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## APPENDIX I: CHAIRMAN'S SUMMARY: COMMITTEE ON DEVELOPMENT EFFECTIVENESS (CODE)

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On October 12, 2005 the Committee on Development Effectiveness (CODE) considered the IEG report *Bank Assistance to Pension Reform and the Development of Pension Systems* together with the Draft Management Response.

### Background

The World Bank early policy research report *Averting the Old Age Crisis* (1994) offered a detailed prescriptive exposition of a multi-pillar pension framework. The Bank's strategy for pension reform formalized in *Social Protection Sector Strategy: From Safety Net to Springboard* (2001—"Strategy") builds on the three pillar approach proposed in the 1994 report built on: (1) a publicly managed, tax-financed pension scheme; (2) a privately managed, funded scheme; and (3) voluntary retirement savings. *Strategy* moves the multi-pillar proposal beyond structural prescription. The Bank took a leading role beginning in the 1990s supporting a wide variety of reforms through analytical and advisory services and lending operations. During this period, the Bank assisted 68 countries with reforms of their pension systems with more than 200 loans and credits. In addition, the Bank issued more than 350 papers and publications on pension reform and has been a leader in setting the stage for debate and knowledge gathering in its organization of conferences and seminars, training programs, and the development and dissemination of a computer model for projecting pension reform options

### IEG Findings and Recommendations

This IEG report assesses the Bank's pension reform strategy and the resulting development outcomes for Bank assistance between 1985 and 2004, focusing on work inaugurated in the 1990s. The Bank's multi-pillar strategy to support pen-

sion reforms differed Regionally and by country, as a result of client concerns and Bank experience. IEG finds that the Bank's advice has not always been effective. While formal pension systems in many countries contributed to ballooning budget deficits, the Bank's preoccupation with fiscal sustainability tended to obscure the broader goal of pension policy—to reduce poverty and improve retirement income adequacy *within a fiscal constraint*. To improve this process, IEG recommends that the Bank: (1) develop guidelines to design pension reforms, pay greater attention to parametric reforms and de-emphasize secondary objectives of pension reform to support savings growth and capital markets development; (2) build client capacity; (3) conduct research on outstanding issues; and (4) improve internal and external coordination.

### Management Response

Management found the study comprehensive in analyzing support for pension reforms although it felt that the Bank's activities during 1985–2004 were increasingly less influenced by the ideas of the 1994 report. The evolution of Bank thinking and operations is documented in the 2001 "Strategy" and the 2005 policy position paper "*Old-Age Income Support in the 21st Century*." Management agreed with the general thrust of the recommendations, in particular with those to strengthen internal coordination and the diagnostic framework for determining country readiness for privately-managed second pillar reforms. In management's view, the report appears to overstate the role and potential impact of Bank support; and could have taken a broader view of the links between pension reform and poverty reduction. Management put a greater weight than the review on the importance

of fiscal crises. Management stated that it is important to keep in mind that most structural reforms undertaken in Bank client countries occurred in the late 1990s while judgment over their results can only be made after a period of 10 or more years.

### Overall Conclusions

The Committee welcomed IEG's evaluation of Bank activities in pension reform which is critical for many clients, and usually complex and politically sensitive. Speakers generally welcomed the content and quality of the report. They found the findings relevant and pertinent to the Bank's work going forward, though some speakers noted that more time was required to fully observe the outcomes of the reforms. The draft Management Response (MR) was also seen as thoughtful though several speakers would have preferred greater elaboration on a number of key aspects including the uneven distribution of Bank assistance and concentration in two Regions (Europe and Central Asia and Latin America and the Caribbean). The discussion focused mainly on areas where differences between IEG and management were most apparent, namely: (1) preconditions for supporting multi-pillar reform, especially macroeconomic stability and fiscal sustainability; (2) relative emphasis on the so-called secondary objectives (e.g. savings mobilization or financial market development); and (3) the Bank's vision on pension within the wider issue of social protection for the population at large, including workers in the informal sector.

### Next Steps

The draft Management Response will be revised taking into account the comments and concerns raised at the meeting, including requests for more details and precision in the responses. There was broad support for a wider Board discussion on strategy.

The following issues were raised during the meeting:

**Preconditions for Multi-Pillar Reform.** Many speakers stated that the Bank should not exclude countries, particularly low-income ones that do not meet the preconditions for a multi-pillar re-

form (macroeconomic stability and fiscal sustainability) from the scope of its assistance for much-needed reform programs. Members were in favor of the Bank engaging in a wide range of countries, including low-income and fragile economies and felt macroeconomic issues could be addressed in parallel. Management concurred with the importance of a wider engagement with low-income economies and pointed out that the majority of Bank support has been towards first-pillar reforms and in a number of cases has discouraged movements towards second-pillar reforms where conditions were not appropriate. Many members welcomed management's intention to set up a working group to develop a diagnostic framework for the second pillar. A few members suggested the guidelines should reflect country priorities including appropriate measures when preconditions necessary for a multi-pillar reform are not met.

**Deemphasizing the Secondary Objectives of Pension Reform.** The general sentiment was not in favor of deemphasizing the secondary objectives (promoting savings growth and building financial systems and capital markets) as suggested by IEG. IEG clarified its view that these secondary objectives were indeed important but they should not be overemphasized as they might have been in the past.

**Focus of World Bank Activities.** There was broad recognition of the complexity of pension reforms and their impact on macroeconomic and fiscal stability as well as long-term sustainable economic growth. Some members noted that the Bank played a valuable role in pension reforms while others felt that technical assistance has been insufficient and discontinuous. Members generally agreed with management that the Bank's involvement in pension reforms was triggered by serious fiscal crises which unsustainable pension schemes contributed to in many countries. Some speakers indicated that the Bank should remain engaged in this area because many developing countries were undertaking pension reforms and faced the challenge of making the systems financially sustainable. The need for improved internal and external coordination,

communication strategies, and monitoring and evaluation of reform progress was also noted. Speakers emphasized that political economy including governance issues should be given due attention. Members were disappointed that Bank assistance to reforms did not necessarily lead to expanded pension coverage for the working population; some Members encouraged the Bank to be more proactive in ensuring the provision of safety nets for people in the informal sector. *IEG noted two ways in which public pension programs can provide safety nets for old-age income security for the informal sector through: (1) a tax-financed, non-contributory pension; and (2) a means-tested pension for the aged and the disabled.*

**Capacity Building and Research.** Some members noted that assistance to countries should be tailored to their needs, particularly capacity building, and encouraged the Bank to evaluate potential simplification measures for users of its pension reform options simulation model. The Bank's analytical work should cover fiscal sustainability, alternatives to reform pay-as-you-go (PAYG) systems, and the informal sector, among other relevant issues. *Management pointed out the tradeoffs in research within its budget envelope.* While noting that the majority of projected outcome ratings have been satisfactory, members observed that research occasionally had been incomplete, and had not always translated into effective operations. Many speakers proposed more research to review the impact of HIV/AIDS on pension systems, as well as impact that pension reform had had on elderly population groups.

**Country and Regional Perspective.** While noting the uneven distribution of Bank assistance—mainly concentrated in Europe and Central Asia and Latin America and the Caribbean, a few

members noted that the Bank should address the needs of many countries in underserved regions. A question was raised on how to expand the safety net for a large section of the population which does not have any pension benefit, in particular in low-income African countries with high levels of poverty. A few members suggested that addressing pension reforms in CASs will assure systematic Bank support, including adequate analytical and advisory activities (AAA). Management suggested the importance of comparing the relative vulnerability and social risk management options afforded to different groups in order to determine whether scarce resources should support the elderly poor or perhaps be better allocated to other more vulnerable populations (such as children and disabled).

**Other Suggestions.** Some members felt that IEG review could have covered: (1) a broader view of the links between pension reform and poverty reduction rather than looking only at the coverage and level of pensions paid to elderly; (2) differences between IMF and World Bank in their views on income and social security revenue collection; and (3) labor market issues. Regarding the revision of Management Response some members suggested the following changes: (1) more clarity, especially in areas where there is disagreement with IEG findings and recommendations; (2) more detailed analysis of IEG recommendations on building client capacity and conducting research on outstanding issues; and (3) more information on how lessons of experience have led to changes in the Bank's approach thereby leading to changes in Bank lending operations. A question was also raised about any IEG or management analysis of the supply side of the sector.

Chander Mohan Vasudev, Chairman