



Findings and Recommendations

The Bank's strategy for implementing multi-pillar pension reforms is evidenced by a legacy of operational work, ESW, training, and seminars. Reforms have differed Regionally and by country as a result of client concerns and Bank experience. In other words, the Bank has followed an approach that has differed according to country conditions and has not implemented a "one-size-fits-all" strategy as some critics have maintained.

Nonetheless, the Bank's advice has not always been effective or consistent. This final chapter reviews the findings of the IEG evaluation and provides recommendations for management to improve Bank effectiveness. IEG recommendations include: (1) additional research on outstanding issues, (2) enhanced development of client capacity, (3) a more structured approach to policy design; and (4) improved internal and external coordination. This strategy also requires a cost-effective way to identify key concerns to reap the rewards of greater effectiveness.

Findings

The Bank's focus on pension reform most often has been sparked by concerns about fiscal sustainability, particularly when mismanaged systems have created demands on the government's budget that have crowded out other expenditures and/or led to fiscal deficits and subsequent macroeconomic instability. The focus of client country interest in pension reform often has also been on fiscal constraints. And these concerns are

extremely important, because a pension system that is fiscally unsustainable will hinder growth and fail to meet its commitment to the aged. Nonetheless, while addressing funding gaps, too often the Bank has not addressed sufficiently the primary goal of a pension system to reduce poverty and provide adequate retirement income *within a fiscal constraint*. It has also focused insufficient attention on the income of the aged.

Despite this shortcoming, pension reform activities in many Central and Eastern European countries have improved the potential for long-term fiscal sustainability overall, while providing adequate retirement income. Many reforms in Latin America and the Caribbean have also improved fiscal sustainability. The Bank's activities have encouraged private pension plans to develop participant choice between funded and PAYG systems, participant choice among pension funds, and coherent regulatory structures to prevent fraud and abuse. ESW has covered a wide range of topics, with particular success in the area of fiscal analysis, actuarial modeling,

and regulatory structures. Quite a few countries have had improved PAYG administration, including the implementation of actuarial offices.

The Bank has also emphasized the pro-growth aspects of multi-pillar reform—that is, increased savings and capital market development. But the IEG evaluation found few countries in which these promised outcomes have been achieved. Currently, there is insufficient analysis to determine the extent to which this lack of progress is related to counterproductive fiscal policy or to ambiguous expected outcomes.¹

Finally, over the years the focus of the Bank’s concerns about pension reform has evolved, from supporting Chilean-type systems in Latin America to new PAYG models such as NDCs. More recent ESW in Africa, for example, has investigated the situation of the aged within the context of poverty overall. The Bank has taken strides in outreach to facilitate cooperation with other international organizations, although opportunities for a greater consultative process remain.

Gaps in pension reforms

Based on the IEG case studies, some of the multi-pillar reforms supported by the Bank can be seen to have shortcomings, indicating the need for continued follow-up to the initial reform (table 7.1). For example, as a consequence of incomplete analysis, the Bank’s activities in Latin America and the Caribbean tended to be limited to funded reforms, even when pensions covered a small percentage of the population. As a result, the income

of the aged was inadequately addressed. While Bank assistance was instrumental in instituting parametric PAYG reforms, the Bank did not press for additional first-pillar reforms required by many countries in the Region, such as those stemming from fragmented pension systems in Mexico and Peru.

The Bank persistently encouraged countries such as Ukraine and Russia to institute multi-pillar reforms even when financial sector conditions were weak. And the Bank failed to try to dissuade countries with little control of corruption—including Nicaragua, Russia, and Ukraine—from actively developing multi-pillar reforms. In general, the Bank did not persuade multi-pillar reformers to develop diversified pension portfolios or support countries building the capacity to monitor the fiscal stability of their reforms. And finally, the Bank’s performance in improving contribution collection in countries such as Hungary and Latvia was ineffective.

The relationship between ESW and operations

While it is unclear how prior ESW has led to adequate policies, the general focus of Bank ESW has influenced the issues considered in Bank operations. The prominence of Bank support for multi-pillar systems is the most striking example of how the Bank’s strategy led to the preparation of pension projects.

While the overall approach to support multi-pillar reform has been clear, ESW is lacking on some specific issues and research and policy analy-

Table 7.1: Even the Best Reforms Have Continuing Challenges

Post-reform issue	Countries
Low coverage	Argentina (declining), Kazakhstan, Kyrgyz Republic, Peru, Russia (declining)
Lack of poverty alleviation	Bulgaria (women), China, Mexico, Russia, Uruguay
Continuing fiscal deficits	Argentina, Bolivia, Brazil, Korea (long term), Uruguay
Limited actuarial capacity	Kyrgyz Republic, Mexico (better modeling needed), Uruguay
Underdeveloped financial sector	Bulgaria, China, FYR Macedonia, Russia, Uruguay
High commissions	Hungary, Peru
Additional pension systems	Mexico, Peru
High benefits	Brazil, Peru
Administrative capacity assistance untimely and ineffective	Hungary, Latvia

Source: IEG Case Studies.

sis have been incomplete or sporadic. For example, income of the aged has not been a priority research area or a priority for pension reform. Similarly, greater analysis is needed on a number of financial and regulatory issues, including basic research on how to improve capital markets in countries with multi-pillar systems and the extent to which societal corruption hinders regulation.

Implementing client capacity

In many instances the Bank has not included sufficient capacity building in its initial agenda or in later follow-up activities on pension reform. In some cases, technical assistance has been successfully tied to an adjustment operation—but not always. Given client reluctance to borrow for technical assistance, new initiatives are needed, including effective donor coordination. Within the Bank, the World Bank Treasury Department’s Pension Asset Advisory Service is a promising initiative.² Another innovation is the collaboration of the WBI with selected client countries, particularly if the clients are well chosen and the lessons can be expanded to assist others.

Internal and external cooperation

Internal coordination has not been consistent or sufficient in many areas, including advice on the income of the aged and financial sector assessment (FSAP included). Externally, the World Bank has limited its dialogue to clients or government departments that shared the Bank’s views on pension reform. Coordination with other donors and agencies has not always been smooth.

Recommendations

Based on these findings, this evaluation has the following recommendations:

DEVELOP GUIDELINES TO DESIGN PENSION REFORMS AND PAY GREATER ATTENTION TO PARAMETRIC REFORMS

- a. **Pay greater attention to parametric reforms** to ensure fiscal sustainability, and to the macroeconomic, financial, and institutional sector **preconditions necessary for a multi-pillar reform**. This would involve preparing and implementing **guidelines** to ensure assistance that is well-tailored to coun-

try conditions and consistent policy prescriptions, including statistical indicators and in-depth assessments.

- b. **Be more realistic in presenting the benefits of the secondary objectives of pension reform** in dialogue with client countries, as there is insufficient empirical evidence to support the claims that funded systems have or can improve savings and capital market development.

BUILD CLIENT CAPACITY

- c. **Develop a checklist for client capacity requirements** (including contribution collection, contributor database development, actuarial and policy analysis, and regulation of multi-pillar operations) to assess client requirements and determine how best they can be met. **This would involve ensuring that a plan for technical assistance is put in place for reform initiatives so that client capacity is developed.**

CONDUCT RESEARCH ON OUTSTANDING ISSUES

- d. **Ensure that adequate analysis is conducted on key issues** such as income of the aged, the impact of corruption and governance on the feasibility of effective pension regulation, methods to foster competition among pension funds, guidelines for investment allocation, the design of noncontributory systems, and ways in which capital markets develop, as well as research offering cross-country evidence on these topics.

IMPROVE INTERNAL AND EXTERNAL COORDINATION

- e. **Develop a process to ensure that cross-sector issues**, including integrating financial issues identified by the FSAP, and maintain closer coordination among the Development Economics Vice Presidency, the Networks, sector units, and country units.
- f. **Develop a strategy to play a greater role in consensus building among stakeholders**, particularly international organizations and client agencies.