

# TECHNICAL ASSISTANCE COMPLETION REPORT

Division: RSFI

<b>TA No. and Name</b> TA 5808-REG: POLICY OPTIONS FOR PENSION REFORM IN ASIA-CHALLENGES IN DESIGN AND IMPLEMENTATION			<b>Amount Approved:</b> \$375,000	
			<b>Revised Amount:</b> Same	
<b>Executing Agency:</b> Asian Development Bank		<b>Source of Funding:</b> TASF	<b>TA Amount Undisbursed</b> \$87,488.77	<b>TA Amount Utilized</b> \$287,511.23
<b>Date</b> <b>Approval</b> <b>Signing</b> <b>Fielding of Consultants</b>			<b>Completion Date</b> <b>Original</b> <b>Actual</b>	
5 October 1998      Not applicable      Not applicable				
			<b>Closing Date</b> <b>Original</b> December 1998 <b>Actual</b> December 2003	
<b>Description:</b> Pension reforms in ADB's developing member countries (DMCs) focus generally on: (i) broadening and deepening social security coverage in a socially and fiscally sustainable manner; and (ii) developing financial and capital markets. In most Southeast Asian economies, the main challenge lies in designing reforms that support defined contributory (DC) or defined benefit (DB) systems to ensure effective mobilization and efficient allocation of resources. In the transition economies, the generous welfare-based, pay-as-you-go (PAYG) pension systems need to be restructured to achieve fiscal sustainability in the long-run, while at the same time developing various institutions and capacity. In yet others (e.g. South Asia), the challenge is to expand coverage and design appropriate incentives to make best use of the provident fund schemes. The nature and pace of pension reforms in the regional DMCs have to consider prevailing social and political constraints and are dependent on the progress made with macroeconomic, legal, regulatory and financial market reforms. The RETA financed an international conference in December 1998, which discussed the challenges faced by policy makers in the design and implementation of pension reforms in Asia and the preparation of related background papers.				
<b>Objectives and Scope:</b> The RETA supported an international conference on pension reforms in Asia to (i) identify major issues and challenges in the design and implementation of pension reforms with aim of developing appropriate policy options; (ii) help enhance knowledge and capacities of DMC officials and ADB staff in public and privately managed pension schemes and recent pension reform initiatives around the world; and (iii) support the development of ADB operational programs in this area. The scope of the TA provided for conference sessions on (a) approaches to pension reforms; (b) linkages between pension reforms and development of financial markets; (c) public and private management of pensions and the administrative cost implications under different systems; (d) operational and regulatory framework for pensions; (e) Asian experiences on pension system design and reforms; and (f) training on pension fund management for DMC officials and ADB staff.				
<b>Evaluation of Inputs:</b> The conference under the RETA was jointly organized by ADB and the Pacific Pension Institute (PPI) of the United States. DMC officials from 14 countries (including People's Republic of China, India, Indonesia, Kazakhstan, Korea, Kyrgyz Republic, Malaysia, Mongolia, Pakistan, Philippines, Sri Lanka, Thailand, Uzbekistan and Viet Nam) attended the conference. The conference involved inputs by 18 resource speakers from various DMCs as well as non-regional member countries and multilateral institutions. Given the highly successful pension reform experiments in Latin America and Eastern Europe, the Conference also included a participant from Mexico and a paper on Poland. The training program included short sessions on pension reform and pension fund management. As a follow-up to the conference, further analytical work was launched during 1999 to 2001 to: (i) synthesize the pension reform experiences around the world to draw lessons for Asian DMCs; and (ii) undertake selected country-specific studies in a comparative framework, including for the Republic of Kazakhstan (as an example of a transition economy, where ADB has supported pension reforms) and Indonesia (representative of other Southeast Asian economies). The terms of reference for the resource speakers and other pension experts, and the inputs provided by them, were appropriate and met the TA objectives.				
<b>Evaluation of Outputs:</b> The TA outputs consisted of (i) policy discussions among DMC officials, drawing on the expertise of a range of speakers; (ii) training of and capacity building for DMC participants and ADB staff; and (iii) technical papers on critical issues and constraints facing the pension systems in the DMCs. The quality of papers presented by the resource speakers and pension experts was fully satisfactory. The conference and related economic and sector work also benefited ADB's operational work by providing inputs for and facilitating policy dialogue with DMC officials. The following section presents a synopsis of the sessions held at the December 1998 conference and the other studies undertaken as part of the RETA:				
<b>1. Approaches to Social Security Reform:</b> This opening session of the conference included papers arguing the merits and drawbacks of the multi-pillar approach to the provision of pensions, which had been promoted by the World Bank and ADB, and compared it with other approaches including pure pay-as-you-go and notional defined contribution systems. As an example of the multi-pillar model, the Australian system was discussed.				

**2. Pension Reform, Insurance and Financial Markets:** This session discussed the impact of different pension systems on investment strategies and, more generally, financial sector development, as well as financial sector conditions that have to be in place to support the development of efficient funded systems. The pros and cons of investing pension assets in international markets were also assessed.

**3. Fund Management and Regulatory Issues:** This session assessed the administration and management of public and private pension funds and discussed how their financial soundness, returns, efficiency, and cost structures can be improved. The last session discussed the need to protect the long-term rights of participants in pension schemes and identified regulatory priorities in this regard.

**4. Country Presentations and In-depth Training:** Country presentations were made senior country-level officials on People's Republic of China, Japan, Republic of Kazakhstan, Republic of Korea, and Philippines and by the International Social Security Association on the Asia-Pacific regional trends. The one-day training workshop on pension funds was conducted by the Chief Investment Officer of the Public Employee Retirement System of Idaho, United States of America, and covered: basic concepts of fund management; investment principles and theory; asset selection and allocation models; risk management; operational issues and safekeeping; and investor education, communication and marketing. It was attended by about 20 country representatives and 15 ADB staff.

**5. Other Technical Work Supported under the RETA:** While the TA was expected to be completed with the hosting of the December 1998 Conference, further technical work was launched given the need for in-depth analysis and cross-country comparisons, as identified during the conference. The RETA supported the preparation of a technical overview paper on *Pension Reform in the Asia-Pacific Region* and in-depth country assessments for the Republic of Kazakhstan and Indonesia, which highlighted common policy and institutional challenges related to: (i) conflicting pension system goals, (ii) achieving long-run sustainability, (iii) building strong administrative institutions, (iv) coverage gaps, (v) enhancing funding, (vi) the creation of a sound financial market regulatory system, and (vii) financing the transition from pay-as-you-go to hybrid systems. The last paper was completed in March 2001.

**Overall Assessment and Rating:** The TA is rated as "successful" as its objectives have been fully met to the satisfaction of ADB and the participants. In particular, the TA has achieved greater awareness and debate amongst policy makers from countries where ADB is beginning active involvement in this area. At the regional level, the conference supported under the RETA has been followed up with two other initiatives financed under separate ADB TAs: (i) a workshop on the *Institutional Investor Sector in Asia*, organized jointly with the Organization for Economic Cooperation and Development (OECD); and (ii) a symposium on *Managing Regulatory Change*, organized under the auspices of the Asia Pacific Economic Cooperation (APEC) Institute. At the country level, its findings were incorporated in subsequent ADB assistance programs for pension reform in PRC and Indonesia.

**Major Lessons Learned:** The RETA has demonstrated the usefulness of bringing experts from different backgrounds to discuss a complex subject such as pension reforms. RETA findings underscored the need for giving careful consideration to individual country circumstances, rather than adopting prescriptive pension reform models. The following issues conclusions emerged from the discussions and studies: (i) the design of pension systems has to reflect country-specific circumstances including the level of development, demographic trends, macroeconomic policies, institutional capacity and infrastructure, as well as the depth and breath of financial markets; and (ii) the implementation of pension reforms has to be in line with macroeconomic developments and reforms, (potential for) capital markets development, and legal, regulatory, and institutional capabilities. There appears to be an emerging consensus that a multi-pillar pension system is preferable to other forms of pensions systems, and that institutional reforms (e.g. improving mechanisms for pension collections, record-keeping and payments; strengthening of financial sector institutions) should precede policy reforms since the institutional changes can take several years to implement. In many DMCs, issues relating to coverage expansion and transition costs are likely to be very complex and need to be addressed through prior sound and comprehensive analytical work.

**Recommendations and Follow-Up Actions:** The originally envisaged publication of the conference proceedings was delayed to accommodate incorporation of the other studies produced under the RETA. Given the resulting time lag and changes in the pension systems of a number of countries since 1998, many of the original conference papers, particularly the country presentations, would have required updating. The limited number of updates received from the authors (many of whom have since moved to other positions/firms) does not merit the expenses associated with a print publication. Instead, conference papers and available updates will be disseminated through ADB's financial sector website.

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