences of inadequate oversight. The absence of an executing or implementing agency for pension policy was an early warning sign that there were problems with the organization and management of the TA. As stated earlier, there was (and continues to be) no effective governmental counterpart for pension reform in Bangladesh. Weak government ownership, national strikes, TA staffing problems, and other factors made this TA difficult to implement. Ineffective administration on ADB's part—five different ADB staff supervised the TA over the period—failed to prevent an already difficult TA from failing.

25. TA 2955-THA illuminates the importance of effective oversight. This TA was implemented during the financial crisis that began in 1997—a very difficult period in Thailand—and there were frequent personnel changes within the implementing agency (the Fiscal Policy Office [FPO] of MOF), which resulted in the replacement of counterparts several times during the course of the TA. In this case, oversight was the only thing that kept a difficult TA on track. Sustained and concerted involvement on the part of ADB staff created and maintained momentum for reform despite difficult circumstances. After replacing the initial mission leader, there were no changes in leadership for the remainder of the 3-year period of the TA.

26. TA 3116-INO underscores the difficulties faced in overcoming a major flaw in TA design. Under this TA, the working group—headed by the Director General of Financial Institutions and staffed by representatives from the Pensions Directorate, Ministry of Manpower, and Ministry of Defense—intended to oversee the implementation of the TA was never active. This proved highly detrimental to the implementation of this TA. Lack of coordination on issues of pension policy contributed to the consultants' difficulties in accessing the information and data from the various implementing agencies. Appeals by the consultants for ADB intervention went unanswered until new ADB staff with the experience and technical expertise necessary to effectively manage the TA were appointed to administer the TA toward the end of its life.

27. TA 3134-UZB reinforces the importance of continuity between the design of a TA and its implementation, as this was the only TA under which one staff member managed both components. Despite this, developing the legal and regulatory base for voluntary supplemental pensions was made difficult by reluctance on the part of the Government (a reluctance fueled, in part, by concerns over the failure of pyramid schemes in the Russian Federation), and the task of auditing the pension fund was made difficult by unwillingness on the part of the Government to release the data. In response to these difficulties, ADB held three review missions and, under a second memorandum of understanding, the Government reaffirmed its commitment and clarified the purpose and intentions behind these components of the TA, thereby rebuilding support for the TA on the part of MSM.

28. TA 3367-IND demonstrates that effective management of a TA extends beyond the oversight of consultants to include the management of counterpart relations. This TA was languishing without government ownership or support until the provident fund (EPFO) took over as the implementing agency. A price was paid for this move—being based in EPFO constrained the team’s ability to satisfy those tasks in its TOR outside what was of interest to EPFO—and some of the consultants were unable to complete their anticipated level of effort because EPFO did not need their expertise. That said, the work accomplished on behalf of EPFO was appreciated, well received, and continues to guide and support EPFO’s activities. In retrospect, ADB could have been more responsive in its management of the TA by redirecting resources earlier to support the activities of an agency that needed those resources without straying too far from the spirit of the TA. As a result, some of the consultants were not effectively utilized, and a mismatch emerged between the TORs and the needs on the ground.

III. ACHIEVEMENT OF PURPOSE AND OUTCOMES

A. Purpose

29. The TAs were intended to strengthen market institutions and develop capacity among market participants in order to promote the role of private pension schemes (i.e., the second pillar) within the overall social insurance framework. Specifically, the TAs were intended to (i) strengthen regulatory oversight through capacity building activities for market regulators, the development of better operational procedures and information systems, the improvement of regulations, and the relaxation of investment guidelines governing pension funds, investment managers, and custodian banks; (ii) strengthen the analytical and theoretical capacity of those involved in the promulgation of pension policy; and (iii) provide policy makers with specific recommendations for reforms to accomplish the overarching objective of financial market development.

1. Options for Reform

30. Pension fund options were adequately addressed by most of the TAs.¹⁶ Under TA 2915-BAN, the consultants recommended the establishment of a central provident fund. Their report was thought by the Government to be too advanced for Bangladesh, despite being of reasonably high quality. It may, however, play a role in the future as it provides (i) a policy and practical framework for what is required to establish a central provident fund, (ii) a diagnosis of where further TA might prove useful in pursuing this objective, and (iii) draft legislation to support such a fund. Under TA 2955-THA, the consultants produced a collection of technical studies that provided the most in-depth analysis of this type ever carried out in Thailand. These studies provided important benchmarks whereby government officials can, in the future, examine and evaluate options for reform. Under TA 3134-UZB, the consultants prepared the basis for the legal and regulatory framework needed to support voluntary private pensions. This framework addressed (i) critical thresholds, fund management, internal controls, and governance procedures; (ii) the need for rigorous regulations to ensure investor confidence and assure safe custody in a country where many people harbor a deep mistrust of financial markets and banks; (iii) the design of a sound licensing and registration regime for institutions and market participants; and (iv) the need for effective regulatory enforcement and audits. Under TA 3367-IND, the consultants provided a framework for pension reform, addressing such issues as the reform design, legal and regulatory oversight, tax policy, possible modifications to current

¹⁶ The focus of TA 3116-INO was to strengthen existing institutions rather than options for establishing a new framework for pensions.

investment guidelines, and expanding coverage. This report—prepared in the form of questions and answers—was, however, of insufficient quality to satisfy the TOR.

2. Institutional Development

31. TA recommendations for institutional development were most relevant for those countries that already had those institutions already in place. Under TA 3116-INO, the findings and recommendations of the consultants were presented in a report which included a financial analysis of the current system; recommendations for legal, regulatory, and institutional reforms; amendments to tax laws; a summary of the results of the stakeholder opinion survey; actuarial analyses for selected scenarios to assess the liabilities of the mandatory programs; comparative information on country pension programs and international best practices; and standards and selected options for reform of mandatory programs. Under TA 3134-UZB, the consultants prepared amendments to the law on state pensions intended to (i) align contributions and benefits, (ii) address gender disparities in retirement ages and service requirements, (iii) streamline early retirement provisions and social allowances, (iv) rationalize and minimize exemptions from making payroll contributions to pension funds, (v) eliminate ad hoc decrees or government resolutions which dilute the legal status of the pensions and result in frequent changes in pension provisions, and (vi) separate pension fund from MSM's reserve funds and the state budget in order to enhance accountability of pension funds.

3. Audits

32. Accessing the data required to audit pension funds was difficult for all of the TAs. Under TA 2915-BAN, the consultants were denied direct access to the data they needed but did manage to conduct an actuarial analysis of the government pension system using limited data. In doing so, they were able to at least estimate the size of the Government's unfunded liability for paying benefits under the scheme. Their report presents in a very clear manner the methodology followed, the assumptions used, and the various checks used to ensure the assessment was analytically robust. In addition, their report provides possible approaches to reduce the fiscal burden of the current system. Under TA 3116-INO, a valuation of the civil service and the armed forces pension fund was completed and assessments were made as to the fiscal sustainability of these systems. The consultants also analyzed the schemes under possible future economic and demographic scenarios. However, the audit and evaluation of other schemes—particularly Jamsostek—were never conducted because the consultants were denied access to the data they needed (although they did provide extensive recommendations using other sources, such as a Klynveld, Peat, Marwick, and Goerdeler [KPMG] assessment of financial statements). Some of the key recommendations from this TA included (i) a full independent audit of Jamsostek; (ii) reform measures for Jamsostek program to reduce costs and increase contributions, adjust key system parameters (including replacement rates and retirement ages), improve compliance and enforcement, and segregate funds; and (iii) improve governance. Under TA 3134-UZB, the internal auditor of the government pension fund was reluctant to provide the consultants access to pension fund accounts. Therefore, a financial review and limited audit was conducted instead. This TA recommended that the government pension fund (i) segregate pension and MSM accounts, (ii) adopt international accounting standards and modernize accounts management, (iii) formulate guidelines for collections and payments, (iv) conduct regular audits by external auditing firms, (v) strengthen risk analysis and management capacity, and (vi) correct discrepancies between bank balances and reported cash balances. Under TA 3367-IND, the financial position of EPFO was evaluated and a flexible financial model was proposed to assess the viability and adequacy of the plan's design, investment performance, auditing and accounting practices, and organizational structure.

4. Increase Awareness and Professionalism

33. Most of the TAs satisfied those portions of the TORs intended to increase awareness (both on the part of policy makers and the public) and improve professionalism (both on the part of market regulators and market participants). Given obvious gaps in the understanding of local officials and financial market professionals, the Thai Government and ADB agreed to a second phase of implementation under TA 2955-THA. This second phase of activity focused on informing Thailand's policy debate through public information campaigns, seminars, and workshops intended to generate greater public understanding and awareness of pension reform issues. Equally important, in this phase, the TA worked to resolve major differences of opinion among stakeholders over the final structure of the proposed pension system. Two consultants provided the legal and actuarial support needed to examine a number of reform options and analyze their socioeconomic implications under a variety of scenarios. This represented an important step toward building consensus. This second phase of activity also included the preparation of a detailed, medium-term roadmap for a set of actions required to operationalize a multi-pillared pension system in Thailand, as well as the drafts of enabling legislation needed to initiate these reforms. Under TA 3134-UZB, reforms to the administration and management of the pension funds were proposed involving the (i) introduction of formalized strategic and business planning processes, (ii) introduction of a nationwide unique personal identification number (PIN) system and the integration of social insurance contribution collections with the tax collection process run by the State Tax Committee, and (iii) reduction of the burden of data collection on enterprises by the streamlining of reporting and accounting processes. As part of this TA, and with support from the World Bank, a seminar was held on Administration of Pension Program Collections in February 2000 with participation from nine countries.

B. Outcomes

34. Pension reform is one of the most controversial and politically charged public policy challenges facing any government, whether in the developed or in the developing world. For many persons, particularly those living in societies with weak banking systems and with economies vulnerable to inflation, public pension systems often represent the primary (and often the only viable) savings vehicle. Changes in benefits or in how income is redistributed within a pension system can severely impact the welfare of the elderly in their retirement. For many businesses, particularly those operating in countries with large informal economies, the size of the social insurance levy represents a powerful incentive to underreport wages and hire workers outside of formal labor arrangements. For many governments, social insurance contributions represent a captive source of financing. As a consequence, pension reform requires governments to balance competing social and practical interests and—like all programs of insurance—changes in pension policy ultimately benefit some at the expense of others. Given such political complexity, pension reform is typically a long-term endeavor that can take many years, even if the political will exists to make changes rapidly.

35. The challenge of pension reform is made more complex by the lack of consensus for how it should be pursued. While most countries, in the long term, will ultimately adopt a pension system based, at least in part, on the three-pillar paradigm—involving some minimal benefit (or benefit guaranty) paid from payroll taxes or general revenues and intended to effect income redistribution (the first pillar); some sort of mandatory contribution to a privately managed pension scheme or schemes intended to force savings (the second pillar); and the option of participating in voluntary private pension schemes for persons who wish to save more than what is mandated (the third pillar)—there will inevitably be major differences in how this paradigm is

applied worldwide. While there is general agreement that a multi-pillar system provides the best diversification against the various types of risk faced by societies as their populations age, there is less consensus on the question of how countries should make the transition from their existing systems to this paradigm and, perhaps more importantly for institutions involved in promoting such reforms, when countries should do so, particularly in the case of countries with weak capital markets (which creates the risk that returns from second and third pillar pension programs will be inadequate to assure reasonable levels of retirement income) or with very young populations (such that there is little demographic pressure forcing change in the short to medium terms).

36. This question of phasing is, in the end, central to this TPAR but beyond its ability to evaluate. All of these TAs presumed that the social policy objectives of providing income protection to the elderly in their retirement would be best served by the introduction of reforms intended to promote the second and third pillars of pension reform. Put another way, these TAs presumed that increasing the supply of captive, long-term capital by promoting private pension funds (or relaxing investment restrictions governing provident funds) would not only reduce the concentration of assets held in weak banking systems but would also necessarily be in the long-term interest of social policy.

37. The intended outcomes of these TAs included (i) improvements in the coverage and design of publicly and privately managed pension funds; (ii) institutional strengthening through the introduction—or the amendment—of laws, rules, regulations, policies, and guidelines; (iii) improved financial management by requiring the use of external auditors and the adoption of international accounting standards; and (iv) improved operational procedures and greater familiarity with and understanding of issues of pension policy. In the absence of readily observable or measurable outcomes—the passage of laws or the creation of new institutions—indicators of TA impact could include a government’s use of TA reports or the establishment of a working group or task force dedicated to discussing and ultimately acting upon issues raised in a consultant’s report. Based on the OEM’s discussions and a review of activities under way, the outcomes of these TAs clearly varied greatly across the countries involved. Even the level of awareness of pension issues among policy makers varies greatly, making it difficult to support sweeping statements about the outcomes of these TAs as a group.

1. Bangladesh (TA 2915-BAN)

38. Of all of the TAs in this TPAR, the OEM found the least evidence to support positive outcomes from TA 2915-BAN. From the outset, there appears to have been little appetite for the pension reforms the TA was intended to support. Not surprisingly, therefore, those reforms have not been adopted, nor was there much evidence to suggest that the recommendations made under the TA are in the process of being considered. The outcomes of this TA were limited.

2. Thailand (TA 2955-THA)

39. As a result of this TA—and continued involvement on the part of ADB staff—a cabinet Committee for Retirement and Old Age Policy was established and charged with the systematic analysis of pension issues and the development of options for reform. The minister of Finance chairs this committee. The minister of Labor serves as deputy chair. A subcommittee for drafting pension and provident fund reforms was formed and is headed by the director general of the FPO. The pension framework proposed by the TA envisaged a multi-pillar pension system with a second pillar (i.e., mandatory, defined contribution, privately managed pension funds). This structure was hotly contested by a number of stakeholders. However, following TA-supported public information activities and training sessions, preliminary proposals for a second pillar were

made in early 2000. Based on these preparations, the Government formally approved an action plan for the introduction of the second pillar and authorized further work to determine its design and the time frame for its implementation. The subcommittee—consisting of representatives of stakeholders from the labor unions, regulatory agencies, employers, and the Government—has been supported by ADB through further actuarial and policy analysis provided in 2001 and 2002 under this TA. This has resulted in proposals for an integrated pension system and a blueprint for the phased introduction of the legal, regulatory, and administrative reforms needed to implement the new system. During this time, the Government has been carrying out public information campaigns to improve the public's knowledge and understanding of retirement and savings issues. The increase in the general level of awareness on pension issues has been significant.

3. Indonesia (TA 3116-INO)

40. One of the major benefits of this TA was the ability to gather information on the impact of the Asian financial crisis on private pension funds and other nonbanking financial sector institutions. In the TA's TORs, it was simply assumed that pension funds incurred significant losses as a result of the economic crisis. However, the consultants determined through an analysis of private sector pension plans that assets grew disproportionately to plan liabilities and that most pension plans consolidated their funding over the crisis period. This analysis revealed the more important issue facing pension funds was whether the benefit formulas they used would provide adequate income for plan participants in their retirement. Recommendations provided under this TA provided useful input to the reform agenda for the pension sector in Loan 1965-INO.¹⁷ In addition, the TA conducted a valuation of the civil service pension scheme and, in doing so, raised concerns regarding its fiscal sustainability that are being pursued by the Government. A full audit is being planned for the scheme, which has the endorsement of the International Monetary Fund.

4. Uzbekistan (TA 3134-UZB)

41. This TA was intended primarily to support the Government to explore the feasibility of introducing private pension schemes and improve operations in the state pension fund. In this sense, the TA was largely advisory. There were, however, some immediate outcomes. Following a seminar on the Administration of Pension Program Collections, the Government established an inter-ministerial committee, comprising MSM, MOF, and State Tax Committee to expedite the establishment of a PIN system. The TA provided support for this activity until July 2000. At the time of the OEM, the Government had decided to implement the PIN system. Moreover, the OEM found that some of the TA recommendations on the operations of the pension fund are being implemented. MSM's reserve funds and those of the pension fund are being segregated and fund bank and cash balances are being reconciled. One of the most noteworthy outcomes of this TA is the pilot project in Samarkand Province to modernize social insurance collections and the payment of pensions which has provided a vehicle for testing, on a continuing basis, the effectiveness of new software and database programs. Productivity has improved—four workers now do the work that eight workers did previously—and accuracy and efficiency have also improved with fewer errors in payments and more timely updating of death and new pensioner records. The pilot project has been so successful that the Government is supporting its expansion to other districts in Uzbekistan.

¹⁷ Reforms to the pension sector are affiliated in the second cluster of Loan 1965-INO: *Financial Governance and Social Security Reform Program (Phase I)*. The first cluster was for \$250 million, approved on 10 December 2002.

5. India (TA 3367-IND)

42. Virtually all of the outcomes of this TA occurred at the provident fund. EPFO management accepted and embraced many of the recommendations of the TA. Implementation of these recommendations is under way, including financial and operational restructuring. EPFO has contracted with a major software firm to support its operational changes by designing systems software and pilot testing operational changes using the new software at six branch offices. Simultaneously, training of EPFO staff is in progress. To enable relevant staff to operate the system, 3,000 employees have been trained in the use of computers and an additional 5,000 are expected to undergo training by the end of 2001. Executive workshops have been held for 450 managers in preparation for the restructuring, and their aptitudes for change have been tested. While operational restructuring of EPFO is a task of considerable magnitude and will take time, the clear vision and specific step-by-step processes recommended under the TA greatly enhanced the chances of its success.

C. Sustainability

43. The sustainability of ADB's activities to promote pension reform depends almost entirely on the political commitment of the governments involved, the effectiveness of these activities in transferring knowledge and installing a sense of counterpart ownership over the reforms being proposed, and the successful engagement of various stakeholder groups—including pensioners and persons close to retirement, labor unions, and employers—in the policy dialogue. In addition, sustainability is effected by (i) the institutional capacity of those involved in market regulation and the promulgation of policy, and (ii) timing. The absence of demographic pressure creates both a window for making less constrained decisions regarding pension system design and reduces the political imperative for implementing reforms in the near term. In the long run, pension reform is inevitable, given the inevitability of aging across the region. One additional consideration is the capacity of the market to absorb funds from pension fund accumulations. This requires a sufficient level of capital market development institutions and a supply of financial market instruments appropriate for pension fund investment. Thailand has the capacity and the political commitment to pursue difficult but necessary reforms, although staff turnover at the FPO will certainly slow progress. Given the institutional capacity and ownership on the part of counterparts, the process of pension reform in Indonesia, India, and Uzbekistan is likely to continue, albeit at a far slower pace. With other more pressing concerns and very little demographic pressure, Bangladesh will most likely require more time to initiate any real reforms in the pension sector.

D. Achievement of Other Development Impacts

44. The broad goal of these TAs was to introduce (or strengthen) the institutions and legal and regulatory infrastructure needed for fully funded pension systems to operate successfully. While the quality of the reports produced by the consultants were generally acceptable, there was little accomplished under these TAs in terms of actual reforms because they were mainly advisory in nature. There were, however, some unforeseen outcomes. In Indonesia, the TORs assumed that pension funds incurred significant losses as a result of the economic crisis that began in 1997. The consultants determined, however, through financial analysis of private sector pension plans that assets grew disproportionately to liabilities and that most pension plans consolidated their funding during this period. In doing so, the consultants determined that the more important issue was whether the benefit formulas used by these plans would be sufficient to provide adequate retirement income to plan participants. Their analysis provided useful information for the development of a reform program for the pension sector. In

Uzbekistan, an unforeseen outcome was the adoption of a PIN system for tracking pension contributions and payments.

45. In Thailand, Indonesia, and Uzbekistan and to a lesser extent India, TA findings and recommendations were circulated and at least one workshop was held to review them. The greatest socioeconomic impact of these TAs was felt in Thailand where the TA organized and implemented a public information campaign, held seminars, and sponsored workshops to educate and inform policy makers, stakeholders, and the general public. This work has been relatively successful, as most Thais now understand the need for pension reform and appreciate the options for reform. Conversely, in Uzbekistan—where most of the population was already acquainted with the existing pension system—the bigger issue was balancing the financing requirements of the current system with growing demographic pressure. The dialogue initiated under the TA (which was still continuing during the OEM) was how to bring about reforms in a prudent manner. The TA has had a narrow but profound effect on the understanding of policy makers. The workshops in Indonesia and India had less impact, and the recommendations of the TAs have not been fully absorbed by the Government or the broader population.

IV. OVERALL ASSESSMENT

A. Relevance

46. All of the TAs were intended first and foremost to contribute to increasing the flow of long-term capital into the capital markets in support of broader economic growth objectives. The need for such funds in the wake of the Asian financial crisis is clear. Moreover, the financial markets in all of these countries are underdeveloped and would benefit from an increased supply of long-term capital, particularly when provided through the vehicle of institutional investors, such as pension funds. Except in the case of Bangladesh, the reforms the TAs supported would have progressed more slowly in the absence of ADB support. In this sense, the four TAs were all highly relevant. Given varying levels of institutional development, however, some of the TAs failed to adequately address the specific needs, capabilities, and appetites for reform actually found on the ground. For this reason, the TAs are rated as a group as relevant.

B. Efficacy

47. The immediate outcome of these TAs in terms of promoting the implementation of actual pension reforms or capital market development objectives varies considerably. The assistance provided to Thailand, for example, has a high likelihood of achieving the policy goals established under the TOR. In Uzbekistan, the TA effectively met its advisory goals by (i) providing clear options and information for establishing private pension funds, (ii) helping MSM improve the governance on the funds under its management, and (iii) supporting the pilot project in using computer systems to improve the efficiency of operations in collections and payments. These two TAs were highly efficacious. The assistance provided to India and Indonesia, however, was less efficacious inasmuch as only some of the TA's intended outcomes were actually achieved. The assistance provided to Bangladesh was inefficacious, as it failed entirely to achieve its objectives. These TAs are rated as a group as less efficacious.

C. Efficiency

48. Given that pension reform is typically a long-term and politically-charged endeavor for most countries, performance measures relating to the efficiency of outcomes could not be reliably measured, although improved operational performance on the part of the state pension fund was clearly evident in the case of the pilot project in Samarkand in Uzbekistan. The only

clearly inefficient use of inputs was found in the assistance provided to India where some of the consultants were not effectively utilized given the mismatch between what was provided under the TOR and the needs of EPFO. In terms of scheduling and successfully meeting cost provision, none of the TAs was implemented within its original timetable, although all stayed within their original budgetary provision. Given this, all of the TAs are rated as efficient except India which is rated as less efficient.

D. Sustainability

49. The likely sustainability of the outcomes of these TAs varies. In Thailand, the level of the Government's commitment—as evidenced by work already in progress—is clear, and this TA is assessed as being highly sustainable. Several of the components of the other TAs are also highly sustainable, including, for example, the restructuring of operations at EPFO in India and the extension of the pilot project in Samarkand to other regions of Uzbekistan. Whether other components of these TAs will be similarly sustainable is difficult to assess, particularly given that many of their activities were advisory in nature. Given that the quality of the reports produced under these TAs was, in most cases, very good, and given the contributions these TAs made to the development of intellectual capacity among policy makers responsible for pension policy, each of the TAs are assessed as providing benefits that are likely to be sustained, although the benefits of Bangladesh as an individual TA are unlikely to be sustained.

E. Institutional and Other Development Impacts

50. The two TAs attached to larger reform CMDPs received little institutional benefit from the programs they were intended to support. The most significant outcomes have been in Thailand. This is at least in part attributable to (i) rapidly changing demographics (which has helped generate an appreciation for the need for pension reform), and (ii) the fact that the pension system was relatively underdeveloped compared to the rest of the economy. The outcomes of specific TA components have, however, been substantial in the case of Indonesia, Uzbekistan, and India.

F. Overall Rating

51. The overall rating assigned to these TAs is successful.¹⁸ Taking into account the assessment ratings for each evaluation criterion and their relative importance and comparing the outputs of these TAs against their purpose and expected achievements, the individual overall assessment ratings are:

Table 3: Technical Assistance Rating

TA Reference	Rating
TA 2915-BAN	Unsuccessful
TA 2955-THA	Successful
TA 3116-INO	Successful
TA 3134-UZB	Successful
TA 3367-IND	Partly Successful

BAN = Bangladesh, IND = India, INO = Indonesia, TA = technical assistance, THA = Thailand, UZB = Uzbekistan.

¹⁸ Ratings, listed from highest to lowest, are highly successful, successful, partly successful, and unsuccessful.

V. CONCLUSIONS

A. Key Issues

1. Promoting Long-Term Capital Flows is Not Necessarily Sufficient for Social Policy

52. ADB's involvement in pension reform has thus far been driven almost entirely by its commitment to promoting capital market development under a fully funded voluntary pillar (i.e., the third pillar of social insurance) of the pension framework. In the countries covered by this TPAR, pension reform was viewed primarily, if not exclusively, as a means of generating long-term capital flows to support investment and fuel economic growth. The Asian financial crisis underscores the importance of domestic capital formation—particularly long-term domestic capital—in promoting stability within financial markets and in diversifying assets away from weak banking systems. Given this, ADB's commitment to capital market development under these TAs was relevant, targeted, and timely.

53. The Asian financial crisis also underscores the importance of social safety nets in reducing personal hardship in the wake of economic shocks. While the use of pension reform as a vehicle for capital market development may, in the long run, broadly improve social welfare by contributing to higher levels of economic growth, it does not necessarily represent good social policy, particularly for the most vulnerable groups in society. Depending on how a reform is designed, an increased emphasis on the second pillar of social security—and corresponding de-emphasis on the first pillar—can reduce the degree of redistribution effected by a social insurance system beyond what is required to effectively limit poverty among the aged, those who become disabled during their working years, and the dependent survivors of persons who die prematurely.

54. Moreover, while capital market development might be an intended and positive consequence of a pension reform that introduces a second or third pillar to a country's pension system, the increased reliance on the capital markets to meet social objectives, concurrent with a reduction in the role of the traditional first pillar of social insurance—a step typically required in order to (i) finance transition costs,¹⁹ and (ii) keep a country's social levy from growing too high and becoming a disincentive to the formalization of the economy—is not assured to meet those social objectives. In countries with underdeveloped capital markets, particularly those vulnerable to foreign capital flows and those in which there is political interference in the operation of financial markets, there is considerable risk that real rates of return will be so low as to undermine the capacity of private mechanisms of social insurance to provide adequate benefits to program participants upon reaching their retirement.

2. Pension Reform Requires Cross-Departmental Teamwork

55. While the introduction of voluntary private pension plans is an appropriate step in financial market development and one that does not raise any serious social policy issues,

¹⁹ In countries with an already established PAYGO public pension system, any step intended to increase the degree of funding in the system results in the diversion of contributions away from paying benefits to existing retirees. Because such benefits must be paid from somewhere, the current generation of workers is forced to pay twice—first for the benefits of those already retired or nearing retirement and second for themselves by making contributions to their own individual retirement accounts. Such costs are typically referred to as transition costs and while mechanisms exist for shifting these costs in part to future generations—through, for example, the issuance of government bonds—the fact remains that increasing funding within a pension system adds to cost of the program on a cash flow basis in the short to medium term.

reforms that address mandatory systems of social insurance (i.e., first and second pillar reforms) require the involvement of both financial sector staff and human development staff. Given the interdependence of the first and second pillars—an interdependence created by constraints on the size of the social levy and the inappropriateness of forcing more savings than are required to reduce poverty among the aged—this means that neither pillar of social insurance can be addressed without necessarily raising issues for the other. By implication, while third pillar reform proposals can—and should—be managed solely by staff working on financial sector issues, first pillar reform proposals require expertise in fiscal and social issues. Mechanisms should be put into place to assure adequate cross-departmental jurisdiction over first and second pillar policy issues.

3. Pension Reform Impacts Women in Ways that Merit Greater Attention

56. The impact of aging on women merits special consideration and, up to this point, has largely been ignored by ADB's activities in support of pension reform. On average, women live longer than men. Most women marry men older than themselves and are less likely to remarry after a divorce or the death of their spouse. Because of the responsibilities for child rearing and the need to care for elderly parents, women are more likely than men to have shorter working careers and to work intermittently. As a consequence, far more women than men fall into poverty in their old age. Most public PAYGO pension systems (i.e., first pillar systems) generally facilitate various forms of income transfer intended to help women and other vulnerable groups. Fully funded defined contribution pension schemes, on the other hand, are enforced savings schemes that, by design, do not effect such transfers, unless supported by minimum benefit guarantees or other forms of income support. The impact of pension reform on women was not adequately addressed by the TAs covered by this TPAR. For any future TA programs, the impact of pension reform on women should be taken into explicit account if ADB is to avoid contributing to proposals that leave women in its developing member countries worse off as a consequence of its involvement.

4. Pension Reform Demands Knowledge and Skills Few Current ADB Staff Possess

57. The conclusion to be drawn from these observations is that a one-dimensional approach to pension reform—i.e., as a means for furthering capital market development without sufficient regard and respect for social policy concerns—is inappropriate given ADB's mandate and institutional commitment to poverty reduction. To the extent that ADB supports such reforms, it must do so within the broader recognition that pension reform is necessarily an exercise in social policy formation. Social policy concerns must be adequately addressed by pension reforms, even if the primary objective of those reforms is financial. To address such issues, ADB needs staff who understand them. A review of TA documents reveals frequent misuses of terms and definitions, a lack of nuanced appreciation for different approaches to reform, and weak designs that did not meet the needs or match the capabilities of TA counterparts or their institutional agendas. The OEM discussions suggest that many ADB staff involved with these TAs lacked the technical expertise and experience required to adequately engage their counterparts on technical issues or supervise their consultants. As an institution, ADB requires greater expertise in social policy issues if it is going to adequately support pension reform initiatives on the part of its developing member countries.

B. Lessons Learned

58. The following lessons regarding ADB support for pension reform emerged from the OEM's evaluation of these TAs:

- (i) Continuity in the management of TA—from design through implementation—greatly improves the likelihood that it will make lasting contributions and achieve its desired outputs.
- (ii) The design of TA must respect the specific needs, constraints, state of economic development, and human and financial capacity of the country it is intended to support. Overly ambitious designs for countries with low levels of institutional development are bound to fall short of expectations.
- (iii) The provision of TA in support of pension reform is most effective in cases where the Government has expressed a strong appetite and commitment to the issue. It absolutely requires strong counterparts to champion the issue in the political arena.
- (iv) The effectiveness of TA depends heavily on the quality and skills of ADB management. The institution requires staff with better developed skills and expertise in social policy issues in order to design and implement appropriate first or second pillar pension reforms.

C. Recommendations and Follow-Up Actions

59. In order to adequately support pension reform in developing member countries, ADB should invest in professional development to further the skills and understanding of pension-related issues on the part of both human development and financial sector staff.

60. Prior to launching any new initiatives in support of pension reform, ADB should first develop an institutional framework for pension reform that takes into account:

- (i) The legal and regulatory preconditions for funded pensions (this requires not only the existence of the institutions themselves but the presence of qualified regulators and an impartial and functioning judiciary to adjudicate claims).
- (ii) The capital market preconditions for funded pension (this requires not only sufficient market depth and breadth to support portfolio diversification and secondary trading to support price formation but also sufficient market absorption capacity such that pension funds have reasonable assurance of being able to earn sufficiently positive real rates of return, net of administrative expenses, to generate reasonable levels of income replacement for plan participants).
- (iii) The fiscal constraints surrounding an increase in funding (reforms intended to eliminate PAYGO pension programs will necessarily increase costs in the short and medium terms because some contributions are no longer available to pay benefits).²⁰
- (iv) The distributional impacts of different reform options on women and disadvantaged groups (which must be evaluated within the context of ADB's mandate and commitment to poverty reduction).

²⁰ It should be noted that borrowing to finance the cost of this transition effectively only makes explicit the debts already owed and, thus, contributes nothing to capital formation or aggregate savings.

61. The framework should then be applied on a country-by-country basis to construct a more appropriately phased program of pension reform specific to each developing member country that (i) respects the country's legal and regulatory preconditions, capital market preconditions, and fiscal constraints; (ii) adequately considers distributional issues; and (iii) is appropriate given the country's level of institutional development, human capacity, and political appetite for reform.

LIST OF TAs IN SUPPORT OF PENSION REFORM

TA No.	TA Name	Type	ADB (\$'000)	JSF (\$'000)	Total (\$'000)	Date Approved
TA 1347-INO	Review of the Pension Fund Industry	PPTA	85	0	85	3 Aug 1990
TA 1844-LAO	Pension Fund and Leasing Legislation	ADTA	100	0	100	25 Jan 1993
TA 2033-BAN	Study in the Insurance Industry and Pension and Provident Fund Operations in Bangladesh	ADTA	577	0	577	27 Dec 1993
TA 2138-TON	Pension Scheme for Civil Service	ADTA	100	0	100	18 Aug 1994
TA 2780-KAZ	Pension Reform	PPTA	100	0	100	16 Apr 1997
TA 2829-KAZ	Enhancing Pension Management and Information System	ADTA	100	0	100	23 July 1997
TA 2867-PAK	Reform of Pension and Provident Funds	ADTA	0	600	600	15 Sep 1997
TA 2910-KAZ	Capacity Building for Pension Reform	ADTA	1,000	0	1,000	12 Nov 1997
TA 2915-BAN	Insurance Industry and Pension and Provident Fund Reforms	ADTA	0	500	500	20 Nov 1997
TA 2945-KAZ	Financial Sector Capacity Building to Support Pension Reform	ADTA	680	0	680	15 Dec 1997
TA 2955-THA	Pension and Provident Funds Reform	ADTA	0	1,150	1,150	19 Dec 1997
TA 2963-KGZ	Pension Reform	PPTA	0	680	680	23 Dec 1997
TA 3082-KAZ	Public Information and Education in Support of Pension Reform	ADTA	840	0	840	1 Oct 1998
TA 3111-BHU	Upgrading the Royal Insurance Corporation of Bhutan, Restructuring the Government Employees Provident Fund, and Introducing a Pension Scheme	ADTA	0	500	500	7 Dec 1998
TA 3116-INO	Reform of Pension and Provident Funds	ADTA	870	0	870	11 Dec 1998
TA 3134-UZB	Pension Reform	ADTA	850	0	850	22 Dec 1998
TA 3148-PRC	Pension Reform	ADTA	2,400	0	2,400	28 Dec 1998
TA 3367-IND	Reform of the Private Pension and Provident Funds System Reform and the Employees' Provident Fund Organization	ADTA	1,000	0	1,000	26 Dec 1999
TA 3590-BAN ^a	Pension and Insurance Sector Project	PPTA	0	0	0	15 Dec 2000
TA 3796-BHU	Institutional Development of the National Pension and Provident Fund Bureau	ADTA	0	300	300	12 Dec 2001
TA 4011-THA	Pension System Design	ADTA	600	0	600	4 Dec 2002

ADB = Asian Development Bank, ADTA = advisory technical assistance, BAN = Bangladesh, BHU = Bhutan, IND = India, INO = Indonesia, JSF = Japan Special Fund, KAZ = Kazakhstan, KGZ = Kyrgyz, LAO = Lao People's Democratic Republic, PAK = Pakistan, PPTA = project preparatory technical assistance, PRC = People's Republic of China, TA = technical assistance, THA = Thailand, TON = Tonga, UZB = Uzbekistan.

^a Original approved amount of \$600,000 from JSF was cancelled on 11 July 2002.

Source: Asian Development Bank.

TA COSTS AND SOURCES OF FUNDING

TA No.	Year	Financing			Goal/Objective
		ADB	Govt	Total	
TA 2915-BAN	1997	500,000	60,000	560,000	Assist in implementing policy actions under the program, develop deeper capital markets
TA 2955-THA	1997	1,150,000	300,000	1,450,000	Integrate social security and pension and provident funds; recommend measures to deepen capital markets
TA 3116-INO	1998	870,000	130,000	1,000,000	Promote efficient and sustainable pension and provident funds
TA 3134-UZB	1998	850,000	150,000	1,000,000	Promote pension reform
TA 3367-IND	1999	1,000,000	250,000	1,250,000	Develop a framework for pension and provident funds that addresses old age security of private sector employees and deepening of capital markets
Total		4,370,000	890,000	5,260,000	

ADB = Asian Development Bank, BAN = Bangladesh, Gov't = government, IND = India, INO = Indonesia, TA = technical assistance, THA = Thailand, UZB = Uzbekistan.

Source: Asian Development Bank.

TA PURPOSE, INPUTS, AND OUTPUTS

TA No.	Goal/Purpose	Inputs	Outputs
TA 2915-BAN	<ul style="list-style-type: none"> • To create an enabling environment for insurance products, pension funds, and provident funds through (i) progressive sector liberalization and deregulation, and (ii) strengthening of the regulatory and supervisory capacities of the oversight ministries. • To facilitate the flow of long-term funds to the capital market and contribute to its development by improving the institutional capacity of the contractual savings sector. 	<ul style="list-style-type: none"> (i) Insurance sector reform, including the introduction of regulatory best practices, establishment of prudential norms, and the design of a market surveillance system. (ii) Pension and provident fund reform, including the strengthening of the regulatory and supervisory structure, development of new investment guidelines, and the preparation of a phased plan to shift from an unfunded pension system to a fully funded system. (iii) Training for regulators and market participants from both sectors. 	<ul style="list-style-type: none"> (i) Early warning system for monitoring the performance of insurance companies. (ii) Actuarial analysis of the Government Pension Fund. (iii) Proposal for establishing a central provident fund. (iv) Proposal for revising investment guidelines for contractual savings institutions. (v) Nine-day seminar on “Sound Business and Financial Practices in Insurance.”
TA 2955-THA	<ul style="list-style-type: none"> • To promote the development of pension and provident funds to (i) strengthen social security through improved contributory systems and the establishment of a social protection system, and (ii) improve savings mobilization. 	<ul style="list-style-type: none"> (i) Strengthening of institutional foundations, including organizational restructuring, operations and procedures, and capacity building. (ii) Development of the policy framework through a pension and provident funds master plan with explicit legal-regulatory processes, incentive systems, and investment guidelines. 	<ul style="list-style-type: none"> (i) Technical studies including financial analysis and the identification of reform options. (ii) Training in the use of a pension program simulation model. (iii) Public information campaigns, seminars, and workshops. (iv) Legal and actuarial analysis to identify and evaluate reform options and assess their socioeconomic implications under various scenarios. (v) Medium-term road map comprising a comprehensive set of actions to establish a multi-pillared pension system and draft enabling legislation to initiate these reforms.
TA 3116-INO	<ul style="list-style-type: none"> • To strengthen the financial sector by developing the nonbank financial sector and alternative sources of long-term financing for investment. • To reduce poverty and improve social protection through the development and reform of the pension system. 	<ul style="list-style-type: none"> (i) Financial assessment and audits to assess the solvency of pensions funds. (ii) Identification of investment concerns. (iii) Examination of the feasibility of restructuring the provident fund. (iv) Formulation of recommendations for (a) expanding social security coverage and increasing resource mobilization; (b) investment policies, guidelines, and modifications to regulations and legislation; and (c) operational procedures to encourage the professional management of pension and provident funds in the public and private sectors. 	<ul style="list-style-type: none"> (i) Technical report with (a) financial analysis and recommendations for legal, regulatory, and institutional reforms; (b) amendments to tax laws; (c) the results of a stakeholder opinion survey; (d) actuarial analyses for selected scenarios to assess the liabilities of existing mandatory programs; (e) cross-country comparative information on pension programs; (f) information on international best practices and standards; and (g) selected options for the reform of existing programs. (ii) Public opinion survey on stakeholders’ perceptions of the private and public pension systems. (iii) Valuation of the civil service and the armed forces pension fund, including assessments on their long-term viability.

BAN = Bangladesh, INO = Indonesia, TA = technical assistance, THA = Thailand.

TA No.	Goal/Purpose	Inputs	Outputs
TA 3134-UZB	<ul style="list-style-type: none"> To support the Government's pension reform agenda. 	<ul style="list-style-type: none"> (i) Review of administrative and management processes and procedures of the pension system. (ii) Financial audit of the pension fund by independent international auditing firm. (iii) Formulation of a sound legal and regulatory basis for private pension funds and examination of legal and regulatory issues in the capital markets. (iv) Identification of financial sector preconditions to facilitate pension reform, including operational, legal, and regulatory aspects of capital market institutions; insurance and asset management companies and custodians; and an analysis of the impact of reform on the capital markets. (v) Detailed sectoral studies to assess the feasibility of private pension funds. (vi) Analysis of the social dimensions of pension reform, particularly with regard to private pension funds. (vii) Information processing pilot project in Samarkand. 	<ul style="list-style-type: none"> (i) Amendments to the Law on State Pensions. (ii) Administrative reforms for the existing public pension system. (iii) Design of a legal and regulatory framework for voluntary private pensions. (iv) Recommendations to broaden and deepen the capital markets, with a focus on (a) privatization of state-owned enterprises, (b) issuance of corporate bonds, (c) adoption of international accounting standards, (d) strengthening of the listing criteria on the Tashkent Stock Exchange, (e) changes to the Tax Code to reduce capital gains taxes and eliminate double taxation of dividends, and (f) improvement to the legal framework to enhance corporate governance in joint-stock companies. (v) Financial review and audit of the pension fund. (vi) Analysis of the social dimensions and institutional environment for voluntary private pension funds including recommendations for strengthening the financial sector institutional environment and strengthening the skills of capital market participants. (vii) Samarkand Pilot Project.
TA 3367-IND	<ul style="list-style-type: none"> To design a framework and present practical options, supported by costing analysis, for structuring a more efficient, equitable, transparent, and sustainable private pension and provident funds system, taking into consideration the country-specific constraints and requirements. 	<ul style="list-style-type: none"> (i) Preparation of an overview of both formal and informal pension systems and identification of long-term requirements for a national pension and provident fund system. (ii) Development of recommendations for legal, regulatory, and tax frameworks. (iii) Creation of a strategy for modernizing the Employees' Provident Fund Organization. (iv) Preparation of a proposal for the establishment of a pension research institute. 	<ul style="list-style-type: none"> (i) Inception, interim, and final reports from consultants, including recommendations for the organizational and operational restructuring of the Employees' Provident Fund Organization. (ii) Regional seminar organized with ADB Institute on "Capacity Building Conference on reforming Pension Systems in South Asia" in December 2000. (iii) Workshops conducted in February 2001 involving all stakeholders.

IND = India, UZB = Uzbekistan.
Source: Operations Evaluation Mission.

EVALUATION OF TA 2915-BAN: INSURANCE INDUSTRY AND PENSION AND PROVIDENT FUND REFORMS

I. Introduction

A. Background

1. Historically, growth in Bangladesh has been constrained by low levels of savings and investment. The Asian Development Bank (ADB) technical assistance (TA) 2033-BAN¹ concluded that substantial reforms were required in the insurance and private pension fund industries and in the provident funds if contractual savings institutions were to make a meaningful contribution to domestic capital formation. To address this problem, ADB approved a capital market development program (CMDP) in October 1997 to bolster investor confidence with the objective of increasing savings and investment from the private sector. Under the Program, policy measures were directed at strengthening market institutions and infrastructure and promoting the role of contractual savings schemes. TA 2915-BAN²—attached to the CMDP—was directed toward these objectives. In accordance with the agreement reached between ADB and the Government during the early stages of implementation of this TA, the TA was refocused on the provident funds and the private pension industry, rather than on the insurance industry.

2. At the time the TA was designed, the reach of pension funds was highly limited in Bangladesh. Public sector employees were required to participate in the Government Pension Scheme (GPS) or the Central Provident Fund (CPF). There were approximately 800,000 employees enrolled in this scheme that was excessively generous, providing replacement rates (benefits expressed as a percentage of final salary) in excess of 95%. Benefits were paid out of the Government's general revenues. GPS and CPF were regulated by the pension and provident fund rules. There were no requirements for employers to establish pension funds for their employees. Those private sector funds that did exist were regulated by rules governing legal trusts. Most of the funds, including GPS and CPF, were operating on an unfunded basis. Thus, they played no role in the capital markets. Even the funded private pension schemes in existence played no role in the domestic capital markets because they were required to invest exclusively in government saving certificates, government defense saving certificates, or fixed-term bank deposits.

B. Rationale and Concept

3. Given the recognition that capital accumulating in pension schemes could provide a source of longer-term financing for infrastructure projects and for capital investment, the rationale of the TA was to strengthen the financial sector by promoting the development of contractual savings schemes. It was intended to build upon the foundation created under TA 2033-BAN (footnote 1) by implementing the recommendations made by that earlier TA.

C. Objective and Scope

4. The TA was predicated on the assumption that prior recommendations developed under TA 2033-BAN (footnote 1) had been accepted and would be implemented. As such, this TA was

¹ TA 2033-BAN: *Study in the Insurance Industry and Pension and Provident Fund Operations in Bangladesh*, for \$577,000, approved on 27 December 1993.

² TA 2915-BAN: *Insurance Industry and Pension and Provident Fund Reforms*, for \$500,000, approved on 20 November 1997.

intended to assist the Government to implement recommendations to create an enabling environment for insurance products, pension funds, and provident funds through a two-pronged approach which included (i) progressive liberalization and deregulation of these business sectors, and (ii) strengthening of the regulatory and supervisory capacities of the oversight ministries. By pursuing both objectives, this TA was intended to facilitate the flow of long-term funds to the capital market and contribute to the market's development. The scope of the TA included three components: (i) insurance sector reform (introduction of regulatory best practices, establishment of prudential norms, and the design of a market surveillance system); (ii) pension and provident fund reform (strengthening of the regulatory and supervisory structure, development of new investment guidelines, and the preparation of a phased plan to shift from an unfunded pension system to a fully funded system); and (iii) training for regulators and market participants from both sectors.

D. Evaluation

5. The TA was evaluated by the operational department responsible for it. This self-evaluation rated the TA as partly successful. An Operations Evaluation Mission (OEM) visited Bangladesh in August 2003. The OEM held discussions with a large number of institutions, market participants, TA executing agencies (EAs), regulatory authorities, and other stakeholders. This evaluation is based on (i) a review of the rationale, purpose, and expected outcomes of each TA; and (ii) an analysis of actual outcomes and impacts as revealed in discussions by the OEM. The OEM reviewed relevant ADB records, analyzed pertinent data collected in the field, and supplemented this information with follow-up discussions with ADB staff and additional research when needed. The OEM evaluated the TA in terms of the (i) relevance of its design in relation to its underlying rationale and objectives, as well as its consistency with the Government's priorities for the sector and with ADB's sector strategy; (ii) achievement of its design objectives; (iii) efficiency of its implementation; (iv) sustainability of its contributions; and (v) magnitude and significance of its impacts.

II. Assessment of Design and Scope

A. Design

6. The TA was intended to promote the growth of the capital markets through the liberalization and deregulation of the sector, together with the strengthening of the regulatory and supervisory functions of the oversight ministries. The design of the TA was predicated on the assumption that the recommendations of an earlier TA (TA 2033-BAN) had been accepted and would be implemented.³ When the consultants arrived in Bangladesh, however, the Government was not aware of the previous TA or its recommendations and was unprepared to implement them.

7. In addition, the design of this TA was flawed in that it was predicated on the assumption that the only barrier to increased capital flow was the inadequacy of the regulatory structure and the inappropriateness of regulatory guidelines. Since almost all of the provident and pension funds currently operating in Bangladesh are unfunded (in the case of GPS and CPF—the provident funds for public sector employees—pensions are paid from general governmental revenues), simply relaxing the investment guidelines to permit broader investment would have had limited impact on the supply of capital for investment. The TA's stated objective and scope

³ From the TA completion report, "TA 2915-BAN, attached to the Capital Market Development Program loan, was designed to implement the insurance legal, regulatory, and organizational reforms recommended under TA 2033-BAN: *Study in the Insurance Industry and Pension and Provident Fund Operations in Bangladesh...*"

are silent on the contradiction between this reality and the objective of promoting long-term capital flows.

8. Moreover, the most pressing issue facing the Government is not the need to liberalize and deregulate the insurance and pension fund industries or to strengthen the regulatory capacities of the oversight ministries. The most pressing issue is the challenge of coping with a large and mounting pension payments liability. This issue—and the need for a policy reform framework to address it—is not addressed in the TA paper although the task of evaluating the Government’s unfunded liability is included as a major component of the scope of work for the actuary.

9. Finally, at the time the TA was launched, there was—and there continues to be—no effective governmental counterpart for reforming the pension and provident fund industry in Bangladesh. The issues facing these industries are quite different than those facing the insurance industry, and the Ministry of Finance—which served as the EA for the overall CMDP—had no jurisdiction over (or interest in) the pension component of this TA. It is not apparent why the two sectors were aggregated under the same TA design and no coordination mechanism was established to address this design flaw.

B. Engagement of Consultants

10. The TA was implemented through a private consulting firm. The firm and its consultants were selected in accordance with the procedures established by ADB’s *Guidelines on the Use of Consultants*. The number of international consultants actually used (four) and their actual level of effort (13.2 person months) differed—but not substantially—from what was planned (four consultants and 12.0 person months). Likewise, the number of domestic consultants actually used (two) and their actual level of effort (7.3 person months) differed—but not substantially—from what was planned (two consultants and 6.0 person months). International consultants focused on TA objectives related to pension and provident fund reform and training, while domestic consultants focused on objectives related to legal reform and training.

C. Implementation and Cost

11. The implementation of this TA deviated substantially from what was initially planned. The TA was to have lasted for 6 months, closing in July 1998. In actuality, the Government did not sign the TA agreement until August 1998. Consultants were not fielded until February 1999. The TA was not completed until August 1999, over 1 year after the planned closing date. In part, this delay was attributable to the fact that the Ministry of Commerce (MOC), the EA, and the Department of Insurance (DOI), the implementing agency, were largely nonresponsive to the concerns of the consultants.

12. In addition, during TA inception, the Government determined that the regulatory and organizational reforms for the insurance sector—which included improving the organization and management of DOI—as recommended under TA 2033-BAN (footnote 1) would not be implemented under the TA. As a result, the Government and ADB agreed to restructure the work plan and to allocate more resources to pension issues.

13. While allocating more resources to pension issues respected the Government’s agenda, as was noted in the TA report and TA completion report, the terms of reference (TOR) for this TA were based on the assumption that recommendations from an earlier TA had been accepted and would be implemented. While it was made clear that DOI was prepared to act on the

insurance-related reforms recommended under the prior TA, this was not the case for the pension and provident fund-related reforms. This caused confusion at the start of the TA. MOC, in particular, was not fully aware of the recommendations made for pension and provident fund reform under TA 2033-BAN and had no authority over any of the pension-related issues raised in the TA report. This resulted in a difficult relationship with the TA consultants.

14. The absence of an effective executing or implementing agency for pension policy was an early warning sign that there were problems with the organization and management of the TA. Weak government ownership, national strikes, TA staffing problems, and other factors added substantially to these difficulties. Ineffective administration on ADB's part—five different staff supervised the TA over the period—did little to help reduce the problems of an already difficult TA to implement.

15. The TA funds were almost all utilized. Only \$17,000 was not disbursed.

III. Achievement of Purpose and Outcomes

A. Performance of Consultants and Quality of Reports

16. In retrospect, given the implementation challenges identified above, it is not surprising that the consultants were unable to access the information they needed in order to satisfy their TORs. MOC showed little interest in the TA, as pension and provident funds fell outside its jurisdiction. ADB was informed early of the consultants' concerns during TA implementation but did little to address the problems the consultants were facing.

17. The two most significant outputs of the TA included (i) actuarial analysis of the GPS, and (ii) a proposal to establish a CPF. Although the consultants were denied direct access to all of the data they needed, the actuarial analysis of the GPS enabled the consultants to estimate the size of the Government's unfunded liability for paying benefits under the scheme. Their report presents in a very clear manner the methodology followed, the assumptions used, and the various checks used to ensure the assessment was analytically robust. In addition, their report provides possible approaches to reduce the fiscal burden of the current system. Their second report—which recommended the establishment of a CPF—despite being of reasonably high quality was thought by the Government to be too advanced for Bangladesh. It may, however, play a role in the future as it provides (i) a policy and practical framework for what is required to establish a CPF, (ii) a diagnosis of where further TA might prove useful in pursuing this objective, and (iii) draft legislation to support such a fund. Both reports were of acceptable quality. The performance of the consultants was, on the whole, satisfactory.

B. TA Outputs

18. Inadequate communication between the consultants and the Government hampered the dissemination of their findings and recommendations. The actuarial analysis of the GPS revealed a ballooning fiscal burden of unfunded pension liabilities that could lead to a major fiscal crisis in the future. Recommendations for addressing this looming crisis were suggested, but they were neither embraced nor acted upon by the Government. Similarly, the proposed CPF did not benefit from the input of stakeholders and, not surprisingly, did not ultimately obtain their acceptance and support.

C. TA Outcomes

19. In the absence of readily observable or measurable outcomes—the passage of laws or the creation of new institutions—indicators of TA impact could include the Government's use of TA reports or the establishment of a working group or task force dedicated to discussing and ultimately acting upon issues raised in a consultant's report. The OEM found little evidence to support positive outcomes from this TA. From the outset, there appears to have been little appetite for the pension reforms the TA was intended to support. Not surprisingly, therefore, those reforms have not been adopted, nor was there much evidence to suggest that the recommendations made under the TA are in the process of being considered. The outcomes of this TA were limited.

IV. Overall Assessment

20. The TA was less relevant than it should have been in terms of promoting reforms for pension funds and provident funds. It was designed under the incorrect assumption that the recommendations of the prior TA had been accepted and that the Government was prepared to implement them. It was launched without an effective EA. It was inefficacious, as it failed to achieve its objective of improving savings mobilization. It was less efficient by virtue of starting late and closing over 2 years after it was supposed to have closed. Given weak ownership and the absence of effective counterparts, there has been little institutional impact and no evidence of sustained activity on the part of the Government in either the insurance or pension-related sectors. This TA is rated as unsuccessful.

V. Conclusions

A. Key Issues

21. The following issues emerged from the OEM: (i) there was no institutional assessment of the merits of this TA or the Government's appetite for it prior to the initiation of the TA; (ii) the foundation established by the prior TA was too weak to adequately support a TA designed to implement its recommendations; (iii) the EA had no responsibility over—or authority to champion—the reforms the TA was intended to promote; and (iv) the absence of ownership over the TA on the part of the Government and the lack of institutional capacity to address issues related to pension reform meant that this TA was implemented too early to be effective, given Bangladesh's state of development.

B. Lessons Learned

22. Attaching a TA to a reform program will only contribute to the TA's success if its objectives flow logically from the goals and objectives of the program. This was not the case for this TA because almost all of the provident and pension funds currently operating in Bangladesh are unfunded. Thus, relaxing their investment guidelines to permit broader investment would have had limited impact on the supply of capital for investment and little impact on capital market development. Moreover, pension reform is a politically charged activity involving very different stakeholders than those involved with capital market development. For this reason, the fit between the CMDP and the TA was poor, the appeal of the TA to the EA was limited, and the institutional impact of the TA was negligible.

23. Adequate administration and effective management is crucial to leveraging scarce TA resources. At the outset of this TA, there were signs of weak government commitment. The TA

should have been cancelled after the almost 1 year delay in signing the TA paper. TAs that are implemented in the absence of clear demand on the part of the Government run high risk of falling short of expectations and may strain relationships to the point where future TAs and programs are effected.

24. Aggregating two different sectors under the same TA with different EAs is a poor design decision unless mechanisms for coordination are agreed upon prior to the TA being implemented.

25. ADB needs to be more responsive to implementation concerns raised by its consultants in the field. ADB staff could have provided better support and facilitated improved communications between the consultants and the Government. The issues raised by the consultants at the outset of the TA plagued the TA throughout its implementation and the fact that they were never resolved contributed to the TA's limited impact.

C. Follow-Up Actions and Recommendations

26. Until the Government demonstrates a commitment to pursuing reforms in this sector, no follow-up TA is recommended. The unfunded liability for pension benefits under the two provident funds is serious and merits concern. ADB should engage the Government on this issue, particularly given the fiscal implications involved in delaying reform.

EVALUATION OF TA 2955-THA: PENSION AND PROVIDENT FUNDS REFORM

I. Introduction

A. Background

1. The Thai economy was in crisis in 1997. To address the crisis, the Government adopted a comprehensive medium-term economic reform program with the support of various international development agencies that included the Asian Development Bank (ADB). Three issues in the Thai financial system were identified by ADB as meriting urgent attention and reform: (i) nonperforming loans, (ii) financial market regulation, and (iii) insufficient national savings. These issues were addressed under Loan 1600-THA.¹ Attached to Loan 1600-THA (footnote 1) was technical assistance (TA) 2955-THA.² This TA was designed to address the third issue of concern—increasing national savings through the further development of the capital markets.

2. Pension and provident funds first emerged approximately 5 years prior to the crisis. Although the Social Security Act of 1990 set the stage for an expanded social insurance system in Thailand (an expansion considered commensurate with Thailand's impressive gains in per capita income), it was only with the movement of the Social Security Office to the Ministry of Labor and Social Welfare in 1993 that it became institutionalized. At the time the TA was designed, there were nearly 85,000 establishments covering almost 6 million workers registered under the social security system, a mandatory pay-as-you-go (i.e., first pillar) public pension system for employees working in businesses with 10 or more employees.

3. Provident funds have a slightly longer history in Thailand. The Provident Fund Act was passed in 1987. The necessary legal structure and regulations were issued in 1989. Under the Act, contributions to provident funds come from employees and employers, subject to a minimum contribution rate of 3% and a maximum contribution rate of 15%. Benefits are not subject to taxation if they are paid after a person reaches the legal retirement age (or when funds are rolled over from one provident fund to another), but are subject to taxation if taken in cash. Provident funds are registered and regulated by the Fiscal Policy Office (FPO) of the Ministry of Finance. At the time the TA was designed and implemented, roughly 4,300 companies and just over 1 million employees were covered. In this context, it should be noted the term provident fund refers to voluntary private pension schemes (i.e., a third pillar of retirement income support) rather than to mandatory, fully funded defined contribution schemes managed by the public sector, as the term is traditionally used.

B. Rationale and Concept

4. At the time the TA was being designed, it was apparent that a contributing factor to Thailand's economic collapse was the asset-liability term mismatch within its financial sector. Roughly 80% of domestic savings were being channeled into short-term financial instruments. The need to develop longer-term sources of capital was seen as a necessary step toward improving the resiliency of the financial system to external shocks. In addition, it was observed that long-term capital could provide an important source for the financing of infrastructure and

¹ Loan 1600-THA: *Financial Markets Reform Program*, for \$300 million, approved on 19 December 1997.

² TA 2955-THA: *Pension and Provident Funds Reform*, for \$1,150,000, approved on 19 December 1997.

longer-term investments. Expanding the role of funded pension schemes was seen as an ideal vehicle for providing more stable longer-term sources of investment capital.

C. Objective and Scope

5. By assisting the Government in promoting the development of pension and provident funds, the TA was intended to mobilize long-term savings and, at the same time, strengthen mechanisms of social protection. Implicit in this approach was the presumption that the goal of mobilizing savings would necessarily lead to improved retirement security. In mobilizing long-term savings, the TA was intended to reduce the external resource gap, strengthen capital market development, and secure investment-induced stable growth.

6. The scope of the TA included two components: (i) strengthening institutional foundations through organizational restructuring, operations and procedures, and capacity building; and (ii) enhancing the policy framework through the development of a pension and provident funds master plan addressing legal-regulatory processes, incentive systems, and investment guidelines.

D. Evaluation

7. The TA was evaluated by the operational department responsible for it as part of the program completion report for Loan 1600-THA (footnote 1). This self-evaluation rated the TA as successful. An Operations Evaluation Mission (OEM) visited Thailand in July 2003. The OEM held discussions with a large number of institutions, market participants, the executing agency, regulatory authorities, and other stakeholders. This evaluation is based on (i) a review of the rationale, purpose, and expected outcomes of each TA; and (ii) an analysis of actual outcomes and impacts as revealed in discussions by the OEM. The OEM reviewed relevant ADB records, analyzed pertinent data collected in the field, and supplemented this information with follow-up discussions with ADB staff and additional research when needed. The OEM evaluated the TA in terms of (i) the relevance of its design in relation to its underlying rationale and objectives, as well as its consistency with the Government's priorities for the sector and with ADB's sector strategy; (ii) the achievement of its design objectives; (iii) the efficiency of its implementation; (iv) the sustainability of its contributions; and (v) the magnitude and significance of its impacts.

II. Assessment of Design and Scope

A. Design

8. The design of this TA was predicated on the understanding that governmental counterparts in Thailand—a relatively sophisticated, middle income country with a rapidly developing economy—would have already been exposed to the principles and choices available to them for reforming their pension system in line with recent international experience and developments. In addition, the design of the TA presumed that the Government had already made a commitment to the introduction of a three-pillar pension system, including the establishment of a mandatory, fully funded, privately managed pension system (i.e., second pillar).

9. Both assumptions proved to be false. While it is true that Thailand's economy is financially sophisticated, the institutionalization of formal pension systems and an appreciation and understanding of them in the Thai culture was quite limited at the time the TA was launched. Informal systems of old age security through extended family arrangements were still

very much the norm (although they were under considerable stress as a result of the financial crisis that began in 1997). Even today, a large percentage of Thais still expect to live with and to support their elderly parents. As a consequence, the expectations of the Government and the consultants—based on their terms of reference (TOR)—were quite different.

10. Given this fact, the TA's design and desired outputs were more optimistic than was justified. Instead of implementing a pension reform framework, the consultants first had to develop an understanding among their counterparts of pension policy and theory, the reform choices available to them, and the cost and social implications of those choices. These tasks were not envisioned under the original TOR, and the TA's design required significant subsequent adjustment.

11. Diligence on the part of ADB staff administering this TA promoted constructive dialogue with the Government and the TA consultants on these design flaws. The original design was subsequently modified and additional support was provided under the TA to address those issues that were not adequately addressed by the original design.

B. Engagement of Consultants

12. The TA was implemented through a private consulting firm. The firm and its consultants were selected in accordance with the procedures established by ADB's *Guidelines on the Use of Consultants*. The number of international consultants actually used (11) and their actual level of effort (29.7 person months) differed somewhat from what was planned (eight consultants and 25.0 person months). No domestic consultants were used (or planned for). International consultants planned included (i) a pension and provident funds expert and economist/team leader (9 person-months), (ii) a legal expert (4 person-months), (iii) an actuary (4 person-months), (iv) an accounting expert (3 person-months), (v) a systems expert (3 person-months), and (vi) a training expert (2 person-months).

C. Implementation and Cost

13. In accordance with the TA's design, a team of international consultants was fielded under the FPO of the Ministry of Finance, which served as the executing agency. The FPO provided office space and other support. The TA was expected to begin work approximately 6 months after approval and to close 9 months later. Instead, it started almost 2 years after loan approval and closed almost 3 years from its inception.

14. TA delays are attributable to several factors. Initial delays are attributable to the political environment created by the financial crisis in Thailand. Government staff were over-taxed and resources were severely strained. Addressing immediate vulnerabilities in the financial sector, not surprisingly, was given highest priority. Later delays are attributable to the design flaws identified above. The need for greater public education ultimately resulting in a second phase of TA being launched to help refine policy options.

15. Given the financial crisis, this was a difficult period for Thailand and, as a result of broader changes within the Thai Government during this period, there were frequent changes in personnel at the FPO. Primary counterparts were replaced several times during the implementation of the TA. None of the officials now working at the FPO were present when the TA was implemented.

16. ADB's administration of the TA should be credited for keeping it on track. Sustained and concerted involvement on the part of ADB staff created and maintained momentum for reform, despite difficult circumstances. After replacing the initial mission leader, there were no changes in leadership for the remainder of the 3-year period of the TA.

17. The TA funds were not all utilized: \$41,000 was not disbursed.

III. Achievement of Purpose and Outcomes

A. Performance of Consultants and Quality of Reports

18. The mismatch between the expectations of the consultants (based on their TORs) and those of the Government resulted, early in the implementation of the TA, in some initial dissatisfaction with the performance of the consultants. These differences appear to have been fully resolved once both parties better understood the other's agendas, constraints, and concerns. Implementation then proceeded more smoothly. The quality of reports produced by the consultants is very high, and many of their work products are still being used.

B. TA Outputs

19. The consultants produced a collection of technical studies that provided the most in-depth analysis of this type ever carried out in Thailand. In addition to providing analysis of the existing situation, these studies provided important benchmarks whereby government officials can, in the future, examine and evaluate options for reform. The framework for reform proposed by the consultants—which involved a multi-pillar pension system that greatly promoted the role of the second pillar—proved highly contested by several stakeholders.

20. Given this lack of buy-in and given the obvious gaps in the understanding of local officials and financial market professionals, the Thai Government and ADB agreed to a second phase of implementation under the TA. This second phase of activity focused on informing Thailand's policy debate through public information campaigns, seminars, and workshops intended to generate greater public understanding and awareness of pension reform issues. Equally important, in this phase, the TA worked to resolve major differences of opinion among stakeholders over the final structure of the proposed pension system.

21. Two consultants provided the legal and actuarial support needed to examine a number of reform options and analyze their socioeconomic implications under a variety of scenarios. This support contributed to the building of consensus. This second phase of activity also included the preparation of a detailed, medium-term road map for a set of actions required to operationalize a multi-pillared pension system in Thailand, as well as the drafts of enabling legislation needed to initiate these reforms.

C. TA Outcomes

22. As a result of this TA—and continued involvement on the part of ADB staff—a cabinet Committee for Retirement and Old Age Policy was established and charged with the systematic analysis of pension issues and the development of options for reform. The minister of Finance chairs this committee. The minister of Labor serves as deputy chair. A subcommittee for drafting pension and provident fund reforms was formed and is headed by the director general of the FPO.

23. The pension framework proposed by the TA envisaged a multi-pillar pension system with a second pillar (i.e., mandatory, defined contribution, privately managed pension funds). As stated above, this structure was hotly contested by a number of stakeholders. However, following TA-supported public information activities and training sessions, preliminary proposals for a second pillar were made in early 2000. Based on these preparations, the Government formally approved an action plan for the introduction of the second pillar and authorized further work to determine its design and the time frame for its implementation.

24. The subcommittee for drafting legislation to enact pension and provident fund reforms—consisting of representatives of stakeholders from the labor unions, regulatory agencies, employers, and the Government—has been supported by ADB through further actuarial and policy analysis provided in 2001 and 2002 under this TA. This has resulted in proposals for an integrated pension system and a blueprint for the phased introduction of the legal, regulatory, and administrative reforms needed to implement the new system. During this time, the Government has been carrying out public information campaigns to improve the public's knowledge and understanding of retirement and savings issues. The increase in the general level of awareness on pension issues has been significant.

IV. Overall Assessment

25. The TA was formulated during a period of financial crisis with the overarching objective of reducing Thailand's vulnerability to external financial shocks by increasing the supply of long-term capital. Despite the initial mismatch between the consultant's expectations and those of the Government, the TA was timely and directly relevant. It was made more so by ADB interventions to modify the initial design in response to the concerns raised by the Government and the consultants. The study tour to Hong Kong, China, in particular, proved invaluable to those policy makers who participated. The TA was efficacious in that it achieved its immediate objective of encouraging the Government to take steps to reform Thailand's pension system with the intention of promoting the role of funded pension schemes in the overall framework for social insurance. There is a strong likelihood that the outcomes of this TA will result in Thailand passing reforms to implement a new pension system. The TA was somewhat less efficient. It was intended to last 9 months, whereas its implementation took more than 3 years. While the second phase of work was necessary to broaden understanding and deepen support for the work of the TA, it required additional resources not anticipated under the original design. The level of the Government's commitment—as evidenced by work already in progress—is clear, and the outcomes of this TA are likely to be highly sustainable. Institutional development has been substantial. The Savings and Investment Department of the FPO, in collaboration with the Government Pension Fund and other agencies, designed and implemented a highly effective series of education materials—including printed materials, recorded media and television programs, and workshops—at moderate cost to promote greater public understanding of—and appreciation for—the need for reform. These activities have changed social attitudes. The overall rating of this TA is successful.

V. Conclusions

A. Key Issues

26. TA design must respect the specific needs, constraints, state of economic development, human, and financial capacity of the country it is intended to support. To accomplish this, TA designs should be based on an assessment of the capacity and commitment of the TA's

executing and implementing agencies as well as on an assessment of broader public understanding of (and appreciation for) issues of public policy—particularly those that are highly politically charged.

27. TA administration must not be relegated to staff with insufficient expertise in the areas the TA is intended to address. The success of this TA is almost entirely attributable to the efforts of one staff member. Careful attention by staff with the requisite knowledge and skills could have addressed the design deficiencies of this TA prior to its implementation.

B. Lessons Learned

28. Pension reform is one of the most controversial and politically charged public policy challenges facing any government. For persons living in societies with weak banking systems and with economies vulnerable to inflation, public pension systems often represent the primary—sometimes the only viable—savings vehicle. Changes in benefits or in the patterns of income redistribution within a pension system can severely impact the welfare of the elderly in their retirement. For many businesses, particularly those operating in countries with large informal economies, the size of the social insurance levy represents a powerful incentive to underreport wages and hire workers outside of formal labor arrangements. For many governments, social insurance contributions represent a captive source of financing. As a consequence, pension reform requires governments to balance competing social and practical interests and—like all programs of insurance—changes in pension policy ultimately benefit some at the expense of others.

29. Given such political complexity, pension reform is typically a long-term endeavor that can take many years, even if the political will exists to make changes rapidly. By implication, reforms cannot impose from the top down. Crafting good technical solutions is only one of several critical steps needed for pension reform to succeed. While a champion is needed to spearhead the political process, reform almost inevitably requires a medium-term framework in which stakeholders are given time and space to negotiate their interests. Although capacity building and technical analysis are clearly necessary, they are not sufficient to assure success. A strong emphasis must also be placed on public education not only for policy makers and elected representatives but also for labor groups, employers, and other stakeholders. This demands a flexible approach, not only in terms of how an individual TA is structured but also in terms of the overall design for reform. A cluster of separate but related TAs may have proven more effective in this case.

C. Follow-Up Actions and Recommendations

30. ADB should continue to provide support through the early implementation of recently approved follow-on TA. ADB should partner with the World Bank and other aid agencies to leverage their expertise and tap their resources. In particular, partnerships with other aid agencies are essential as long as ADB's procurement/recruitment guidelines prevent the use of experts from nonmember countries in Latin America and Eastern Europe.

EVALUATION OF TA 3116-INO: REFORM OF PENSION AND PROVIDENT FUNDS

I. Introduction

A. Background

1. Indonesia had one of the most vibrant economies in the region prior to the Asian financial crisis that began in 1997. In response to the crisis, the Asian Development Bank (ADB) adopted a three-pronged strategy that included (i) financial sector restructuring, (ii) capital market development, and (iii) improved management of public resources. As part of this strategy, during the appraisal for Loan 1618-INO,¹ the Government and ADB agreed to undertake a comprehensive review of the pension system. Although technical assistance (TA) 3116-INO² was not attached to the program, it was considered to be part of ADB's overall strategy for supporting the Government in its efforts to address near-term critical financial and economic issues in the wake of the crisis.

2. Indonesia's social insurance system includes (i) state-managed pension schemes (for civil servants and members of the armed forces), and (ii) the Jamsostek provident fund (for workers employed in the formal private sector). Participation in these schemes is mandatory. Privately managed voluntary pension schemes are also available to many private sector employees, either in the form of employer-sponsored plans (employer pension funds [EPFs]) or financial institution pension funds (FIPFs), which are operated by banks and life insurance companies.

3. The Jamsostek provident fund, administered by PT Jamsostek, includes (i) a mandatory, partially funded, pension scheme designed to provide retirement income for employees working for companies with 10 or more employees; and (ii) separate insurance programs to cover employment injury, death, and health care. Benefits paid under the pension scheme are financed on the basis of contributions equal to 3.7% of taxable wages (paid by employers) and 2.0% of taxable wages (paid by employees). The scheme provides coverage to approximately 13 million persons or 43.3% of the formal labor force. At the time the TA was being designed, total assets held by Jamsostek amounted to about Rp7 trillion (\$946 million). Returns on investments, however, were low—below that which could be obtained on bank deposits. This was, at least in part, due to unreasonably high administrative expenses—around 12% of contributions—far in excess of expense ratios in neighboring Malaysia (2.0% of contributions) or Singapore (0.5% of contributions).

4. In April 1992, the Government enacted the Law on Pension Funds. This law provides the legal foundation for the establishment, administration, and regulation of EPFs and FIPFs. At the time the TA was being designed, some 303 enterprises and 25 financial institutions had established a pension fund under the law. Employers are not required to establish a fund, but if they choose to do so, they are required to legally establish it as a separate legal entity. Given the high administrative costs involved, many smaller employers have joined one of the FIPFs, rather than establishing their own fund. At the time the TA was being designed, approximately 674 enterprises had joined an FIPF.³

¹ Loan 1618-INO: *Financial Governance Reforms: Sector Development-Program Loan*, for \$1.4 billion, approved on 25 June 1998. This loan represented a special intervention by ADB and was made in direct response to the Asian financial crisis.

² TA 3116-INO: *Reform of Pension and Provident Funds*, for \$870,000, approved on 11 December 1998.

³ Almost half (321) of these enterprises were members of just one FIPF (Bank Negara Indonesia).

5. Additional legal requirements under the Law on Pension Funds include (i) benefits must be determined using either a defined-benefit or defined-contribution benefit formula; (ii) rights to benefits must be governed by clearly defined vesting requirements; (iii) employers must respect the vested accrued rights of employees whose employment is terminated or who resign their position prior to reaching retirement; and (iv) schemes should provide for limited portability (i.e., the ability to transfer accumulated vested funds from one pension fund to another upon switching jobs). Contributions to pension funds are not subjected to taxation. Benefits paid by pension funds are taxed as ordinary income. Private pension schemes must be licensed by the Ministry of Finance (MOF), which supervises their operation. All private pension schemes are required to appoint a supervisory board, plan administrator, custodian bank, external auditor, and an actuary.

6. EPFs and FIPFs are generally fully funded. The maximum contribution rate is 20% of taxable wage income. Employees may contribute no more than 60% of what is contributed by their employers. Since February 1997, private pension schemes have been permitted to invest their assets in mutual funds, in addition to those asset classes already permitted under the 1992 Law (shares, bonds, and marketable securities). At the time the TA was being designed, total accumulated assets under the EPFs and FIPFs amounted to 10% of gross domestic product. This is far lower than what was observed in Malaysia or Singapore at the time, where private pension assets amounted to 40% and 60% of gross domestic product, respectively. Despite relatively low levels of participation, EPFs and FIPFs had accumulated more assets than the publicly managed programs, including Jamsostek.

B. Rationale and Concept

7. The TA report raised general concerns about the (i) lack of uniformity and consistency in the legal framework between public and private sector pension schemes, (ii) low rates of return and high administrative expenses, and (iii) inefficient methods of operation within both public and private sector schemes. The public pension schemes were suspected of not being financially viable as a result of low contribution rates and long-term demographic pressures expected to eventually arise from the aging of the country's population. The TA report also noted that a widespread lack of public awareness discouraged private sector employees from contributing beyond what was minimally required under the Jamsostek scheme. Unclear delineation of responsibilities and the lack of functional autonomy of enforcement resulted in weak oversight. Only 83,000 of approximately 187,000 firms required to enroll their employees in the Jamsostek scheme were actually doing so. This resulted in less than 20% of the workforce being enrolled. Investment decisions were also subject to inappropriate political influence. These were the issues the TA was intended to address.

C. Objective and Scope

8. This TA was intended to (i) strengthen the financial sector by promoting the development of the nonbank financial sector and alternative sources of long-term financing for investment, and (ii) reduce poverty and improve social protection by promoting the development of partially funded or fully funded pension schemes. The scope provided for two phases. In the first phase, the scope required (i) the actuarial analysis of the financial sustainability of current and any proposed pension schemes; (ii) an in-depth analysis of the impediments to the development of employer pension funds and those sponsored by financial institutions; (iii) a feasibility analysis of the restructuring of Jamsostek, the provident fund for private sector employees; and (iv) the audit of existing pension schemes, supported by proposals for their restructuring. On the basis

of what was learned in the first phase, the second phase of the scope called for recommendations for (i) increasing the level of social security coverage and mobilizing more resources; (ii) creating or modifying investment policies, guidelines, regulations, and legislation; and (iii) instituting operational procedures to encourage the professional management of pension and provident funds in both the public and private sectors.

D. Evaluation

9. The TA was evaluated by the operational department responsible for it. This self-evaluation rated the TA as successful. An Operations Evaluation Mission (OEM) visited Indonesia in July 2003. The OEM held discussions with a large number of institutions, market participants, the TA executing agency (EA), regulatory authorities, and other stakeholders. This evaluation is based on (i) a review of the rationale, purpose, and expected outcomes of each TA; and (ii) an analysis of actual outcomes and impacts as revealed in discussions by the OEM. The OEM reviewed relevant ADB records, analyzed pertinent data collected in the field, and supplemented this information with follow-up discussions with ADB staff and additional research when needed. The OEM evaluated the TA in terms of (i) the relevance of its design in relation to its underlying rationale and objectives, as well as its consistency with the Government's priorities for the sector and with ADB's sector strategy; (ii) the achievement of its design objectives; (iii) the efficiency of its implementation; (iv) the sustainability of its contributions; and (v) the magnitude and significance of its impacts.

II. Assessment of Design and Scope

A. Design

10. The design of this TA was ambitious. Its terms of reference (TOR) spanned two phases and included such tasks as (i) conducting opinion surveys, (ii) preparing a full financial and actuarial analysis of the existing pension schemes, (iii) preparing an actuarial and financial analysis of alternate reform scenarios, (iv) reviewing the legal framework, (v) reviewing tax policy, (vi) crafting recommendations to recover pension losses attributed to the financial crisis, (vii) making recommendations to improve market oversight including steps to strengthen the legal and regulatory frameworks, (viii) drafting legislation to help create the institutional framework for the proposed pension and provident fund system, (ix) holding workshops to disseminate results and recommendations and increase public understanding, and (x) preparing a final report.

11. Even under ideal conditions, these tasks could not have been accomplished within the proposed timeframe and budget of the TA. In addition, the design of the TA was flawed in that there was one EA—the Director General of Financial Institutions (DGFI) in MOF—but the task of implementation was handled by several other agencies including the Ministry of State-Owned Enterprises, the Ministry of Manpower, and the Ministry of Defense. Coordination between these implementing agencies was meant to take place through a high-level steering committee. In practice, this approach proved to be ineffective, and the consultants were unable to access much of the information they needed under the TOR and, ultimately, failed to gain consensus and buy-in for their recommendations.

B. Engagement of Consultants

12. The TA was implemented through a private consulting firm. The firm and its consultants were selected under a simplified technical proposal in accordance with the procedures

established by ADB's *Guidelines on the Use of Consultants*. The number of international consultants actually used (three) and their actual level of effort (17.5 person months) differed—but not substantially—from what was planned (three consultants and 16.0 person months). Likewise, the number of domestic consultants actually used (four) and their actual level of effort (15.4 person months) differed slightly from what was planned (four consultants and 22.0 person months). International consultants planned were (i) a pension and provident fund expert (6 person-months), (ii) an actuary and financial advisor (6 person-months), and (iii) a legal and regulatory expert for pension and provident funds (4 person-months). Domestic consultants included (i) an accountant (6 person-months), (ii) an audit specialist (6 person-months), (iii) an economist (6 person-months), and (iv) a legal expert (4 person-months).

C. Implementation and Cost

13. In accordance with the formulation of the TA, the DGFI served as the EA for the TA and provided office space and other support to the consultants fielded under the TA. The TA started 3 months later and closed 7 months later than was originally planned. Closing delays were, in part, due to start-up delays, but were also attributable to the inexperience of the consultants fielded, lack of cooperation from counterparts, overly ambitious TOR, and inadequate guidance (both from the Government and from ADB).

14. This TA underscores the difficulties faced in overcoming a major flaw in TA design. In accordance with the TA's formulation, the working group—headed by the DGFI and staffed by representatives from the Pensions Directorate, Ministry of Manpower, and Ministry of Defense—intended to oversee the implementation of the TA was never active. This proved highly detrimental to the TA's implementation. Lack of coordination on issues of pension policy contributed to the consultants' difficulties in accessing the information and data they needed from the various implementing agencies. Appeals by the consultants for ADB intervention went unanswered until new ADB staff with the experience and technical expertise necessary to effectively manage the TA were appointed to administer the TA toward the end of its life. The TA was completed and funds were fully utilized under new ADB administration.

D. Organization and Management

15. The Government remarked to the OEM that the consultants' office was poorly staffed and appeared to be poorly managed for much of the TA. The consultants seemed to have lacked the experience needed to administer a TA of this magnitude and relied heavily on the administrative skills of another ADB TA⁴ (both TAs were domiciled in the same building). It was suggested that these difficulties may have been, in part, responsible for tension between the TA's consultants and their counterparts and may have contributed to lower quality output on the part of the TA.

III. Achievement of Purpose and Outcomes

A. Performance of Consultants and Quality of Reports

16. Despite the administrative difficulties noted above, the efficiency of TA operations and the consultants' performance was, on the whole, satisfactory. Relationships with counterparts were moderately strained by the consultants' needs for sensitive information and data to analyze and evaluate the mandatory pension schemes. The Government expressed concerns

⁴ TA 3119-INO: *Regulatory Reforms in the Insurance Industry*, for \$800,000, approved on 15 December 1998.

about the international consultants' scheduling of time in Indonesia and frustration with the absence of a continual point of contact over the course of the TA. As a result, some officials characterized the activities of the TA as being erratic.

B. TA Outputs

17. The analysis, findings, and recommendations of the consultants were presented in a final report which provided (i) baseline financial analysis of the existing mandatory pension schemes; (ii) recommendations for legal, regulatory, and institutional reforms; (iii) proposed amendments to the tax laws; (iv) the results of the stakeholder opinion survey; (v) actuarial analyses for selected scenarios to assess the liabilities of the mandatory programs; (vi) comparative information on other pension programs in other countries; (vii) information on international best practices; and (viii) selected options for reforming the mandatory programs.

18. A public opinion survey helped gauge stakeholder perceptions of the existing mandatory public pension schemes and of private schemes. The opinion survey included interviews with representatives of various stakeholders, including EPFs, FIPFs, lawyers, accountants, actuaries, and fund managers.

19. A valuation of the civil service and the armed forces pension funds was completed and assessments were made as to the fiscal sustainability of these systems. The consultants also analyzed the schemes under possible future economic and demographic scenarios. The valuation of the civil service pension scheme raised concerns regarding its fiscal sustainability—concerns which are being pursued by the Government. The audit and evaluation of other schemes—particularly Jamsostek—were never conducted, however, because the consultants were denied access to the data they needed (although they did provide extensive recommendations using other sources, such as a Klynveld, Peat, Marwick, and Goerdeler [KPMG] assessment of financial statements).

20. One of the major benefits of the TA was the ability to gather information on the impact of the Asian financial crisis on private pension funds and other nonbanking financial sector institutions. In the TA's TOR, it was simply assumed that pension funds incurred significant losses as a result of the economic crisis. However, the consultants determined through an analysis of private sector pension plans that assets grew disproportionately to plan liabilities and that most pension plans consolidated their funding over the crisis period. This analysis revealed the more important issue facing pension funds: whether the benefit formulas they used would provide adequate income for plan participants in their retirement.

21. Some of the key recommendations of the TA included (i) a full independent audit of Jamsostek and reform measures to reduce its costs, increase its contributions, and adjust its key parameters (including replacement rates and retirement ages), improve compliance and enforcement, and segregate its funds; (ii) the introduction of a competitive mandatory accumulation system based on the Hong Kong, China model (one that permits corporate, open, and industry-wide plans and also accommodates both defined benefit and defined contribution benefit formulas); (iii) the consolidation and harmonization of regulatory requirements and the relaxation of investment restrictions; (iv) the imposition of a requirement for independent directors on corporate boards and other measures to improve governance; (v) education and training programs to develop capacity and heighten understanding and awareness; and (vi) the elimination of the existing requirement to pay dividends and taxes to the government on the investment returns of the mandatory pension schemes.

C. TA Outcome

22. The final report of the TA was of lower quality than was anticipated which, to some degree, reflected problems with the original design and the TA's implementation and management. However, as was noted in the TA completion report, the analysis contained in the final report did provide useful background information and formed the basis for a pension reform framework for Loan 1965-INO.⁵

23. In addition, the 2-day workshop organized by the TA in Jakarta in August 2000 helped to disseminate the TA's findings and provided a strategic forum for debate among government officials, academics, trade union officials, and other stakeholders. The workshop was considered to be an effective vehicle for sharing analysis and findings and for obtaining feedback on proposed recommendations. Of the 135 persons invited, 98 attended the first day of the workshop and 86 attended the second day.

24. Perhaps, the TA's most immediate positive impact was the identification of potentially serious financial problems with the civil service pension fund. As discussed earlier, the Government has taken up this issue. A full audit is being planned for the scheme, which has the endorsement of the International Monetary Fund.

IV. Overall Assessment

25. Given the financial crisis and the clearly compelling need to (i) address weakness in the financial sector, (ii) promote the development of domestic sources of long-term capital to fuel economic recovery, and (iii) improve the management of public resources, the TA was clearly relevant and timely. It was efficacious because it achieved its immediate objective of promoting pension and provident fund reform. The outputs of the TA contributed directly to ADB's continuing dialogue with the Government on reforms to the nonbank financial sector. The TA was less efficient, however, as it started and closed late. It is also not apparent whether the outputs of the TA have sufficient government commitment and support. For this reason, sustainability is assessed as being unlikely. ADB staff working on other financial sector issues in Indonesia, however, have drawn upon the final report of the TA. As a result, its outputs may be sustained by virtue of becoming part of a broader dialogue on financial sector reform. There has been no substantial institutional impact. The overall rating of this TA is partly successful.

V. Conclusions

A. Key Issues

26. The consultants delivered work products largely within their TOR. Coordination and cooperation, however, among interested parties—the Government, the consultants, and ADB—could have been more effective during the implementation of the TA. A contributing factor to poor coordination and cooperation may have been the fact that a presidential task force on social protection, headed by the Indonesian Vice President, was initiated at roughly the same time. The work of the TA became increasingly isolated once the task force began its work. The perspective, emphasis, and recommendations of these two efforts were very different. While the design of the TA could not have foreseen the establishment of such a task force or anticipated

⁵ Loan 1965-INO: *Financial Governance and Social Security Reform Program (Phase I)*, for \$250 million, approved on 10 December 2002.

its impact, the TA could have been designed to be more realistic in its scope and more flexible. Combined with better coordination with counterparts, the quality of the TA's outputs would likely have been higher.

B. Lessons Learned

27. The key lessons highlighted by this TA include:

- (i) Coordinating the work of a TA is more difficult in cases where the EA does not have authority over all of the issues the TA is designed to address. In this case, the DGFI in MOF was the EA, but some of the TA issues fell under the jurisdiction of the Ministry of State-Owned Enterprises, the Ministry of Manpower, or the Ministry of Defense. None of these entities were adequately addressed by the design of the TA.
- (ii) The establishment of a high-level steering committee for implementing a TA does not necessarily create an accessible and effective channel of communication. Such committees should be carefully constituted to insure that they do not inadvertently slow down the progress of a TA or even hamper its ability to accomplish its objectives.
- (iii) The continued presence of international consultants over a longer timeframe may improve the odds of success for TAs addressing politically difficult issues.
- (iv) The TA design must respect the specific needs, constraints, state of economic development, human, and financial capacity of the country it is intended to support. Overly ambitious designs for countries with low levels of institutional development are bound to fall short of expectations.
- (v) The use of Bahasa Indonesia translators should be considered for future workshops in Indonesia to facilitate dialogue for some participants.

C. Follow-Up Actions and Recommendations

28. An audit of Jamsostek is scheduled to be conducted using some of the funds left undisbursed under TA Loan 1620-INO.⁶ Large portions of the reform agenda directed at reforming Jamsostek and those reforms addressing the harmonization of the legal, tax, and regulatory frameworks for pension funds have been incorporated into the proposed Financial Governance and Social Security Reform Program (Phase II) currently under discussion with the Government. The Pension Directorate with MOF has been making progress in terms of improving standards and adopting practices in line with the standards and plans development pursuant to a letter of intent signed jointly by the Government and the International Monetary Fund.

⁶ Loan 1620-INO: *Financial Governance Reforms: Sector Development - Capacity Building for Financial Governance Program*, for \$50 million, approved on 25 June 1998.

EVALUATION OF TA 3134 UZB: PENSION REFORM

I. Introduction

A. Background

1. The pension system Uzbekistan inherited from the former Soviet Union was based on the concept of solidarity across generations. With the collapse of the Soviet Union and the termination of the budgetary support it provided, large arrears developed in the payment of pension benefits in the early 1990s. In 1991, the Government initiated a program of reforms intended to restore financial balance to the pension system by (i) imposing a 32% payroll tax on enterprises, (ii) more directly connecting benefits paid in retirement to pre-retirement wages and service history, and (iii) establishing a fund to accumulate and distribute the contributions made to the pension system by enterprises and workers.

2. In 1994, the Government passed the Law on State Pension Security. This law established the legal basis for old age retirement benefits, disability allowances, and survivor allowances (allowances paid to the dependent survivors of a breadwinner who died prematurely). The retirement age was set at age 60 (for men) and age 55 (for women). Employers were required to contribute at the rate of 36% of taxable wages and 0.5% of gross sales. Employees were required to contribute at the rate of 1.5% of their taxable wages.

3. The resulting pay-as-you-go (PAYGO) pension system operated with a financial deficit until 1998 when it generated a small surplus. Despite the modest improvement in the financial position of the fund, its long-term sustainability was in doubt, given the absence of a reserve fund to meet future liabilities and to protect it against economic downturns and long-term demographic changes. In light of these concerns and other problems in the structure of the system, the Ministry of Social Maintenance (MSM) prepared a strategy for reforming the system and for assessing the possibility of introducing voluntary private pension funds (referred to in the technical assistance [TA] documentation as voluntary supplemental pensions) by 1999–2000.

B. Rationale and Concept

4. In addition to the issue of long-term sustainability, the pension system suffered from a number of fundamental design flaws and operational problems including (i) high contribution rates, (ii) arrears in the payment of contributions by employers, (iii) low participation rates (which suggested that a substantial portion of the working population was successfully evading the system), (iv) special privileges awarded to certain categories of workers, (v) early retirement provisions for persons working in hazardous conditions or in designated special occupations, (vi) high system dependency ratios,¹ (vii) low replacement rates,² (viii) the use of contributions to provide other forms of social assistance (such as support for low income families), (ix) ad hoc and poorly structured benefit increases that further eroded the connection between contributions and benefits, and (x) administrative weaknesses (such as the absence of business planning and irregular and inadequate financial audits).

5. The Government's plan for reforming the pension system focused on (i) increasing the retirement age in a phased manner over a 10 to 12-year horizon and, eventually, equalizing

¹ System dependency ratio refers to the number of beneficiaries for each contributing worker in a system of social insurance and is one measure of a system's financial condition.

² Replacement rate refers to benefits divided by pre-retirement compensation and is one measure of a pension system's generosity and benefit adequacy.

retirement ages for men and women; (ii) eliminating special privileges; (iii) amending existing legislation for the pension system; and (iv) considering legislation to introduce voluntary private pension funds. These policy reforms, if correctly designed and if fully implemented, were intended to lay a foundation for a financially sound and sustainable pension system.

6. To implement the pension reform, as was outlined in the Government's strategy, the Government requested TA from the Asian Development Bank (ADB) and the World Bank. The two institutions shared responsibility for the overall effort and coordinated closely on their individual responsibilities under their joint work program.

C. Objective and Scope

7. The TA was intended to support the Government's pension reform agenda by (i) offering recommendations for modernizing administrative and financial management processes in the current PAYGO system; and (ii) developing an enabling operational, legal, and regulatory environment for the introduction of fully funded voluntary private pension funds. The scope included (i) a review of the administrative and management processes of the public pension fund; (ii) an independent external (international) financial audit of the fund; (iii) the formulation of a sound legal and regulatory basis for the introduction of private pension funds; (iv) the identification of the legal and regulatory measures needed in the capital markets to support the introduction of private pension funds; (v) the identification of financial sector preconditions to facilitate pension reform—including operational, legal, and regulatory conditions within capital market institutions, insurance and asset management companies, and custodians, etc.—and an analysis of the impact of the reform on the capital markets; (vi) detailed sector studies to assess the feasibility of introducing private pension funds; (vii) an analysis of the social dimensions of the pension reform, particularly with regard to private pension funds, in a participatory and survey framework; and (viii) the launch of a pilot project in Samarkand to improve data collection and processing.³

D. Evaluation

8. The TA was evaluated by the operational department responsible for it. This self-evaluation rated the TA as successful. An Operations Evaluation Mission (OEM) visited Uzbekistan in August 2003. The OEM held discussions with a large number of institutions, market participants, TA executing agencies, regulatory authorities, and other stakeholders. This evaluation is based on (i) a review of the rationale, purpose, and expected outcomes of each TA; and (ii) an analysis of actual outcomes and impacts as revealed in discussions by the OEM. The OEM reviewed relevant ADB records, analyzed pertinent data collected in the field, and supplemented this information with follow-up discussions with ADB staff and additional research when needed. The OEM evaluated the TA in terms of (i) the relevance of its design in relation to its underlying rationale and objectives, as well as its consistency with the Government's priorities for the sector and with ADB's sector strategy; (ii) the achievement of its design objectives; (iii) the efficiency of its implementation; (iv) the sustainability of its contributions; and (v) the magnitude and significance of its impacts.

³ The Samarkand pilot project was also supported by a World Bank TA, for \$350,000, which funded the (i) preparation of an actuarial model to analyze the financial implications of pension reform options based on alternative economic and demographic scenarios, (ii) implementation of the Samarkand pilot project and the development of a management information system, and (iii) preparation of a campaign to educate the public on the proposed new pension system. The results of the actuarial modeling exercise were intended to provide background data and information for the design of pension reform to be supported by ADB's TA.

II. Assessment of Design and Scope

A. Design

9. The TA had a limited scope that included providing support to the Government to strengthen the existing PAYGO public pension system and to lay the foundations for the introduction of voluntary private pensions. Many of the tasks under the terms of reference (TOR) focused on diagnostic assessments, rather than the drafting of large roadmaps for reforms that the Government would have been unlikely to adopt. Its design benefited greatly from technical discussions with the Government held before the TA design was finalized. In this sense, the design was demand-driven, and its agreements were recorded in the form of a memorandum of understanding co-signed by the Government.

10. The design also reflected an emphasis on (i) social policy issues, including the alignment of contributions and benefits and the need to address gender disparities in retirement ages and service requirements; and (ii) fiscal policy issues, including the need to separate pension fund accumulations from the reserve funds of MSM. The design included components intended to promote broader awareness of pension issues in order to help build consensus for reform.

11. The TA was designed in collaboration with the World Bank and represents an effective example of inter-agency cooperation whereby the overall mission was divided between the two institutions to take advantage of their comparative strengths and available resources. The TORs for consulting services were well written and consistent with the objectives of the TA design.

B. Engagement of Consultants

12. The TA was implemented through a private consulting firm. The firm and its consultants were selected in accordance with the procedures established by ADB's *Guidelines on the Use of Consultants*. The number of international consultants actually used (six) and their actual level of effort (19.5 person months) differed very slightly from what was planned (six consultants and 18.5 person months). The number of domestic consultants actually used (eight) and their actual level of effort (39.7 person months) differed substantially from what was planned (five consultants and 28.0 person months). International consultants included (i) a pension specialist and coordinator, (ii) an audit specialist, (iii) an administrative reform specialist, (iv) a legal specialist, (v) a capital markets specialist, and (vi) a social dimensions specialist. Some delays in recruiting appropriately qualified consultants were experienced.

C. Implementation and Cost

13. MSM was the executing agency for the TA and provided the required administrative and logistical support to the TA's consultants. The computer equipment and software needed for the Samarkand pilot project was procured by MSM in accordance with procedures that were acceptable to ADB.

14. At the time of the TA's inception in July 1999, the newly appointed minister of MSM expressed concerns about the TA scope. At issue was the recent shift in views on pension reform at the highest levels of government following difficulties in Kazakhstan and the Kyrgyz Republic with new pension systems.⁴ Indeed, the previous minister of MSM was replaced because of his efforts to reform the pension system at a politically sensitive time in Uzbekistan.

⁴ In the case of Kazakhstan, these difficulties proved to be temporary as the country moved to a fully funded system (ADB. 2003. *Program Performance Audit Report on the Pension Reform Program in Kazakhstan*. Manila.).

A second concern was the confidentiality of data for the financial audit of the pension fund. This issue was discussed and the TA was ultimately able to proceed once a memorandum of understanding was signed that confirmed the advisory nature of the TA and established an agreement regarding the confidentiality of the audit results.

15. While the consultants successfully provided analysis and advice on most of the issues identified in their TOR—including, for example, the issues, administration, and management of the PAYGO system; capital market development; and the social dimensions of systems of social insurance—they continued to face difficulties with obtaining the information they needed for the financial audit of the pension fund and with establishing the legal and regulatory basis for voluntary private pension schemes. ADB launched three review missions to clarify the purpose and intentions behind these components and to restore MSM's support for the TA.

III. Achievement of Purpose and Outcomes

A. Performance of Consultants and Quality of Reports

16. Despite the difficulties identified above, the performance of the consultants was, on the whole, satisfactory. The Government had initially demonstrated strong commitment to reform at the time the TA was being designed. However, the Government's overall commitment and support for the implementation of the TA wavered somewhat because the leadership at MSM changed (para. 14). The consultants were ultimately able to adjust to these challenges and to focus on the issues identified in their TOR, although they continued to encounter resistance when attempting to obtain information and data for the financial audit of the pension fund. Their final report, supported by a number of appendixes, was comprehensive and of high quality.

B. TA Outputs and Impacts

17. The outputs of the TA were primarily advisory in nature and included (i) proposed amendments to the Law on State Pensions, (ii) suggestions for improving the administration and management of the pension fund, (iii) recommendations for the design of the legal and regulatory framework for voluntary private pension funds, (iv) suggestions for developing the capital markets, (v) recommendations intended to strengthen controls and financial procedures, (vi) analysis of the social dimensions and institutional environment for voluntary private pensions, and (vii) support for the Samarkand pilot project. These outputs are discussed further below.

18. Amendments to the law on state pensions were proposed in order to (i) better align contributions and benefits, (ii) address gender disparities in retirement ages and service requirements, (iii) streamline early retirement provisions and social allowances, (iv) rationalize and minimize exemptions from making payroll contributions to the pension fund, (v) eliminate ad hoc decrees or other Government resolutions that had the effect of undermining the legal authority of the pension fund and which resulted in frequently changing pension provisions, and (vi) legally separate the accounts of the pension fund from those of the MSM and of the state budget to enhance accountability on the part of the pension fund.

19. Reforms for the administration and management of the pension system were suggested. Recommendations included measures to (i) integrate workload projections with strategic and business planning; (ii) introduce of a nationwide unique personal identification number (PIN) system and integrate this system with the tax collection process (in cooperation with the State Tax Committee); and (iii) reduce the burden of data collection on enterprises by streamlining

government processes. As part of the TA, and with support from the World Bank, a seminar was held on the Administration of Pension Program Collections in February 2000. Representatives of nine countries participated in the seminar. Following the seminar, the Government established an interministerial committee—comprising MSM, the Ministry of Finance, and the State Tax Committee—to expedite work on the PIN system. The TA supported this activity until July 2000. The committee was still active at the time of the OEM in August 2003 and appeared close to choosing between two proposed PIN systems.

20. Recommendations for the design of the legal and regulatory framework for voluntary private pension funds were made. These recommendations addressed such issues as (i) program design, fund management, internal controls, and effective governance; (ii) the need for the rigorous regulation of voluntary private pension funds, the importance of provisions to assure the safe custody of invested funds, and the need to build confidence on the part of participants; (iii) the registration and licensing regime for institutions as well as market professionals; and (iv) the need for enforcement audits and regulatory provisions on guarantees against losses for defined-benefit schemes.

21. Recommendations for broadening and deepening the capital markets were proposed. Recommendations focused on (i) the privatization of state-owned enterprises, (ii) the issuance of corporate bonds, (iii) the adoption of international accounting standards by joint-stock companies, (iv) the listing criteria used by the Tashkent Stock Exchange, (v) the enactment of changes to the tax code to reduce capital gains taxes and eliminate the double taxation of dividends, and (vi) the improvement of the legal framework to encourage better corporate governance on the part of joint-stock companies.

22. Recommendations to strengthen controls and financial procedures were made to improve the financial management of the pension fund. These included recommendations to (i) adopt international accounting standards by the pension fund and modernize accounts management, (ii) formulate guidelines for the collection of contributions and the payment of benefits, (iii) conduct regular audits by external audit firms, (iv) strengthen risk analysis and management capacity, and (v) correct discrepancies between bank balances and reported cash balances.

23. An analysis of the social dimensions and institutional environment for voluntary pensions was conducted. This analysis revealed tentative support for the introduction of voluntary private pension schemes but revealed (i) widespread concern that such schemes might not prove to be sufficiently independent of state control, and (ii) a deep mistrust of financial institutions. The TA provided recommendations for strengthening the financial sector institutional environment to promote voluntary private pensions, with a focus on the banking sector environment, the skills and capacity of finance professionals, and the current underdeveloped state of the insurance sector.

24. The Samarkand pilot project was launched with \$52,000 of support from ADB (for the procurement of computer equipment) and \$40,000 of additional support from the World Bank. The pilot project was implemented in all districts within Samarkand Province in order to modernize systems for the collection of contributions and the payment of pensions. The project provided a vehicle for testing, on a continuing basis, the effectiveness of new software and database programs. Productivity has improved—four workers now do the work that eight workers did previously—and accuracy and efficiency have also improved with fewer errors in payments and more timely updating of death and new pensioner records. The pilot project has

been so successful that the Government is supporting its expansion to other districts in Uzbekistan.

IV. Overall Assessment

25. The TA was relevant and timely. It was designed and implemented in response to the Government's stated intention to enact reforms in the social sector. The TA was efficacious because it achieved its immediate purpose of providing advice to the Government on issues related to the existing pension system and also on issues related to the introduction of voluntary private pension schemes. There is a reasonable likelihood that the Government will eventually enact reforms to the pension system. The TA was somewhat less efficient. While there is evidence of support for the outcomes of the TA, there is clearly strong reluctance on the part of the Government to relax its control over the economy or to move quickly on the reforms proposed under the TA. That said, it is likely that the Government will eventually embrace some of those reforms. Sustainability, therefore, is likely. The TA clearly succeeded in broadening the understanding of pension policy on the part of its counterparts within the MSM and, in doing so, made some institutional impact. The overall rating of this TA is successful.

V. Conclusions

A. Key Issues

26. The use of TA to provide diagnostic assessments and make recommendations in support of the Government's incremental approach to pension reform proved to be a sound approach in Uzbekistan and has likely resulted in the TA having greater impact than it would otherwise have had. Having a TA conduct financial reviews of state-owned or controlled agencies, however, should not be supported under an advisory TA because of the impossibility of monitoring and following-up on such reviews once the TA has been implemented and closed.

B. Lessons Learned

27. The key lessons highlighted by this TA include:

- (i) In transition economies, TA can make important contributions by helping policy makers to better understand the issues they are charged with managing and by providing forward-looking recommendations to guide policy decisions in the future.
- (ii) Jointly coordinated efforts with other aid agencies can be effective in terms of leveraging comparative strengths and available resources.
- (iii) Advisory TAs dealing with complex public policy issues should be implemented over a 15 to 18-month period.

C. Follow-Up Actions and Recommendations

28. ADB should continue to engage the Government in policy dialogues in support of pension reform. While there was initial reluctance to the introduction of voluntary private pension plans, the Government appears willing to consider steps to broaden social insurance coverage and to improve financial intermediation through the nonbank financial sector.

EVALUATION OF TA 3367-IND: REFORM OF THE PRIVATE PENSION AND PROVIDENT FUNDS SYSTEM REFORM AND THE EMPLOYEES' PROVIDENT FUND ORGANIZATION

I. Introduction

A. Background

1. During the Asian Development Bank's (ADB's) 1999 Country Programming Mission, the Government of India requested technical assistance (TA) from ADB to support the development of India's capital markets. The Government had grown concerned with the shortage of long-term capital to finance infrastructure and wished to promote the issuance of longer-term financial products to fund capital investments and achieve higher levels of economic growth. Three TAs were launched to help create an enabling environment for long-term capital formation. These included TAs to support (i) reforms for pension and provident funds,¹ (ii) capacity building for the insurance regulator,² and (iii) development of the domestic debt market.³

2. India's pensions and provident funds include (i) funds for civil servants working for the central and state governments; (ii) the Employees' Provident Fund Organization (EPFO) for private sector employees; (iii) various other provident funds; and (iv) voluntary schemes provided by insurance companies, the Unit Trust of India, and asset management companies. At the time the TA was being designed, these schemes covered only about 10% of India's estimated labor force of 397 million persons. The majority of the work force was excluded from these schemes by virtue of being self-employed or employed in the informal sector.

3. EPFO is India's largest social insurance organization. It was founded under the Employees' Provident Funds and Miscellaneous Provisions Act of 1952. EPFO administers (i) the provident fund for approximately 19 million beneficiaries (roughly half of all nongovernment salaried workers in the formal sector); (ii) the Employees' Pension Scheme which is financed on the basis of matching contributions from 262,000 employers and contributions from the Central Government; and (iii) the Employees' Deposit Linked Insurance Fund. At the time the TA was being designed, the capital of these three funds totaled Rs655 billion (\$15.4 billion). EPFO is overseen by a Central Board of Trustees, consisting of representatives from central and state governments, employers, and workers. It is chaired by the minister of Labor.

B. Rationale and Concept

4. At the time the TA was being designed, it had become clear that traditional family-based mechanisms for ensuring old age security had become increasingly unable to cope in India with lengthening life expectancy and rising medical costs. These factors, along with India's changing demographics, elevated pension reform in the Government's priorities. Of concern was the haphazard nature of pension coverage, which was the result of individual pension schemes being developed and amended over several decades without the benefit of an overarching plan for social insurance. Gaps in coverage in the formal sector, the lack of coverage for large numbers of persons working in the informal sector, and organizational and administrative inefficiencies demanded attention.

¹ TA 3367-IND: *Reform of the Private Pension and Provident Funds System Reform and the Employees' Provident Fund Organization*, for \$1,000,000, approved on 26 December 1999, the subject of this evaluation.

² TA 3460-IND: *Policy and Operational Support and Capacity Building for the Insurance Regulatory and Development Authority*, for \$800,000, approved on 22 June 2000.

³ TA 3473-IND: *Development of Secondary Debt Market*, for \$600,000, approved on 28 July 2000.

5. Prior studies had shown that two key weaknesses were undermining the effectiveness of the existing schemes in providing long-term capital to support investment: poor accumulation and restrictive investment guidelines. Poor accumulation was the consequence of early withdrawals used by scheme participants to finance housing, health care, and higher education during their working years. Low rates of return were attributed to rigid investment guidelines that limited pension and provident funds investments primarily to government securities. It was believed that the liberalization of investment guidelines would benefit plan participants by improving portfolio diversification (thereby lowering risk while raising average returns) and would benefit capital market development by promoting greater involvement on the part of fund managers in India's financial markets. The liberalization of investment guidelines for pension and provident funds was one of several actions to eliminate impediments to financial market development under Loan 1408-IND.⁴

6. The rationale of the TA was to support the Government in its effort to (i) improve the effectiveness and reach of existing schemes of social insurance, paying particular attention to EPFO; (ii) liberalize investment policies (in conjunction with measures to improve regulatory oversight and assure the prudent management of invested funds); and (iii) develop an overarching framework for social insurance in India.

C. Objective and Scope

7. The objective of the TA was to create a pension reform framework and to present practical options, supported by cost analysis, for the structuring of a more efficient, equitable, transparent, and sustainable private sector pension and provident funds system. The scope included (i) conducting a study of both formal and informal mechanisms of retirement income support, including the identification of long-term requirements for an adequate national pension and provident fund system; (ii) crafting recommendations for improving the legal, regulatory, and tax frameworks; (iii) building a financial model to evaluate the fiscal health of EPFO and creating a strategy to modernize the institution; and (iv) developing a proposal for the establishment of a pension research institute.

D. Evaluation

8. The TA was self-evaluated by the operational department and rated as successful. An Operations Evaluation Mission (OEM) visited India in August 2003. The OEM held discussions with a large number of institutions, market participants, the TA executing agency, regulatory authorities, and other stakeholders. This evaluation is based on (i) a review of the rationale, purpose, and expected outcomes of each TA; and (ii) an analysis of actual outcomes and impacts as revealed in discussions by the OEM. The OEM reviewed relevant ADB records, analyzed pertinent data collected in the field, and supplemented this information with follow-up discussions with ADB staff and additional research when needed. The OEM evaluated the TA in terms of (i) the relevance of its design in relation to its underlying rationale and objectives, as well as its consistency with the Government's priorities for the sector and with ADB's sector strategy; (ii) the achievement of its design objectives; (iii) the efficiency of its implementation; (iv) the sustainability of its contributions; and (v) the magnitude and significance of its impacts.

⁴ Loan 1408-IND: *Capital Market Development Program*, for \$250 million, approved on 28 November 1995, to promote policy reforms intended to facilitate the development of the domestic capital markets and improve the ability of the markets to mobilize resources to finance investment in support of economic growth.

II. Assessment of Design and Scope

A. Design

9. The TA was designed to satisfy the Government's request for support in developing sources of long-term capital for investment. In this sense, the design of the TA met the Government's broad objectives. However, the design provided for a number of tasks—including an analysis of both formal and informal mechanisms for providing retirement income support to the elderly, recommendations for strengthening the legal, regulatory, and tax frameworks, and the design of a pension research institute—that had little government support and no obvious counterparts. India was not institutionally ready (or interested) in these components of the TA and, as a result, the consultants were unable to effectively engage the Government on these issues.

10. The decision to place the TA under the jurisdiction of EPFO effectively isolated the team from addressing broader issues of pension policy. In combination with a management change at EPFO, however—which created a strong demand for the TA's services—this decision did improve the TA's effectiveness in addressing tasks related to the strengthening of EPFO.

11. The TA supported two activities that were not part of its original design. These included (i) sponsoring a trip for the commissioner of EPFO to visit the Social Security Administration in Washington, DC in conjunction with a pension seminar he was attending in Boston, Massachusetts; and (ii) sponsoring a trip for a senior EPFO official to the US in order to attend a workshop on "Finding the Path to a Sustainable Pension System." Both deviations from the TA's design were justified on the basis of the need to develop greater understanding and appreciation for pension policy issues on the part of the TA's counterparts.

B. Engagement of Consultants

12. The TA was implemented through a private consulting firm. The firm and its consultants were selected in accordance with the procedures established by ADB's *Guidelines on the Use of Consultants*. The number of international consultants actually used (five) and their actual level of effort (19.0 person-months) differed slightly from what was planned (four consultants and 19.0 person-months). The number of domestic consultants actually used (five) and their actual level of effort (22.0 person-months) matched exactly what was planned. International consultants planned included (i) a pension and provident funds expert and economist/team leader (6 person-months), (ii) a pension and provident fund specialist (5 person-months), (iii) a pension and provident fund operations specialist (4 person-months), and (iv) an actuary (4 person-months).

C. Implementation and Cost

13. The Ministry of Labor served as the executing agency for the TA. EPFO served as its implementing agency. EPFO provided excellent support to the TA in terms of offices, counterpart staff, transportation, and other services.

14. The TA closed 12 months later than was originally planned. This was due, in part, to start-up delays on the part of the Government that were resolved only when EPFO took over the implementation of the TA. Until then, the TA had been languishing without government ownership or support. It was also due to (i) difficulties in scheduling workshops with representatives of EPFO's management and Central Board of Trustees, the Ministry of Labor

and other central and state government agencies, and other stakeholders to discuss the TA's draft final report; and (ii) the resulting need for an extension to give the Government time to provide comments on the draft final report and ensure that major issues were addressed.

15. The assumption of responsibility for TA implementation by EPFO prevented the TA from languishing further, but it was not without cost. Being based in EPFO constrained the team's ability to satisfy those tasks in its terms of reference (TOR) outside EPFO's sphere of interest. Some of the consultants were unable to complete their anticipated level of effort because EPFO did not need and want their expertise. The consultants held very few discussions with government officials, and, not surprisingly, their recommendations were not embraced or adopted. The TA did not, therefore, fully satisfy its mandate to provide a viable policy framework for private pension reform. A process for the development of such a framework was designed in consultation with some of the relevant stakeholders and efforts were made to commence discussions on this issue. The complexity of the issues, logistical difficulties in assembling the stakeholders, and varying levels of interest on the part of various government agencies proved a formidable obstacle to consensus building.

16. Nevertheless, the work accomplished on behalf of EPFO was appreciated, well received, and continues to guide and support EPFO's activities. In retrospect, ADB could have been more responsive in how it managed the TA, without straying too far from the TA's mandate, by redirecting resources earlier in order to support the activities of an agency that needed those resources. As a result, some of the consultants were not effectively utilized, and a mismatch emerged between the TA's mission, as outlined in its TOR, and the needs of its counterparts on the ground.

17. Given the implementation difficulties described above, 12% of the TA's funds were not disbursed.

III. Achievement of Purpose and Outcomes

A. Performance of Consultants and Quality of Reports

18. Given the mismatch between the TOR and the challenges actually faced by the TA's consultants, the consultants performed reasonably well. They were responsive to the needs of EPFO and adapted their work planning accordingly. Their responsiveness and their ability to effectively support EPFO was due in large measure to the performance of the team leader. A former commissioner of the US Social Security Administration, the team leader brought a uniquely appropriate combination of operational and managerial skills and experience to his work—skills and experience which were instrumental in helping EPFO plan for and implement financial and operational restructuring. The overall quality of the TA's reports was inconsistent, as is discussed further below.

B. TA Outputs

19. The primary outputs of the TA included (i) inception, interim, and final reports; (ii) a regional seminar organized with the ADB Institute named "Capacity Building Conference on Reforming Pension Systems in South Asia" and held in December 2000; and (iii) workshops conducted in February 2001 involving stakeholders. Recommendations for the organizational and operational restructuring of EPFO—contained in the third volume of the consultants' final report—were comprehensive, practical, based on solid analysis, and backed by direct experience. The remaining volumes of their final report were less satisfactory. The first volume

(which addresses the framework for pension reform) and the fourth volume (which includes attachments) were elementary and not specific enough to India. Neither the road map outlining the establishment of a framework for pension reform nor the section of the report addressing international accounting standards fully satisfied the TOR.

C. TA Outcomes

20. Virtually all of the impact of this TA occurred at the provident fund. EPFO management accepted and embraced many of the TA's recommendations. Implementation of these recommendations is under way, including financial and operational restructuring. EPFO has contracted with a major software firm to support its operational changes by designing systems software and pilot testing operational changes using the new software at six branch offices. Simultaneously, training of EPFO staff is in progress. To enable staff to operate the system, 3,000 employees were trained in the use of computers and an additional 5,000 were expected to have undergone training by the end of the TA. Executive workshops have been held for 450 managers in preparation for the restructuring, and their aptitudes for change have been tested. While operational restructuring of EPFO is a task of considerable magnitude and will take time, the clear vision and specific step-by-step processes recommended under the TA greatly enhanced the chances of its success.

21. The impact of the other components of the TA—including (i) the preparation of a study of both formal and informal mechanisms of retirement income support; (ii) the identification of long-term requirements for an adequate national pension and provident fund system; (iii) the crafting of recommendations for improving the legal, regulatory, and tax frameworks; and (iv) the creation of a proposal for the establishment of a pension research institute—were very weak and not taken up by the Government. The department responsible for the capital markets within the Ministry of Finance—which has been tasked recently with overall responsibility for pension reform—was not even aware of the TA's final report, much less familiar with what it contained.⁵ The TA's proposal for a pension research institute was included in the final report but has not received much consideration.

IV. Overall Assessment

22. Assessing this TA is problematic, given the juxtaposition between the clearly valuable and successful support provided to EPFO and the absence of meaningful impacts from those components of the TOR unrelated to EPFO. Overall, the TA was relevant, but it was clearly implemented too early for India. Had the TA been implemented even a year later, its impact would likely have been more substantial. It was less efficacious by virtue of the fact that it only satisfied a portion of its TOR. Those outcomes related to EPFO are highly sustainable. The remaining outcomes, however, are unlikely to be sustained. Given delays and the inconsistent achievement of desired outcomes, the TA was less efficient than was anticipated. The capacity building provided by the TA to EPFO was substantial, as were the TA's contributions to its institutional development. Given the success of the TA with regard to EPFO, the overall rating of this TA is partly successful.

⁵ Staff from the Ministry of Finance had had conversations with one of the TA's consultants on pension issues but was unaware of the fact that the TA's TOR extended well beyond EPFO. The OEM provided a copy of the TA's final report to this office during the mission.

V. Conclusions

A. Key Issues

23. There was no effective executing or implementing agency for more than half of the components of this TA. The identification of appropriate agencies—with institutional jurisdiction and authority covering all of the components of this TA—should have been a condition for its approval. ADB could have been more responsive in how it managed the TA, without straying too far from the TA's mandate, by redirecting resources earlier in order to support the activities of an agency that needed those resources. Moreover, TA must be directed toward those issues which the Government has expressed a strong commitment to resolving. The design of this TA provided for a number of tasks—including an analysis of both formal and informal mechanisms for providing retirement income support to the elderly; recommendations for strengthening the legal, regulatory, and tax frameworks; and the design of a pension research institute—that had little governmental support and no obvious counterparts. India was not institutionally ready (or interested) in these components of the TA and, as a result, the consultants were unable to effectively engage the Government on these issues.

B. Lessons Learned

24. The design of TA must respect the specific needs, constraints, state of economic development, human, and financial capacity of the country it is intended to support. Overly ambitious designs for countries with low levels of institutional development are bound to fall short of expectations.

25. A careful assessment of institutional constraints, agendas, and capacity is required as part of TA design in order to avoid undertaking tasks prematurely, wasting resources on tasks for which there is no political appetite, and design flaws that hinder the ability of consultants to satisfy their TORs.

26. Flexibility in TA management on the part of ADB is needed to enable its consultants to respond to changing situations and to redirect resources as needed to enhance a TA's impact.

C. Follow-Up Actions and Recommendations

27. Reforming the public pension schemes and the provident funds is becoming a priority as the Government comes to terms with the need to reduce the unfunded pension liability of these schemes in order to reduce its overall debt to sustainable levels. For new government employees, a higher (10%) contribution rate is now being levied against their wages to finance the cost of their pension benefits. This is a good first step, and the Government should be supported with such efforts. A follow-on TA⁶ is being prepared to provide further support for pension reforms activities. Given still limited institutional capacity, this follow-on TA represents an appropriate commitment of support at this time.

⁶ The capital market division of the Ministry of Finance is now responsible for pension issues. ADB is providing additional TA intended to pursue some of the activities—primarily related to voluntary private pension schemes—that were not accomplished under this TA. The Government now appears more institutionally prepared for this assistance than it was when this TA was being designed and implemented.