



The Bank's Support for Pension Reform

The World Bank supported pension reforms in 68 countries through lending and analytical and advisory activities (AAA)—including economic and sector work (ESW) (see box 2.1), policy dialogue, seminars, and training. This chapter first reviews the Bank's AAA to assess its thoroughness in elaborating the Bank's pension strategy.

It describes reforms the Bank supported or advocated to determine whether the Bank followed its own flexible multi-pillar model. Finally, the chapter reviews Bank-supported projects to determine whether they had satisfactory development outcomes.

The Bank's extensive ESW addressed a broad range of pension issues. Analysis in several areas, however, especially income of the aged and financial sector development, lacked sufficient depth to assist in project preparation. Conferences and seminars, which initially promoted *Averting*, broadened in content to include a fuller range of pension topics, congruent with changes in ESW. Staff interviews suggest that the impact of the Bank's informal policy dialogue on pension reform also has been influential.

Backed by a compendium of ESW and training, Bank loans and credits have supported multi-pillar reforms in Europe and Central Asia and Latin America and the Caribbean, which, consistent with *Strategy*, differed considerably by country. The reason for the variation, however, could be specific country preferences, specific

country conditions, or exogenous factors. While the majority of the development outcome ratings for the pension components of Bank loans are satisfactory, satisfactory outcomes for individual projects do not necessarily result in satisfactory development outcomes for the Bank's pension reform work overall.

Analytical and Advisory Activities

The Bank's AAA includes published economic and sector work, informal and formal policy dialogue, and World Bank training and seminars.¹ All three forms of AAA influence the direction of Bank operations by providing information on pension reform issues to Bank staff, Bank client countries, and the wider public, including other stakeholders and donors.

Economic and sector work²

The World Bank's papers and publications on pensions constitute an extensive technical foundation adding to and deepening the understanding of pension reform in more than 66 countries. Over 200 Bank country studies com-

Box 2.1: Identifying Pension-Related Economic and Sector Work

In addition to World Bank lending projects, the IEG pension database contains 355 ESW studies with substantial analyses on pensions and the income of the aged. ESW was selected based on the relevance and depth of analyses on pensions from nearly 1,000 documents in the ImageBank (the Bank's electronic document repository) containing the key words "pension," "social security," "contractual saving," and "provident funds" as of July 2004. Although this literature spans fiscal 1962 to fiscal 2004, this report focuses primarily on reports after fiscal 1990.

The pension database also identifies whether each ESW study addresses the commonly mentioned pension-related topics. The topics are: (a) poverty, (b) gender impact, (c) income of the aged, (d) targeting/coverage/eligibility, (e) fiscal sustainability, (f) capital market development, (g) contractual savings, (h) fund management/investment, (i) annuities/insurance, (j) pension system description, (k) pension reform design, (l) public information/political support, (m) private fund, (n) public administration/costs, and (o) transition costs.

Bank analytical and advisory services have helped determine the direction of assistance.

prise a comprehensive analytic base to examine the goals, preconditions, and underlying principles of the Bank's evolving pension strategy reform.³ Pension studies have taken a variety of forms, including papers from many of the World Bank sector units, most prominently the Pension Primer Series produced by the Social Protection Network.

On a Regional basis, the preponderance of studies focus on Europe and Central Asia, followed by Latin America and the Caribbean, the only two Regions that have undertaken multi-pillar pension reforms. Over 40 percent of the studies address pension issues in countries that adopted multi-pillar reforms, and a dozen countries account for over four-fifths of the studies. More than 10 studies each have been issued for Argentina, Brazil, Poland, and Russia. Countries with funded pillars average over four studies apiece, and countries without funded pillars average just over two studies each. Brazil, which has not implemented a funded pillar, is an exception, with 16 studies.

World Bank ESW includes analysis of specific pension topics, descriptions of pension systems in developed economies, cross-regional analysis, and country assessments.

Analyses have focused on fiscal issues, because fiscal imbalance often triggers pension reform.

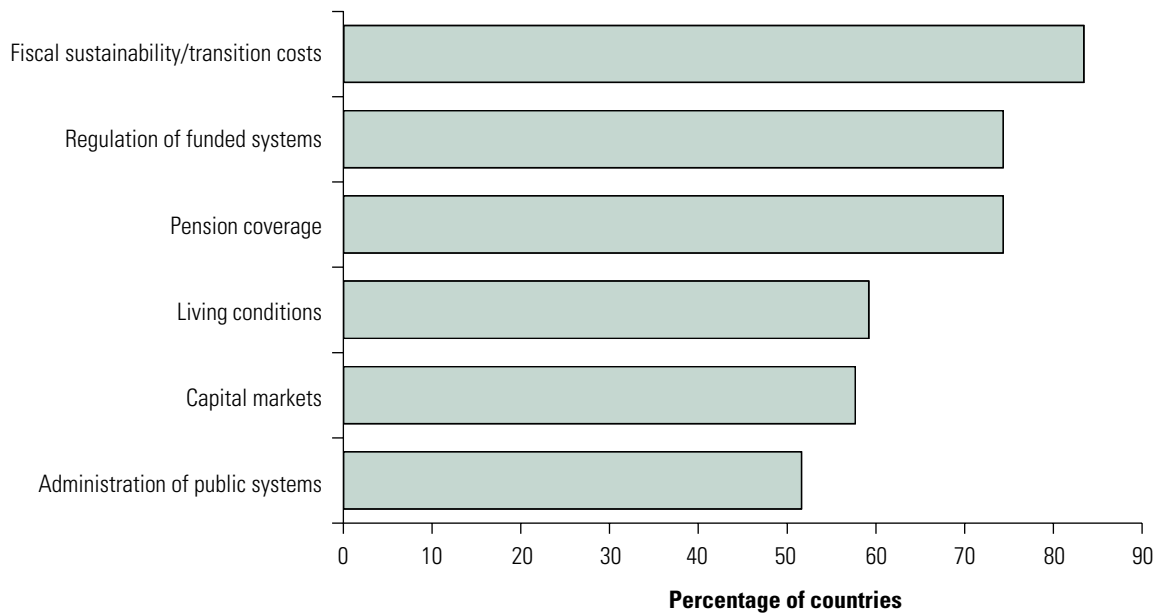
Six topics are the most prevalent: (1) fiscal sustainability and transition costs, (2) regulation of funded systems, (3) pension coverage,

(4) living conditions of the aged, (5) capital markets, and (6) the administration of public systems (figure 2.1).⁴ Fiscal issues are the focus of substantial analysis because fiscal imbalances are a primary reason for the Bank to assist in pension reform. In many instances, this has been the chief reason to shift to a multi-pillar system. Bank ESW has also been considerable in assessing the regulation of private pensions, including asset allocation, contribution collection, and governance.

Although the Bank's pension library is substantial, ESW often lacks the detailed analysis needed to assist in project implementation. For example, although many countries have had poverty assessments, the analysis of the income of the aged is limited.⁵ Poverty assessments do not relate the risk of poverty among the elderly to age, family structure, gender, or location—all necessary to understand the role pensions may play in establishing a safety net.⁶ Pockets of poverty or sources of income are not considered; distributional data are not provided. The impact of gender on the welfare of the elderly is assessed in only 11 percent of countries with pension ESW.

Similarly, although pension coverage is an important topic, little empirical research has been conducted on the limits of formal pension coverage or ways to increase it, despite interest expressed in *Strategy* to expand on this topic.⁷ Furthermore, ESW has been limited on topics closely related to old age pension reform, including disability and survivor's pensions, public information, and the political process. In

Figure 2.1: More Sector Work Addressed Fiscal Issues and Transition Costs, and Fewer Reports Discussed Public Administration



Source: IEG analysis of World Bank data.

addition, there is a need for more research on pay-as-you-go (PAYG) administration, including collection and payment strategies, in view of its importance to both PAYG systems and multi-pillar reforms.⁸

Country financial market conditions, a key determinant of readiness for multi-pillar reform, have received little attention in country reports, although the Bank has published seminal findings on the issue. The majority of country-specific investment-related ESW encourages the use of pension funds to improve capital markets and/or suggests that contractual savings mechanisms should be developed, without assessing financial-market stability.⁹ Thus the Bank's ESW implicitly assumes that capital market development will follow pension reform; that is, the supply of funds will create its own demand. Less attention has been focused on financial and capital market development in Europe and Central Asia than elsewhere, including the Middle East and North Africa and Latin America and the Caribbean.

Training and dissemination

The influence of seminars and workshops, particularly those conducted on a worldwide or Regional basis, has had a substantial impact on policy makers, although this impact is difficult to document. The dissemination of Bank research in the early years focused on *Averting*. Between 1994 and 1999, the Bank sponsored a series of promotional tours including more than 100 seminars and presentations on *Averting* and related research. It is thus no surprise that most of the world considers *Averting* to be the Bank's pension model. Subsequently, the agenda of seminars and workshops broadened, with the number of course offerings expanding from one in 1996 to 13 in 2003, reflecting the diversity of reforms taking place in Europe and Central Asia and Latin America and the Caribbean. World Bank Institute (WBI) seminars and workshops include basic education on multi-pillar reforms, train-

Dissemination of Bank ESW initially focused entirely on Averting the Old Age Crisis, but was later extended.

ing on the Bank's pension simulation model (PROST), and training on special pension reform topics such as administration and regulation. Recently, the WBI has shifted from global programs toward more country-focused training on Regional problems.

Policy dialogue

Policy dialogue generally supported multi-pillar reforms.

Policy dialogue has been particularly important for the Bank's work on pension reform, but written documentation is limited, since in a number of instances the dialogue was informal or did not result in loans or credits. Nonetheless, its influence should not be underestimated. While Bank-client dialogue generally supported the multi-pillar strategy, it has not been consistent across countries or within countries over time in its consideration of the preconditions for multi-pillar reform, especially in Europe and Central Asia.¹⁰ Although the Bank strongly supported multi-pillar reform in Latin America and the Caribbean, it has had a stop-and-go dialogue in a number of countries, when economic circumstances were essentially unchanged.¹¹ In Africa, Bank discussions with clients on the appropriateness of multi-pillar systems have been inconsistent across countries with similar macroeconomic, social, and financial conditions.¹²

Lending Operations in Support of Pension Reform

While the Bank has not used a one-size-fits-all approach to pension reform, it has concentrated on multi-pillar systems rather than PAYG alternatives or noncontributory schemes.^{13, 14} Little support was provided to expanding old-age benefits to workers in the informal economy. *Strategy* emphasized the importance of this type of intervention. In Europe and Central Asia, where countries were more likely to already have had old-age social assistance, reforms were more likely to be holistic—that is, to include a full assessment of other social protection programs such as social assistance for the aged. In Africa, the Bank provided small loans to a number of countries. Except for two large loans to Korea, Regions other than Europe and Central Asia and Latin America and the Caribbean received only a few small loans for pension reform.

Over the past two decades, the World Bank provided over 200 loans and credits with components supporting pension reform to 68 countries.¹⁵ Total lending amounted to \$34 billion. Europe and Central Asia and Latin America and the Caribbean dominated, with 40 countries in these two Regions receiving roughly \$11 billion each. Bank funding was most active during fiscal 1998–2001, when operations with pension

Table 2.1: Europe and Central Asia and Latin America and the Caribbean Received More Support for Pension Reform Than Other Regions from Fiscal 1984 to 2005

Region	Countries (number)	Projects (number)	Commitments (\$ bn)	Size of pension component (\$ bn)
Africa	14	26	1.5	0.1
East Asia and Pacific	4	7	7.4	0.5
Europe and Central Asia	25	93	10.8	1.5
Latin America and Caribbean	15	57	10.7	3.1
Middle East and North Africa	6	9	1.1	0.1
South Asia	4	12	2.7	0.1
Total	68	204	34.2	5.4

Source: IEG analysis of World Bank data.

Box 2.2: How IEG Identified Pension Projects

IEG screened project documents for 400 loans and credits and identified more than 200 projects containing a pension component for fiscal years 1984 to 2005, developing a reliable and comprehensive database of World Bank pension projects. For adjustment projects, the pension component is identified as the relevant condition in the policy matrix; for investment loans (including technical assistance), the component described in the detailed project description. IEG also compared its database with existing Regional pension databases to ensure completeness. The classification of projects was not always straightforward.

The pension component consists of general analytic support, actual reform measures, and institutional capacity building. IEG took

a more comprehensive approach including Bank projects that specified a clear intent to reform a country's pensions through exploratory measures or research (classified as general analytic support).

Most of this report focuses on projects containing specific measures to reform legislation (actual reform measures), however, and specific types of technical assistance (institutional capacity building). In most cases, the loans and credits were used to reform pension design, although the database also includes loans to pay off pension arrears in certain parastatal enterprises (such as coal, railroads, and the like).

components totaled \$19 billion, or 56 percent of all operational pension spending (table 2.1).

Because support for pension reform generally constituted only a portion of each loan or credit operation, IEG calculated the pension-specific component for each project (box 2.2).¹⁶ Pension-specific lending undertaken by the World Bank totaled \$5.4 billion. Europe and Central Asia and Latin America and the Caribbean dominated commitments for pension reform, but the latter Region accounted for a higher pension-component share, at about 40 percent of the total loan or credit.

World Bank pension projects include specific policy reforms for both PAYG and multi-pillar systems. Although more than four-fifths of all Bank loans supported PAYG reforms, nearly one-third of these also supported funded second pillars as part of a multi-pillar reform, and nearly one-third supported voluntary pensions. Overall, more than three-quarters of all projects related to multi-pillar pension reform also included a PAYG component. Bank lending for second pillar reforms was provided without support for first-pillar assistance in only three countries; none of these satisfied the precondition for multi-pillar reform.¹⁷ Countries implementing multi-pillar systems received half again as many loans for PAYG reforms as countries sticking

with their PAYG systems, and over twice as many resources for the PAYG pension component.

Countries legislating and implementing multi-pillar systems also received more loans per country than others (table 2.2). Nearly three-quarters of pension loans went to countries in Europe and Central Asia and Latin America and the Caribbean, the only Regions enacting multi-pillar reforms. Further, of the 23 countries receiving 4 or more pension loans, 13 enacted second pillars. Only one country—Georgia—that was receiving World Bank assistance for second-pillar reform failed to pass the necessary legislation to implement the pillar.

Second-pillar assistance was concentrated and substantial. Of 11 countries receiving funding of more than \$100 million apiece,¹⁸ 8 enacted mandatory funded pension laws.¹⁹ Overall, countries with second-pillar legislation accounted for over half of the \$5.5 billion funding for pension projects. Median World Bank lending per country implementing second-pillar reforms was \$50 million, compared with \$7 million for those not implementing second pillars.²⁰

The Bank has helped 68 countries through more than 200 loans and credits.

More than four-fifths of all Bank loans supported pay-as-you-go reforms.

Table 2.2: Countries with Multi-Pillar Systems Received More Assistance

Loan pillar type	Pension system type in recipient country	Countries (number)	Projects (number)	Total commitments (\$ bn)	Total size of pension component (\$ bn)	Average no. of projects per country	Average size of pension component per country (\$ mm)
Pillar 1	PAYG system	45	100	13.5	2.4	2.2	53.7
	Multi-pillar system	21	70	13.5	2.7	3.3	126.4
Pillar 2	Multi-pillar system	20	43	5.2	1.7	2.2	84.4

Note: Most projects support more than one pillar, so the figures do not add up to 100 percent. The first pillar is defined as a publicly managed, unfunded, defined benefit pillar. The second pillar is defined as a privately managed, funded, defined contribution pillar (with no redistribution). The third pillar is defined as a voluntary, privately managed pillar. The delineation among many systems is actually less clear (for example, systems that are partially funded or are managed by a tripartite board). In general, this report classifies this category of more ambiguous systems as second pillar if the funds are invested in individual accounts.

Countries with multi-pillar systems received more loans than others.

In Latin America and the Caribbean, the Bank supported multi-pillar reforms, which, in one form or another, were implemented in most countries in which the Bank had a dialogue.²¹ Among countries in the Region with multi-pillar systems, lending was concentrated in six countries: Argentina, Bolivia, Colombia, Mexico, Peru, and Uruguay.²² Eleven countries in Europe and Central Asia implemented multi-pillar reforms with Bank support. In other Regions, including Africa and East Asia and the Pacific, the World Bank provided small amounts of technical assistance for multi-pillar reforms that have not yet been implemented.

PAYG reforms

While *Strategy* recommends the implementation of multi-pillar systems, it supports parametric reforms when initial macroeconomic and financial sector conditions are not in place. The role of World Bank assistance for PAYG reforms has been to achieve fiscal sustainability by raising retirement ages, lengthening minimum contributory periods, restricting pension eligibility and early retirement options, and occasionally increasing contribution rates and/or earnings ceil-

ings. In Latin America and the Caribbean, although the World Bank supported a combination of PAYG and multi-pillar reforms, it also supported PAYG reforms in four countries providing participants a choice between a reformed PAYG system and multi-pillar option. In Europe and Central Asia, the Bank supported a large number of small loans for parametric reforms when multi-pillar systems were not an option.

Types of multi-pillar reforms

Multi-pillar pension reforms supported by the World Bank varied considerably, partly because of country preference and the kind of pension or social assistance system previously in place.²³ In Latin America and the Caribbean, although the Chilean example had a substantial influence, many reforms did not strictly follow its example. In Europe and Central Asia, where the Bank also supported multi-pillar systems, innovative designs with larger PAYG pillars and notional defined contribution (NDC) formulas were frequently implemented. Other reforms developed quite slowly, and some were never implemented.

The rationale for adopting mandatory funded pensions differed in Latin America and the Caribbean and in Europe and Central Asia. In the former Region, the primary objective of World Bank support was to improve financing and reduce the political influence on pension plan op-

If macro-economic and financial conditions have not been met, Bank strategy recommends PAYG reforms.

Table 2.3: Most Development Outcomes for Pension Components Were Satisfactory

Rating	Pension component rating		Overall project rating	
	Number	Percentage of category	Number	Percentage of category
Satisfactory	101	75	122	87
Unsatisfactory	33	25	18	13
Total	134	100	140	100

Note: Excludes six projects rated "non-evaluable" in the pension component for lack of information.

erations by replacing PAYG plans with funded systems. In Europe and Central Asia, the key concerns were fiscal stability and demographic pressures, which were to be relieved by reducing the size of PAYG components in the future and strengthening the relationship between contributions and benefits to encourage participation and equity.

The main difference between the actual reforms and the Bank's strategy is that most Europe and Central Asia countries maintained a relatively substantial PAYG pillar in the reformed system, where pensions were also related to contributions, a design not explicitly considered in *Strategy*. Pension reforms in the Region were likely to be phased in by age cohort and only made mandatory for younger workers.²⁴ By contrast, while reforms in Latin America and the Caribbean were more likely to be Chilean in style, many reformers in the Region also continued to support single-pillar PAYG systems for substantial portions of their populations.

In a multi-donor environment, it is difficult to determine whether the reform design was the result of the Bank taking into account the country's specific considerations, the task manager's preferences, or the country's desire for a specific reform. In terms of non-Bank influences, NDC reforms in Sweden and Italy became the model for a number of countries in Europe and Central Asia, and the Chilean reform influenced policy makers in both that Region and in Latin America and the Caribbean. In addition, other donors also influenced pension policy design. In Latin America and the Caribbean, the Inter-American Develop-

ment Bank, Chilean consultants, and the U.S. Agency for International Development (USAID) were particularly important; in Europe and Central Asia, the European Union and a host of bilateral donors, including Sweden, the Netherlands, and Denmark, provided support and advice.²⁵

Reviewing the Development Outcome of Pension Components

Of the 200-plus loans and credits for pension reform, the performance outcome of 139 projects was rated for the pension component and the project overall.^{26, 27} Three-quarters of pension-component ratings are satisfactory (table 2.3). However, the ratings for the entire project tend to be more favorable, with only 13 percent of the projects rated unsatisfactory. While the ratings in 77 percent of the loans were consistent between the pension component and project overall, the pension component was lower in 18 percent of the loans. Thus, not every project IEG rated satisfactory overall has a satisfactory pension component.

The success or failure of any individual loan does not predict the outcome of the full Bank program of activities supporting pension reforms.²⁸ Loans led by the social protection and financial sectors were more likely to have satisfactory development outcome ratings for the pension component than those led by the eco-

The rationale for adopting mandatory funded pensions differed by Region.

About three-quarters of the pension components, as well as the projects of which they were a part, were rated satisfactory on outcome.

Social protection and finance rated best among the sectors, and Latin America and the Caribbean rated better than Europe and Central Asia.

economic policy sector.²⁹ This is true for both multi-pillar and PAYG systems. By Region, a higher proportion of loans made in Latin America and the Caribbean were rated satisfactory than those in Europe and Central Asia.³⁰ While ratings for projects in countries with PAYG are similar in both Regions, ratings in Latin America and the Caribbean are much higher than those in Europe and Central Asia for projects in countries with multi-pillar systems.

Summary and Conclusions

The Bank has influenced pension reforms around the world through loans and credits and AAA. While ESW on pensions has covered a broad range of topics, it lacked the depth of analysis

needed to assist with retirement income policy and financial sector development during implementation. Country-specific ESW was likely to be strong in fiscal analysis and funded-pillar regulation, reflecting the multi-pillar focus of the Bank's pension reform strategy, but it did not cover all of the necessary topics.

The strengths and weaknesses of Bank lending parallel the strengths and weaknesses of Bank AAA. While satisfactory ratings for most individual loans are encouraging, one-fourth of pension component outcomes were unsatisfactory. Multi-pillar pension reforms supported by World Bank lending varied by country, but this may reflect individual country conditions or the influence of exogenous factors. Overall, the Bank offered greater resources to countries developing multi-pillar systems and less assistance in assessing or developing old age programs for uncovered workers.