

OPERATIONS EVALUATION DEPARTMENT

Review of Bank Assistance to Pension Reform and the Development of Pension Systems

Approach Paper

Introduction

1. After WWII many countries introduced or expanded publicly mandated pension schemes designed to provide income at old age. Public intervention was deemed necessary because of the perception that most individuals did not save sufficiently for retirement due to short planning horizons (myopia), and those who did lacked access to proper savings instruments and annuities. Although national pension schemes differ in some important aspects, most of these schemes were built on a pay-as-you-go (PAYG) basis, and generally benefited from the population boom that followed WWII. The buoyant expansion of contributors and revenues allowed these systems to pay generous benefits to the first retired workers without charging high contribution rates or running deficits.

2. Demographic aging in recent decades has generally strained pension systems around the world, leading frequently to large expenditures, large deficits, and high contribution rates. Excessive benefits and lax eligibility criteria have led even relatively young countries to experience these problems. In addition, poor administrative capacity and practices led to fraud in collection, entitlement, and benefit determination. In many cases the pension system became a source of fiscal and macroeconomic instability, a constraint to the growth of output and employment, and a source of regressivity in the distribution of income.

3. The increasing awareness of the looming pension crisis has led to a wave of pension reforms in the last two decades, although reforms have frequently been less ambitious than originally intended by policy-makers, because of very strong opposition to the cuts in benefits that they entail. Many reforms have been restricted to changes in the parameters of the PAYG scheme, while in other cases they have also included the introduction or expansion of fully-funded (FF) schemes, usually operated by the private sector. A few countries have adopted a more radical approach, replacing the PAYG scheme entirely by a private, FF scheme.

Bank Assistance in the Pension Area

4. The Bank has provided substantial financial and technical assistance to member countries for the reform and development of their pension systems. As shown in Table 1, since 1989 the Bank initiated 132 projects with at least one pension component. Total commitments of projects containing at least one pension component amounted to US\$24.7 billion, or almost 10 percent of total commitments accumulated in this period. The specific pension component of these projects has been estimated at US\$4.8 billion, a

smaller but still significant figure.¹ Analytic and Advisory Services (AAA), including both standard Economic and Sector Work (ESW) and policy advice, dealing with pensions have also been significant, including, at a minimum, 140 technical papers and country-specific reports.

Bank assistance to member countries was initially driven by fiscal considerations and was not underpinned by any particular vision of pension reform. However, in 1994 the Bank published a comprehensive study called *Averting the Old Crisis (Averting)* which proposed a three-pillar system, composed of a mandatory, publicly managed, PAYG system for redistribution (the first pillar); a mandatory, privately managed, FF system for income replacement (the second pillar); and a complementary, privately-managed FF system that would be voluntary but supported by tax incentives (the third pillar). The study became a reference point for policy-makers and Bank staff working on pension issues and was often considered both internally and externally to be the Bank's paradigm or vision for pension reform. (*Labor Markets and Social Policy in Central and Eastern Europe*, also released in 1994 and authored by World Bank staff, presented a somewhat different reform agenda than *Averting*, but one that was not inconsistent with the development of multi-pillar systems.²) The Bank's recognition of the importance of pension policy was accompanied by a sharp increase in projects dealing with pensions, although that number has declined in recent years (Table 1). As a result, the Bank was increasingly perceived to be the leading international lender in this area.

Table 1
Number of Pension-Related Projects and Commitments, 1989-03, by Sub-periods

	1989-1994	1995-1999	2000-2003	Total
Number of Projects with Pension Components	24	76	32	132
% of total	18	58	24	100
Total Commitments (US\$ million)	3,493	17,598	3,627	24,718
% of total	14	71	15	100
Pension Component (US\$ million)	338	3,661	809	4,808
% of total	7	76	17	100

5. Adjustment loans accounted for 67 percent of total loans and 94 percent of the value of total commitments and the estimated value of pension components (Table 2). Adjustment lending has been closely associated with reforms of pension schemes, but some adjustment loans have also supported institution-building. Investment and technical assistance loans have typically supported the implementation of reforms and the institutional development of key agencies, such as social security administrations and agencies supervising private funds. Bank assistance to member countries in the pension area has been particularly intensive in the ECA and LAC regions. These two regions together accounted for 77 percent of projects and 86 percent of the value of pension components (Table 3).

¹ The value of the pension component is directly observable in investment loans. In adjustment loans the value was estimated by multiplying the percentage of pension conditions by the total loan commitment.

² Another World Bank regional study of pension policy has just been released -- this time the study in the LAC region, "Keeping the Promise of Old Age Security in Latin America." A new edited volume on social protection in ECA is also in process as a follow-up to the Barr-edited book (in memory of Ralph Harbison, former director of HD in Central Europe).

Table 2
Number of Pension-Related Projects and Commitments, 1989-2003, by Type of Loan

Loan Type	Number of Projects	% of Total	Total Commitment (US\$ mil.)	% of Total	Pension Component (US\$ mil.)	% of Total
Adjustment	88	67	23,366	94	4,485	93
Investment	20	15	956	4	240	5
Tech. Asst.	24	18	397	2	83	2
TOTAL	132	100	24,718	100	4,808	100

Table 3
Number of Pension-Related Projects and Commitments, 1989-2003, by Region

Region	Number of Projects	% of Total	Total Commitment (US\$ mil.)	% of Total	Pension Component (US\$ mil.)	% of Total
AFR	16	12	1,183	5	82	2
EAP	7	5	7,427	30	513	11
ECA	69	52	6,899	28	1,281	27
LAC	33	25	7,887	32	2,854	59
MNA	5	4	733	3	61	1
SAR	2	2	590	2	18	0
TOTAL	132	100	24,718	100	4,808	100

6. The publication of *Averting* and the Bank's increasing involvement in pension reform triggered an intense debate and criticism of *Averting's* proposed multi-pillar paradigm. (By contrast, *Labor Markets and Social Policy*, with its regional focus, did not receive the same attention.) In particular, the Bank was frequently criticized for following a dogmatic approach, providing little support for reform and improvement of public PAYG systems, and aggressively promoting the privatization of social security, regardless of the country's characteristics and initial conditions. Critics also argued that the Bank oversold the benefits of multi-pillar systems, particular the benefits of a new second pillar, while simultaneously underestimating the strengths of public programs.

7. Second pillars created with Bank support were criticized for their high administrative costs and exposing workers to excessive volatility in future retirement income should adequate investment returns not be generated. Finally, the Bank's critics pointed out that the reforms generally failed to create higher savings, faster capital market development, better labor market outcomes, and improved collection compliance.³ Within the Bank, these critiques culminated in a World Bank volume, *New Ideas about Old Age Security* (2001), which contained a point-by-point analysis of "myths" in *Averting*, followed by extensive comments and rebuttals by others.

8. Recent Bank publications and strategy documents continue to recommend a multi-pillar approach. The Bank's *Social Protection Sector Strategy, From Safety Net to Springboard* (2001), states: 'In the area of pension systems for the formal sector, the

³ The literature is extensive. See, e.g., Barr (2000), Charlton and McKinnon (2001), Gillion (2000), Gillion et al (2000), ILO (2002), and Stiglitz and Orszag (2000).

World Bank has become an established leader in conceptual and operational aspects of reform. This began with its development of a flexible approach to old-age security focusing on a “multipillar” system that many countries throughout the world are successfully implementing.” But has the Bank’s approach been rigid or flexible? Is it one that “fully takes account of country preferences and circumstances, bases its support on sound reform criteria, links the client assistance with knowledge management, provides training and other measures to enhance the reform capacity of a country, and seeks cooperation with other international institutions” (Holzmann, 2000)? A new policy paper is currently in preparation which is to elucidate the World Bank’s position on pension issues for the years to come.

9. An evaluation of Bank performance to date requires an in-depth assessment of the way in which the three-pillar policy approach, and complementary administrative strengthening, has been applied by Bank staff in each country, as well as the actual outcomes of the Bank’s assistance. A preliminary examination of the Bank’s pension portfolio indicates that the Bank has provided considerable support both in the areas of policy reform and institutional capacity building (Tables 4 and 5). That assistance has supported first and second pillar reforms, as well as the development of the third voluntary pillar. But only in-depth analysis can determine whether the Bank’s ESW and policy advice was balanced, in concert with country conditions, and sufficient to move the reform forward.

Table 4
Types of Interventions Supported by Bank Projects, 1989-2003

First Pillar			Second Pillar			Third Pillar		
General Analytical Support	Support to Actual Reforms	Support to Institution Building	General Analytical Support	Support to Actual Reforms	Support to Institution Building	General Analytical Support	Support to Actual Reforms	Support to Institution Building
49	64	57	22	22	20	19	18	9

Table 5
Number of First and Second Pillar Reforms Supported by Bank Projects, 1989-2003

	First Pillar	Second Pillar	First or Second Pillars	First and Second Pillars
Number of Projects	64	22	70	16
Number of Countries	41	16	44	13

Objective of the Review

10. According to the Bank’s *Social Protection Sector Strategy*, the most recent publication stating the Bank’s position on pension reform: “The World Bank has four key concerns in working with clients on pension policy: (a) short-term financing and long-term viability; (b) effects on economic growth; (c) adequacy and other distributional issues; and (d) political risk. Moreover, it uses several criteria to judge the soundness of a reform proposal: (a) distributive effects; (b) the nature of the macro and fiscal policy environment; (c) capacity of the administrative structure to operate a multipillar system; and (d) the soundness of regulatory and supervisory arrangements.”

11. While *Averting* articulated a clear vision of how pension systems should be structured to meet these objectives, including necessary preconditions for the establishment of a FF pillar, the precise structure suggested in *Averting* may not be optimal for all countries, even when the necessary preconditions are met. For example, should a second pillar be promoted if it lacks social and political support? Could an earnings-related PAYG pillar be adopted for risk diversification and labor market objectives, rather than a purely re-distributive first pillar? What if the desired degree of redistribution varies significantly across countries? Could a tax-financed program outside the pension system (a “zero pillar”) be substituted in some cases? And the relative size of each of the pillars has remained an open question. Lastly, good policies for PAYG and FF programs can only be only effective if they are fully supported by effective administration.

12. The design of pension reform from both a policy and administrative view needs to be highly customized, taking into consideration the country’s overall social preferences and policies, economic structures, and initial conditions. Which PAYG reforms are adequate and what benefits stem from private pension provision are questions that have to be addressed at the individual country level. Therefore, a central objective of the review is to assess whether Bank staff were able to adapt their recommendations to specific country conditions. A second objective is to evaluate the initial results of Bank-supported reforms. This analysis will be used to ascertain whether the Bank is providing effective assistance to member countries that will help them implement pension systems capable of meeting the objectives outlined above

13. Another closely related study objective involves assessing the efforts the Bank itself has made to assess the three-pillar paradigm, in light of international debate and its own experience with pension reform. The Bank’s pension program includes enough projects and AAA in many countries to allow a meaningful evaluation. The Operations Evaluation Department (OED) has already evaluated 77 projects with pension components and has rated 90 percent of these projects as satisfactory (both in relation to their total number or the total value of commitments). Projects with pension components have on average been better rated than other Bank projects. However, these individual project ratings do not provide an accurate picture of the quality of the Bank’s assistance in the pensions area. For one, these ratings refer to the project as a whole, which in many cases include just one pension component representing a small share of loan conditionality and total commitments. In addition, the evaluation of individual projects does not provide an accurate idea of the relevance of the Bank’s pension strategy and the impact of its overall assistance program, which in many countries comprised AAA and several loans distributed over many years. To assess the quality of the Bank’s assistance in pension it is necessary to go beyond individual project ratings and take into consideration a much larger body of information, including the Bank’s country strategy, analytical work, and the sequence of projects directly and indirectly related to pensions.

Evaluation Focus and Methodology

14. The period under review is 1990-2003, although the focus will naturally fall in the 1994-2003 period, following the publication of *Averting* (and also *Labor Markets and Social Policy*) and the sharp increase in the number of ESW and pension-related projects. The evaluation will involve two main and closely inter-related components, associated with the objectives defined above.

15. The first major component involves assessing the effectiveness of the Bank's direct assistance to member countries in the pension area, involving the policy dialogue, country-specific ESW and projects. This is possibly the most important component of the evaluation exercise, as it will reveal the extent to which Bank staff adapted the three-pillar paradigm to country conditions and designed assistance strategies that meet member countries' needs. This component will also include a preliminary evaluation of the first results of Bank-supported reforms, although the short period of implementation of most reforms imposes some limitations that need to be realistically considered as well. A comprehensive set of evaluative questions has been formulated to guide the individual country evaluations. These guidelines follow OED's basic methodology for project evaluation and are presented in Annex 1.

16. The evaluative work under the first component will focus on ECA and LAC, as these are the two regions with the larger number of projects and commitments. The assessment of the Bank's assistance in these regions will comprise an in-depth evaluation of a representative sample of countries involving visits to these countries. The Bank's assistance to EAP and SAR will be examined together, based on desk reviews and possibly a visit to one country. The Bank's assistance to MNA and AFR will also be examined through desk reviews and possibly one country visit. The size of the pension portfolio in most of these regions is not large, but there are critical questions that need to be addressed, such as whether the Bank had a strategy to develop pension systems in low-income countries. The results of the country reviews will be summarized in regional papers, which will provide key inputs for the elaboration of the main evaluation document.

17. Specific countries selected for in-depth appraisals of the Bank's assistance to pension reform comprise a substantial share of the value of the pension portfolio in each region (more than 75 percent of the value of the pension component) and constitute a representative sample (the selection criteria included the sub-region, size of the population, level of per capita income, level of financial sector development, and other factors). The Bank's assistance to pension reform in ECA will focus on eight or nine of the following countries: Albania, Bulgaria, Croatia, Kazakhstan, the Kyrgyz Republic, Latvia, Hungary, FYR Macedonia, and Russia. Detailed LAC pension reform evaluations will include Argentina, Bolivia, Brazil, Mexico, Peru, and Uruguay. In-depth reviews in the other regions will include China and South Korea, and possibly Zambia.

18. The second component will consist of an assessment of the Bank's three-pillar paradigm and its evolution over time. As mentioned before, *Averting* has generated an intense international debate, and it is important to assess how the Bank has reviewed its vision of pension systems given that debate and its own experience with pension reform. There is sufficient evaluative material for this component, as the HD network has made

several efforts in recent years to discuss reform challenges and options with both supporters and critics of multi-pillar reforms and to revisit the Bank's three-pillar paradigm.⁴ The Bank's general analytical work will also be examined for the same reasons. The Bank has produced and sponsored a large volume of technical papers dealing with various aspects of pension systems and pension reform. It is important to assess whether the research agenda has addressed relevant themes and has served the needs of Bank staff and policy-makers in member countries.

19. To support the two components described above, the review will include a third component, encompassing different activities, and designed to provide support and inputs to the evaluative work under the main components. One activity will involve the exploration of the extensive project database that has been prepared for the review. The analysis of the database should enable the identification of patterns of lending and AAA over time and across regions, that could provide valuable inputs for the regional summaries and the evaluation of the way in which the three-pillar paradigm was implemented on the ground. Another important activity will involve assessing how the Bank's work in pension reform is coordinated across different networks. HD has the primary responsibility for the delivery of assistance in the pensions area, but PREM, DEC and FSE also have responsibilities in the area, given the fiscal and financial sector issues that have to be addressed in the reform and development of pension systems. The review will assess whether the division of labor is reasonable and the work is well coordinated, or whether there are problems hindering the effectiveness of the Bank's assistance.

20. The results of these components will be integrated and summarized in the main evaluation document and reviewed by a high level advisory panel. Other international organizations involved in the pensions area may be invited to participate in the discussion of the preliminary results. These would include the IMF, ILO, ISSA, EU, OECD, and USAID. Their views on the Bank's approach to pension reform will also be solicited and the effectiveness of donor cooperation reviewed in this context. Finally, there will be a concerted effort to disseminate the main document and the background papers both internally and externally, and through various channels and venues.

⁴ However, a new paradigm or vision has not been finalized yet.

Process: Evaluation Team and Schedule

21. The regional evaluations will be conducted by independent pension experts with established academic and professional reputation and experience in the respective regions. The list and affiliation of the independent pension experts is provided in Annex 2. The high level advisory panel will consist of well-known pension experts representing different positions in the pensions debate. The advisory panel has not been completely constituted at this stage of the Approach Paper.

22. The task manager for this evaluation is Emily Andrews.⁵ Peer reviewers are John Johnson (OECD), Roberto Rocha (Bank, external to OED), and Larry Thompson (external to the Bank).

23. The review is expected to be delivered to CODE in the third quarter of FY05.

⁵ Roberto Rocha was task manager through the initial draft approach paper.

References

Barr, Nicholas (ed.). 1994. *Labor Markets and Social Policy in Central and Eastern Europe*. London: Oxford University Press (for the World Bank and the London School of Economics).

Barr, Nicholas. 2000. "Reforming Pensions: Myths, Truths, and Policy Choices." IMF Working Paper WP/00/130. International Monetary Fund.

Charlton, Roger, and Roddy McKinnon. 2001. "Pensions in Development."

Gillion, Colin. 2000. "The Development and Reform of Social Security Pensions: The Approach of the International Labour Office." *International Social Security Review* 53(1): 35–63.

Gillion, Colin, John Turner, Clive Baily, and Denis Latulippe, eds. 2000. *Social Security Pensions: Development and Reform*. Geneva: International Labour Organization.

Gill, Indermit, Truman Packard and Juan Yermo. 2004. *Keeping the Promise of Old Age Income Security in Latin America: A Regional Study of Social Security Reforms* (Conference Edition). Washington D.C.: World Bank.

Holzmann, Robert. 2000. "The World Bank Approach to Pension Reform." *International Social Security Review* 53(1): 11-34.

Holzmann, Robert, and Joseph Stiglitz, eds. 2001. *New Ideas about Old-Age Security*. Washington, D.C.: World Bank.

The International Labor Office. 2002. *Social Security: A New Consensus*. Geneva: International Labor Organization.

Stiglitz, Joseph and Peter Orszag, Peter. 2001. Ten Myths of Pension Reform, in Robert Holzmann and Joseph Stiglitz, eds. 2001. *New Ideas about Old-Age Security*. Washington, D.C.: World Bank.

The World Bank. 1994. *Averting the Old-Age Crisis: Policies to Protect the Old and Promote Growth*. New York: Oxford University Press.

ANNEX 1

OUTLINE/GUIDELINES FOR INDIVIDUAL COUNTRY EVALUATIONS

1. BACKGROUND

The text in this section should be kept around 3-4 pages. In order to maintain the text at this size, it is essential to prepare a key statistical table summarizing the relevant statistical information (see Annex Table 1). The most important table has a pre-specified format and should contain basic information on the structure and performance of the pension system during the 1990s and early 2000s. Other tables and graphs may be constructed, as needed.

1.1. Situation of the pension system in the 1990s, before WB involvement and/or before major reform attempts

- **The structure of the pension system**
 - The historical origins and original aims of the pension system;
 - The pillars of the system and benefits provided by each pillar;
 - The major rules and parameters, including contributions, benefit formulae, ceilings, retirement age, target replacement rates for different classes of workers, indexation of benefits;
 - Brief description of the institutional/regulatory framework for any funded pillar (usually voluntary) existing before the reform.
- **The performance of the pension system**
 - The number of contributors and beneficiaries and the respective coverage ratios, system versus old age dependency ratios, actual average retirement age, actual replacement rates for different classes of workers;
 - The evolution of the tax base, revenues, expenditures, and the financial balance of the pension system. Management of reserves (if they exist);
 - The situation of the pension system in the absence of reforms. If possible provide actuarial simulations.

1.2 Government's attempts at reforms during the 1990s/early 2000s.

- **Description of major reform attempts.**
 - Fiscal and other motivations for the reform. Associated changes in pension policy aims, such as redistribution aims, labor market aims (including attempts to improve coverage and compliance and reduce informality), growth aims (through, e.g., labor market, capital market, savings effects);
 - Changes in pension plan design and changes in parameters;
- **Support/reactions of the public, trade unions, and politicians to the reforms.**
- **Preliminary results of the reform.**

The first results of the reform may be examined here and/or in section 3, depending on the context and the specific role that the Bank played in the reform.

2. EVOLUTION OF WB ASSISTANCE IN THE 1990s

2.1. The Genesis of WB Involvement

- **Examine how the WB became involved in the area of pension reform.**
 - Assess whether the study “Averting the Old Age Crisis” influenced events;
 - Verify the extent to which Bank assistance was supply- or demand-driven;
 - Identify the main counterparts, their level of sophistication and their capacity to maintain a dialogue with the Bank.

2.2. Description of WB Assistance

- **Describe the WB’s diagnostic and basic strategy towards the pension system and pension reform, as presented in the CASs, ESW, and some loan documents.** (Describe but do not evaluate the strategy here. Evaluation is reserved for section 3).
- **Examine the different instruments of WB Assistance.**
 - Describe the mix of assistance, including ESW, technical assistance loans, investment loans, and adjustment loans, as well as training provided to policy makers (e.g., the Harvard course).
 - Construct a table showing the various operations, timing, main objectives, and their ratings (for the closed operations).
 - Discuss the objectives, ratings, and results of each individual operation. Note that some evaluation already starts here, but is restricted to individual projects. In other words, this sub-section starts evaluating the trees, but not the forest. Note also the need to focus on the pension components included in more general operations that addressed other issues as well (e.g., operations supporting financial sector and/or public sector reforms).

3. ASSESSMENT OF THE IMPACT OF BANK ASSISTANCE

The assessment of the impact of WB assistance will follow OED methodology for project evaluation. Therefore, this section will judge the outcomes, institutional development impact, and the sustainability of the results of WB assistance. Outcome, in turn will be the result of three sub-criteria: relevance, efficacy, and efficiency.

This section is the core of the assessment and the most important section of the paper. It will differ from section 2 in two important aspects. First, this section will evaluate and rate WB assistance as a whole, which may involve much more than the evaluation of individual projects. It should comprise the Bank’s overall strategy, studies, formal and informal technical assistance, adjustment and investment loans, etc. Therefore, the overall rating may differ from the rating of individual projects. Second, the author will have the liberty to disagree with previous ratings, in light of additional information on individual projects.

3.1. Outcomes

The assessment of outcome is the result of the assessment of three sub-criteria: (i) relevance; (ii) efficacy, and (iii) efficiency. Relevance indicates the extent to which the objectives of the overall assistance and the individual projects were consistent with the country’s initial conditions, needs, and development priorities. Efficacy indicates the extent to which the objectives of the assistance and the individual projects were achieved. Efficiency indicates the costs of the

assistance for the Bank and the country. Efficiency is not a relevant concept for most pension-related projects. The maximum that can be done is to make some comparisons of the costs of pension-related projects with the region and Bank-wide. Therefore, the focus of the assessment will be on relevance and efficacy. The list of issues that should be considered in assessing relevance and efficacy include the following:

- **Relevance.** Examining relevance of the Bank’s assistance in the pension area entails examining the following issues:
 - Was Bank assistance designed in a balanced way, considering the political, social, institutional, and cultural preferences of the country? Did the assistance strategy address the most important problems and needs of the country in the pension area? Did the Bank pay sufficient attention to the first pillar, or was the Bank excessively focused on the second pillar? In other words, assess whether the Bank followed a “cookie cutter/ideological approach” or whether the Bank maintained an open attitude, taking into account country-specific conditions and needs, as well as the country’s initial limitations;
 - If Bank assistance involved support to a major systemic reform, did the Government own the reform and was capable of absorbing Bank assistance and advice? Or was the Government excessively influenced by the Bank and/or technically unable to absorb the assistance and to implement the reform? In the cases where the Government owned the reform and had the capacity to implement it, it is still important to assess if the reforms were reasonably understood and supported by the population and other representative groups;
 - Were Bank projects underpinned by solid/high quality analytical work/ESW, including sound actuarial modeling?
 - What was the overall quality of the reform supported by the Bank? Did the reform attempt to strike the right balance between redistribution and efficiency, taking into consideration initial conditions? If the reform involved tightening the link between contributions and benefits, either by changes in the PAYG formula and/or by introduction of a second pillar, was there an effort to adequately compensate the poor through the introduction of a “zero pillar”?
 - Was the PAYG reform supported by the Bank ambitious, designed to effectively address actuarial imbalances? If the PAYG remained a DB scheme, was the menu of parametric reforms well designed? If the PAYG reform involved the switch to an NDC scheme, was the scheme well-designed, ensuring long-run equilibrium? Was the move to NDC accompanied by complementary parametric reforms?
 - Do the actuarial projections show a significant reduction in financial imbalances and the bias against future generations? A related consideration is the projected impact of the reform on replacement ratios of different cohorts and income classes. Are the results generally reasonable? Do loan documents provide this type of analysis? Ideally, these projections should also be compared with independent projections made by the Government and the academic community;
 - Did Bank assistance include support to institutional development and capacity-building in the administration of the PAYG, especially in poorer countries, where this type of support is more urgently needed? (Note that this issue will also be examined in section 3.2);
 - In the cases where the reform supported by the Bank included the creation of a second pillar, assess whether there was a coherent strategy to finance the transitional deficit resulting from the revenue losses. Were the PAYG reforms sufficiently strong to absorb part of the revenue losses? If not, are there provisions and plans to manage this deficit in a cautious way, involving elements of debt and tax finance, as well as a sound debt management strategy? Is the financing mix coherent with the initial

- national savings ratio, therefore, involving a larger weight to tax finance in the cases where the savings and investment ratios are low and constraining economic growth?
- In the cases where the reform supported by the Bank included the creation of a second pillar, assess whether the minimum conditions for the introduction of this pillar were met, and whether the Bank played a fundamental role in the particular institutional structure selected by the country (e.g., open funds à la Chile, occupational funds as in the OECD);
 - Assess whether Bank assistance included support to the implementation of the new pillar, the development of a sound regulatory and supervisory framework for private funds (regardless of the particular institutional structure selected) and annuities markets, and the establishment of an efficient tax regime for contributions, investment income, and benefits;
 - In the cases where the reform did not include the introduction of a second pillar, verify whether the assistance included support to the expansion and improvement of the voluntary, third pillar;
- **Efficacy.** Assessing efficacy entails examining the extent to which the objectives of Bank assistance were successfully achieved. Assessing efficacy may be difficult because of the relatively short period of implementation of most, if not all, pension reforms supported by the Bank. Many of the effects expected from a pension reform only materialize in the long-run. Therefore, a full impact evaluation is not possible in most cases. However, it is possible to make a preliminary evaluation of whether the main objectives of the reform are likely to be met. In assessing efficacy, consider the following issues:
 - In the cases where the Bank supported a major systemic reform, was there still strong and/or growing support to the reform at the time of the review? Or was support to the reform eroding in a substantial way? If so, assess the reasons for this outcome;
 - Was the reform being successfully implemented overall?
 - In the cases where the reform included the creation of a “zero pillar” to protect the poor, was this pillar effectively introduced?
 - More generally, is it possible to make a preliminary assessment of the impact of the reform on the poor and on income distribution? This is particularly important in countries with high poverty ratios, skewed income distributions, and deficient social programs;
 - In the cases where the reform included the creation of a second pillar, was implementation proceeding well, or was it hindered by the lack of an efficient infrastructure of payments and information?
 - Is the reform having any initial positive impact on the incentive for workers to participate and contribute? Examine the recent, post-reform, evolution of indicators such as contribution revenues, the covered wage bill, coverage of contributors, labor force participation rates, estimates of informality, and other related indicators to verify if the reform is having any initial impact on the labor market, and on evasion and the incentive to contribute. Also examine the coverage of voluntary plans;
 - Examine whether the reform is providing greater coverage of older workers, through indicators such as coverage of benefits among the old, especially the poor old;
 - Examine recent, post-reform, data on actual replacement rates by different income classes, retirement ages, and financial balances (revenues and expenditures), to verify if the reform is being effectively implemented, and whether the actual outcomes are consistent with the actuarial projections;
 - In the cases where the reform included the introduction of a second pillar, assess its initial performance by examining the number of funds, their total assets, portfolio composition, average returns, and administrative costs and charges;

- Assess whether the reform is already having an effect on capital market development. For example, even in the cases of young reforms, it may be possible to assess if the reform is enabling a lengthening of the maturities of fixed income assets, or enabling the issue of new classes of securities, or allowing banks to increase their long term lending. Assess what difference did the pension reform make, given that the country would follow anyway some path of financial market liberalization and international financial liberalization.

3.2. Institutional Development Impact

This section should assess the extent to which Bank assistance has contributed to institutional development, or the build-up of institutional capacity in the pension area. The Bank can potentially contribute to institutional development through a variety of ways, including the conditionality in adjustment loans; investment and/or technical assistance loans, and training of officials and regulators through courses and conferences. Consider specifically whether these instruments of assistance have contributed to institutional development in the following areas:

- **Capacity to formulate pension/fiscal policies.**
 - Review whether Bank assistance has improved the capacity of the relevant ministries and agencies to diagnose problems and formulate proper solutions and policies.
- **The administration of the PAYG.**
 - Examine whether Bank assistance has improved the capacity of the relevant agencies to perform essential services, such as collection, record-keeping, and benefit payment;
 - Several countries implementing a funded pillar faced serious initial difficulties in ensuring an efficient and coherent flow of information and money from the companies to the pension funds. Check whether Bank contributed to the build-up of capacity in this area as well.
- **The regulatory and supervisory framework for private funds.**
 - Examine whether the Bank contributed to the elaboration and implementation of adequate laws and secondary regulations, ensuring competition and providing adequate protection for fund members and holders of annuities;
 - Examine whether Bank assistance has contributed to the development of efficient supervisory agencies, adequately staffed and trained.
- **The impact of privatization (if applicable).**
 - Examine whether Bank support to second or third pillars has led to subsequent institutional development. For example, verify if new interest groups such as private pension fund managers have promoted improvements in technology, regulation and corporate governance practices. Review the development of institutions that may reduce selling costs, such as group purchase and mandatory bidding.

3.3. Sustainability

This section will assess the extent to which the positive outcomes of the Bank's assistance are likely to be sustained over time. Since Bank assistance may have been multifaceted, possibly including support to a major systemic multi-pillar reform as well as support to the institutional development of PAYG systems, it is important to assess the sustainability of very different types of outcomes. In assessing sustainability the following issues should be considered:

- **Political/popular support to systemic reforms.** In the cases where Bank assistance involved support to a major systemic reform, assess whether the reform commands sufficient support from the population and the main organized groups (e.g. trade unions), or whether the reform package remains controversial and vulnerable to reversals.
- **Strength of the PAYG reforms.** In cases where the reform package supported by the Bank involved reforms to the PAYG, verify whether:
 - The PAYG reforms were robust or whether the actuarial projections of the reformed system are excessively dependent on unrealistic assumptions about increased labor force participation, affiliation, and/or improvements in revenue collection.
 - Identify whether the pension system remains excessively vulnerable to demographic shocks. In this regard, review whether the reform included the introduction of new rules and components that help the system cope with these shocks automatically, by design, rather than depending on new legislation. Examples of these policies are shifts to Defined Contribution, either funded or notional
 - Review the capacity of government agencies to diagnose pension problems, detect and anticipate exogenous shocks, and provide early warning to policymakers that can enact corrective legislation.
- **Transition financing strategies.** In cases where there is a transition (partial or full) to funded systems, assess whether the transition strategy was well elaborated. Consider in particular the following issues:
 - Whether there is a reasonable and acceptable solution for those that are already retired or about to retire, or whether these groups have been excessively penalized and will demand compensatory payments in the future;
 - More generally, consider whether the transition strategy includes a balanced mix of debt and tax finance that will not impose an excessive burden on any generation.
- **Maintenance/preservation of investments in infrastructure and human capital.** In many countries Bank assistance included financing of equipment, information systems, and training of staff, not only to public agencies managing the PAYG but also to agencies that regulate and supervise private funds. Assess whether the accumulated physical and human capital is likely to be preserved over time, by adequate commitment and provision of resources by the Government.
- **Protection of private pension fund members.** Check whether the regulatory and supervisory framework ensures proper risk diversification and protection of private pension fund members. For example, assess the degree of international risk diversification achieved by the pension system. This is particularly important for smaller countries.

4. Attribution of Results

This section will rate the performance of the Bank and the Borrowing country, again following OED methodology. Bank performance will be rated according to two criteria, namely, (i) quality at entry and (ii) quality at supervision. Borrower performance will be rated according to three criteria, namely, (i) preparation, (ii) implementation, and (iii) compliance.

In addition to evaluating the Bank and the Borrower, this section will indicate whether there were other players that contributed to the outcomes (e.g. IMF, USAID, Regional Development Banks, ILO). If many agencies were involved, identify who was the leader in the pension area. In particular, indicate whether the ILO was active in the country and competed with the Bank in the pension policy area. However, do not evaluate the ILO or the other institutions.

Finally, this section will also assess the counterfactual scenario: What would have happened if the Bank had not been present? Would the reform have happened anyway? Would the reform have taken a different direction?

5. Lessons Learned and Agenda for Future Action

This section will identify the main lessons from the evaluation and draw recommendations for future Bank assistance. There should be an effort to identify lessons and recommendations that would be relevant to other countries as well.

ANNEX TABLE 1 SUGGESTED LIST OF INDICATORS

I. COVERAGE AND MATURITY OF PENSION SYSTEM

1. Population
breakdown by age: 60+ and 15-60
2. Labor Force
3. Employment
4. Affiliates (Registered Workers)
5. Active Contributors
6. Beneficiaries
Old age
Disability
Survivors
7. Key Indicators
Old Age Dependency Ratio (60+/15-60)
System Dependency Ratio (Beneficiaries/Contributors
Coverage of Contributors: Contributors/Labor Force
Coverage of Contributors: Contributors/Employment
Coverage of Old Age Population: Beneficiaries/Pop 60+

II. BASIC PARAMETERS

8. Contribution Rates (1st and 2nd pillars as applicable)
Employer
Employee
9. Retirement Age
10. Minimum Years of Service/Contribution
11. Target Replacement Ratios for Full Career Workers
Entry Level Old Age Pension/Average Wage by Income Class

III. LEVEL AND STRUCTURE OF BENEFITS

12. Effective Replacement Ratios
Average Entry Level Pension/Average Wage
Average Pension/Average Wage
Old Age
Disability
Survivors

IV. FINANCES OF PAYG

13. Contribution Revenues (% of GDP)
14. Pension Expenditures (% of GDP)
Old Age
Disability
Survivors
Other
15. Balance (% of GDP)
16. Tax Base (% of GDP)
Labor Income
Wage Bill
Covered Wage Bill

V. CAPITAL MARKET INDICATORS

17. Consolidated Assets of the Financial Sector (% of GDP)
18. Assets of Pension Funds (% of GDP)
19. Composition of Pension Fund Portfolios
20. Returns on Pension Fund Assets
21. Administrative Costs of Pension Funds

ANNEX 2

EVALUATION TEAM

1. Task Manager: Emily Andrews (OECD)

Peer Reviewers: John Johnson (OECD), Lawrence Thompson (Urban Institute, Washington DC), Roberto Rocha (OPD)

2. Latin America

Salvador Valdés (Professor, Catholic University, Chile)

Rafael Rofman (Former Director of Research, Supervision of Pension Funds in Argentina; former Advisor to the Ministry of Economy in Argentina)

Jorge San Martino (Professor, Buenos Aires University, Argentina; former Social Security Secretary at the Ministry of Labor in Argentina)

3. Europe and Central Asia

Edward Palmer (Director of Research, Swedish National Insurance Board; Professor, Uppsala University, Sweden)

Elsa Fornero (Director of CERP—Center for Research on Pensions and Welfare Policies, Turin, Italy; Professor, Turin University, Italy)

Pier Marco Ferraresi (Senior Researcher at CERP, Turin, Italy; Professor, Turin University)

Csaba Feher (Former Managing Director, Private Pensions Guarantee Fund, Hungary)

4. East and South Asia

John Piggott (Professor of Economics, Associate Dean (Research), Faculty of Commerce and Economics, University of New South Wales, Director, Centre for Pensions and Superannuation)

Hazel Bateman (Senior Lecturer, School of Economics, University of New South Wales, Deputy Director, Centre for Pensions and Superannuation)