

TECHNICAL ASSISTANCE COMPLETION REPORT

Division: Financial Sector, Public Management, and Regional Cooperation Division (EAFM)

TA No., Country and Name			Amount Approved: \$650,000.00	
TA 4910-MON: Strengthening the Pension System			Revised Amount: (no revision)	
Executing Agency Ministry of Finance	Source of Funding TASF (Co-financed by the Government of Luxembourg)		Amount Undisbursed: \$83,378.00	Amount Utilized: \$566, 622.00
TA Approval Date: 20 December 2006	TA Signing Date: 4 January 2007	Fielding of First Consultant: 1 August 2007	TA Completion Date Original: 31 December 2007 Actual: 30 September 2009 Account Closing Date Original: 31 December 2007 Actual: 14 August 2009	
Description				
<p>The pension system of Mongolia currently operates on a pay-as-you-go basis with each year's contribution income being used to finance that year's benefit payments. In 2005, the pension fund had a deficit of about MNT 44 billion (approximately \$37.7 million) and projections showed that the deficit would likely grow due to the increasing number of the elderly. This situation would result in increasing funding gaps given difference between fund revenue and expenditure. The TA consultant projected that the portion of the population aged 60 years or more will increase from 6.7% in 2007 to 12.1% by 2020, and the annual pension fund deficit reaching MNT 344 billion in 2020. Although the Mongolian government had reformed its pension system twice, in 1994 and 1999, it needed to further reform its pension system to ensure the system's sustainability. In response, ADB implemented TA 4910-MON: Strengthening the Pension System in Mongolia. This TA produced several policy recommendations, namely: (i) introducing the multi pillar pension system comprised of universal, mandatory and voluntary pensions, (ii) improving the financial sustainability of the pension fund by converting the current unfunded structure to a funded one, eliminating negative incentives of employers and workers to underreport their assessment base, and increasing the level of contribution, (iii) designing the proper governance structure of the pension fund, including setting up the fund as an independent agency, and (iv) developing an appropriate investment policy.</p>				
Expected Impact, Outcome and Outputs				
<p>The expected impact of this TA, the third ADB TA on pension reform in Mongolia, was an adequate, affordable, self-sustaining and operationally effective restructured pension system. By increasing the number of contributors and establishing a pension fund that is independent of the government budget, the newly designed pension fund was expected to reduce its annual deficit from MNT 44 billion in 2005 to MNT 15 billion in 2010. The TA's expected outcome was the adoption by the Government of the proposed recommendations on pension reform. The proposed strategy and investment policy were expected to be approved by the government by March 2008 and the draft amendment to the Law on Pension System was expected to be submitted to the Parliament by mid-2008. The TA's expected outputs were (i) recommendations on a strategy to further reform the pension system, (ii) investment policy and guidelines for the restructured pension fund, (iii) draft legal amendments to implement the proposed strategy, (iv) strengthened capacities of pension staff in collecting pension premiums, managing individual accounts, and investing accumulated fund, and (v) raised public awareness of the benefit of pension systems.</p>				
Delivery of Inputs and Conduct of Activities				
<p>Two international consultants were engaged in accordance with ADB's <i>Guidelines on the Use of Consultants</i> to carry out the TA. The TA should have been implemented from February to December 2007 but was extended for 20 months, until August 2009, due to delays in recruiting international consultants and efforts expended to try and accommodate additional requests from the Ministry of Social Welfare and Labor (MSWL) for the appropriate level of pension premium to be calculated. The additional request could ultimately not be accommodated because of the inability of the MSWL to provide the required data. Two international consultants provided a total of 13.5 person-months (PM) of consulting services. They assisted the Government in designing the overall pension system, developing an investment policy on pension fund, drafting a legal amendment, and providing inputs on actuarial calculations. The roles assigned among consultants were appropriate since the pension reform in Mongolia required overall changes in pension structure, improvements in the financial management of the pension fund, and legal amendments to implement those changes. According to the Government, the consultants were highly qualified and effective in formulating relevant policy recommendations and providing opportunities for Government staff to develop</p>				

capacities. The TA project officer, for his part, continued to work closely with the consultants. He reviewed project implementation through two missions over two and a half years.

In order to develop relevant policy recommendations, the TA team analyzed the financial impact of the current pension system on the government budget and the economy. Its analysis showed that the current pension system would face annual deficits ranging from as much as MNT 344 billion in 2020 to MNT 12 trillion in 2075, or an implicit pension debt of MNT 8.3 trillion as of 2008. The TA team also conducted comparative analyses of pension systems in other countries such as Kazakhstan, Poland, and Canada. These analyses helped the team develop not only the proper strategy for pension reform in Mongolia but also the rationale for the urgency of the reform.

To secure adequate buy-in from the TA recipients on the TA's recommendations, the TA team not only undertook such activities as workshops, training, actuarial modeling and study tours, but also ensured that the stakeholders participated fully in the formulation of the policy recommendations and the drafting of the legal amendments. Spearheaded by international consultants, the team conducted 15 workshops in Ulaanbaatar which were custom-fitted to the different needs of the participants. The team also conducted a special workshop for senior government officials from the Ministry of Finance (MOF), the Ministry of Social Welfare and Labor (MSWL), and the State Social Insurance General Office (SSIGO). The workshops were intended to enhance the stakeholders' awareness of the: (i) financial deficiencies of the existing pension system which would be unsustainable without proper reforms, (ii) financial and social implications of the proposed amendments to pension regulations, and (iii) operational and financing principles of pension systems.

The TA team also provided Mongolian government officials with several educational opportunities such as a study tour to Canada and training classes on actuarial modeling, which were implemented in cooperation with the World Bank. The actuarial training classes were important since they helped government officials assess the financial implications of their policy decisions more accurately. The participants to the training, all high level officials, deemed the training to be quite helpful and recognized the fact that it is only the start of the process of building up local capacity in pension management.

Feedback from counterparts was also encouraged through debriefings on the draft consultation reports as well as through tripartite meetings among ADB, the consultants, and government officials. Meetings with MOF, MSWL and SSIGO were held from 14 to 16 April 2008 and a meeting with Parliamentarians was held on 22 April 2008. During these meetings, comments and concerns were expressed by the counterparts, chief of which were about: (i) how to introduce the Universal Pension scheme in Mongolia (ii) the size of the financial liabilities of the pension system including its Implicit Pension Debt (IPD), and (iii) how to structure and evolve a pension investment strategy. The TA team gave its responses to those comments and reflected them in the final report.

Close to the conclusion of the TA, the Mongolian government requested that the TA team to calculate the appropriate level of pension premium. After submitting the final report, the TA team prepared additional tasks to execute the calculation and asked the Mongolian government to provide the information necessary for it. However, since the government had not been able to provide that information, the TA team could not fulfill this request.

Evaluation of Outputs and Achievement of Outcome

The TA provided policy recommendations on pension reform, drafted proposed legal and regulatory amendments in support of the policy recommendations, and conducted training programs. Although its final outputs were submitted later than originally intended due to unexpected delays in recruiting international consultants and additional requests from the Mongolian governments, the TA achieved most of its targets.

As part of the strategy to further reform the pension system, the TA final report recommended the introduction of the multi pillar pension system which would be comprised of a universal pension, mandatory pension, and voluntary pension, with the latter consisting of employer voluntary occupational savings and individual voluntary savings accounts. The report also proposed the investment policy and guidelines for the pension fund: (i) setting up a transition plan which would convert the current unfunded structure of the pension system to a funded one, (ii) designing a proper governance structure related to the investment decision of the pension fund, and (iii) developing an investment policy that ensures a balanced mix of investment return against the appropriate level of risk that the pension fund can assume. The TA team drafted the new Principle Law on Pension System and related regulations such as the Social Insurance National Council Governance Regulations and Pension Investment Policy Regulations.

To strengthen capacities in pension management, a study tour to Canada and training classes on actuarial modeling were arranged. Although the number of participants was less than targeted, key persons from relevant organizations took part in the classes.

Finally, to raise public awareness of the benefits of a pension system, the TA team organized 15 workshops for various stakeholders such as Parliamentarians, provincial representatives, and the mass media.

Despite these outputs, the TA did not fully accomplish its intended outcome. Only parts of the strategy and investment policy and guidelines were approved and adopted by the Government by early 2008. The Government Action Plan issued in October 2008 included the provision for developing multi pillar pension system which was the essential part of the TA recommendations. However, other recommendations, including the restructuring of the pension fund into a fully funded system, enhancing of the governance structure of the pension fund, and development of the appropriate investment strategy, have not been adopted, although some policy discussions on whether or not to implement such reforms are still under way.

According to the Government, one of the main reasons for not adopting those recommendations was the recent economic crisis which diverted focus from enhancing fiscal soundness by reforming the pension system to strengthening the social protection for the elderly by continuing to provide pension benefits. Although it is understandable that the Government postponed financing pension reform given the global financial crisis, it will be important to monitor whether the Government implements the pension reform as recommended by this TA in the future, as the financial crisis subsides.

Another possible reason for postponing reforms was the lack of the enabling market environment, including well-developed capital markets. Since the Mongolian capital markets still cannot provide the pension fund with sufficient investment opportunities, the pension fund could not achieve the required return on its investment if it is structured as a fully funded pension system.

Overall Assessment and Rating

The project was partly successful. It delivered all the outputs intended at the onset of the project and helped the counterparts understand the problems of the current system and the need to address these problems. One of the most important achievements of the project was that it improved the ability of the government officials to analyze the financial implications of their policy decisions on pension schemes. However, the project could not be considered as being highly successful or successful since it did not fully achieve its intended outcome such as a fully funded pension system and enhancing of the governance structure of the pension fund.

Major Lessons

For the successful implementation of projects such as this TA, careful consideration must be given to whether the recipient country has the enabling market environment. In addition, continuous efforts need to be exerted to follow up the compliance of counterparts with TA recommendations.

Recommendations and Follow-Up Actions

When the current economic crisis has passed, dialogue needs to continue to encourage the Government to adopt the TA's recommendations. Furthermore, in order to nurture the enabling environment for the pension reform, ADB should explore various alternatives for improving the investment return of the pension fund.

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