

Pension Reform and the Development of Pension Systems: An Evaluation of World Bank Assistance

Background Paper
Argentina Country Study

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Acronyms and Abbreviations

AFJP	Administradoras de Fondos de Jubilaciones y Pensiones (Pension Fund Administrator)
ANSES	Administración Nacional de Seguridad Social (National Administration of Social Security)
CAS	Country Assistance Strategy
CMDP	Capital Market Development Project
CMTAL	Capital Market Technical Assistance Loan
GDP	Gross domestic product
IADB	Inter-American Development Bank
IEG	Independent Evaluation Group (formerly OED)
INPS	Instituto Nacional de Previsión Social
NPS	National Pension System
NPTAL	National Pensions Technical Assistance Loan
OED	Operations Evaluations Department (changed its name to IEG in December 2005)
PAYG	Pay-as-you-go
PBU	Prestación Básica Universal
PPRAL	Provincial Pension Reform Adjustment Loan
PRONATASS	Programa Nacional de Asistencia Técnica para la Administración de los Servicios Sociales en la República Argentina (Social Sector Management Technical Assistance Project)
PROST	Pension Reform Simulation Toolkit
SAFJP	Superintendencia de Administradoras de Fondos de Jubilaciones y Pensiones (Superintendent of Pension Funds)
SIJP	Sistema Integrado de Jubilaciones y Pensiones
SSS	Secretariat of Social Security

Contents

Preface.....	i
1. Background	1
Structure of the Pension System before Reforms	1
<i>Pillars of the Old System.....</i>	<i>1</i>
<i>Major Rules and Parameters of the System before the Reform.....</i>	<i>2</i>
Performance of the Pension System before Reforms	2
Earlier Attempts at Reform.....	4
<i>First Version of a Draft Law.....</i>	<i>4</i>
<i>Second Version of a Draft Law.....</i>	<i>5</i>
<i>Fiscal and Other Motivations for the Reform.....</i>	<i>6</i>
<i>Reactions of the Public, Trade Unions, and Politicians.....</i>	<i>7</i>
Changes in Pension Plan Design and Parameters	7
Preliminary Results of the Reform	9
Development of the New Pension Funds.....	9
<i>Unification of the Provincial Systems.....</i>	<i>12</i>
<i>Transition Path and Financial Impact.....</i>	<i>14</i>
<i>Quality of the Reform.....</i>	<i>14</i>
The Pension System in the Absence of Reforms	15
2. World Bank Assistance in the 1990s	16
The Genesis of Bank Involvement.....	16
<i>Bank Diagnosis and Basic Strategy.....</i>	<i>16</i>
Description of Bank Assistance	18
<i>Instruments, Outcomes, and Results.....</i>	<i>18</i>
<i>Capital Market Technical Assistance Loan (CMTAL).....</i>	<i>19</i>
<i>Capital Market Development Project (CMDP).....</i>	<i>19</i>
<i>Provincial Pension Reform Adjustment Loan (PPRAL).....</i>	<i>20</i>
<i>National Pensions Technical Assistance Loan (NPTAL).....</i>	<i>20</i>
<i>Evaluation of the Instruments.....</i>	<i>20</i>
<i>PPRAL Ratings.....</i>	<i>21</i>
<i>Sustainability.....</i>	<i>22</i>
<i>Institutional Development Impact.....</i>	<i>22</i>
<i>Bank and Borrower Performance.....</i>	<i>22</i>
3. Assessment of Development Impact.....	24
Outcomes 24	
<i>Relevance.....</i>	<i>24</i>
<i>Macroeconomic Goals.....</i>	<i>24</i>
<i>Institutional Goals.....</i>	<i>25</i>
<i>Objectives Efficacy Ratings.....</i>	<i>26</i>
Institutional Development Impact.....	27
Sustainability.....	28
<i>Objectives Sustainability Ratings.....</i>	<i>28</i>

4. Results	29
Bank Performance.....	29
<i>Quality-at-Entry Factors</i>	29
Borrower Performance.....	32
Other Contributors to the Outcomes	34
Counterfactual.....	34
5. Lessons Learned and an Agenda for Future Action.....	36
Appendix: Key Metrics Of Argentina’s Pension System	37
Bibliography	39

Tables

1.1: Pension Funds: Investments and Structure, 1994–2002	10
1.2: Costs of the Unification Process and Fiscal Effects of the Reform.....	14
2.1: Select Bank Documents	18
2.2: CMTAL: Performance Ratings.....	21
2.3: PPRAL: Performance Ratings	23
4.1: Bank Assistance to Argentina: Performance Ratings	35

Figures

1.1: Numbers in the Labor Force and Pension System.....	11
1.2: Population Age 65 and Older without Coverage, 1990–2001	11
1.3: Number of Pensioners in the Provincial System in Tucumán	13

Preface

This paper belongs to series of 19 country and regional case studies commissioned as background research for the World Bank's Independent Evaluation Group (IEG) report "Pension Reform and the Development of Pension Systems." The findings are based on consultant missions to the country or region, interviews with government, Bank, donor, and private sector representatives involved in the pension reform, and analysis of relevant Bank and external documents.

This case study was authored by Jorge San Martino in 2003.

1. Background

Structure of the Pension System before Reforms

1.1 As in other Latin American countries, social security programs in Argentina were created in the early 1900s as a way to reduce social conflict between employers and employees. These programs were promoted and developed by populist governments to attract political support. The best example was that of President Juan Peron, who gave a big push to social security in the 1940s by extending legal coverage to all labor sectors. In the 1970s, however, the social security system began to lose credibility and support, when the real value of benefits declined and bureaucracy increased in the administration. A system that was created to prevent and reduce social conflict thus became a source of it. During most of the 30 years prior to the beginning of reforms in 1994, democratic and authoritarian governments systematically gave less than promised to retirees, and political and social conflict about the pension system became the norm.

1.2 Many pension schemes were created in the early and mid-1900s. These funds had different contribution rates, benefit levels, requirements for retirement, and administration. In most cases, they were managed by the state, with the participation of representatives from the unions and beneficiaries. While some of the funds had large surpluses, others were almost bankrupt.

1.3 In 1968, the government began a strong unification process that resulted in the merger of the numerous funds into three main *cajas*—for employed workers, self-employed workers, and civil servants at the national level. Some special regimes remained, for example, for the armed forces, police, provincial public employees, and independent professionals in the provinces. In the early 1990s, the three *cajas* became part of the Instituto Nacional de Previsión Social (INPS)—the most significant institutional expression of the unification effort up to that point—thereby unifying the collection procedures through the Dirección Nacional de Recaudación Previsional. In 1994, the INPS became part of the newly created National Administration of Social Security (ANSES), in charge of pension functions and incorporating the administration of family allowances and unemployment benefits. These institutional changes paralleled reforms in the financing and administration of the social security system.

Pillars of the Old System

1.4 The system run by INPS was a pay-as-you-go (PAYG) scheme. The 23 provinces and 20 municipalities maintained their own *cajas*, as well as 74 independent professional organizations at the provincial level, and a few special regimes, such as for the military and the police. Judges, congressional representatives, and former ministers of the executive branch also had special regimes. In February 1992 these special regimes provided coverage to only 0.7 percent of total beneficiaries of the National Pension System (NPS), but represented 3.5 percent of its total cost.

Major Rules and Parameters of the System before the Reform

1.5 Demographic dynamics were a significant factor in the system's crisis. Argentina is one of the oldest countries in Latin America, and its high dependency ratios created significant pressure on the pension system. Fertility rates and mortality have steadily declined in Argentina but the dependency ratio (pensioners/contributors) grew from 39 percent in 1980 to 62 percent in 1990. The combination of a small baby boom in the late 1970s and a stall in the mortality decline resulted in the stabilization of the dependency ratio. The ratio should remain stable until 2010, when it is expected to resume its growth.

1.6 This situation created an important window of opportunity to promote reforms in the system that would lessen the burden in the future. Contribution rates were 16 percent for employers and 10 percent for employees, totaling 26 percent. Replacement rates were "legally" established between 70 and 82 percent (for men, at 60 and 65 years of age, and for women, at 55 and 60 years). However, "real" benefits were below that threshold; the relationship between the mean benefit and the mean salary was around 0.55 percent as of June 1990. In the case of survivors, the replacement rate was 75 percent, depending on the circumstances. For disability, the formula remained at 70 percent, provided that a minimum 66 percent permanent disability was certified. The required years of contributions were, in most cases, 20 years, and the worker's age at retirement (under normal circumstances) was 55 for women and 60 for men.

1.7 The significant gap between the legal and actual replacement rates led to judicial disputes and court rulings. Tribunals ruled against the government, which was forced to comply with the law. The government handled the volume of lawsuits by declaring a "state of emergency" in the national pension system in 1986, suspending the execution of settlements, and blocking the initiation of new cases. Several attempts to offer compensation to retirees failed, partly because the pensioners rejected them and partly because of a worsening economic situation (Isuani and San Martino 1998). Over the years, the government financed the cost of the settlements with resources obtained through privatizing public enterprises (mainly, the Yacimientos Petroliferos Fiscales).

Performance of the Pension System before Reforms

1.8 The pension system underwent a major coverage expansion during the 1950s. That expansion resulted in a sustained growth of benefits in the following decades. While the percentage of beneficiaries relative to the potential target population (women older than 55 and men older than 60) was 12.6 percent in 1950, it reached 61 percent in 1990; and for those 65 and older, it was 75 percent (see figure 1.2). The growth rate of beneficiaries has matched the population growth rate in the last 20 years. While general coverage of the elderly was high, there were still some groups that needed protection, especially in the northern provinces, which increasingly became a problem over the years.

1.9 **The relationship between contributors and beneficiaries.** Argentina's labor force was 13 million in 1992, with unemployment at about 8 percent. Actual contributors to the national system were about 5 million, and approximately 1.5 million were included in the provincial and special regimes. Actual coverage of the labor force was around 50 percent. However, evasion was higher among the self-employed: in 1990, out of 2.6

million self-employed workers, fewer than 800,000 were effective contributors. The five million contributors had to support almost three million beneficiaries, resulting in a system dependency ratio of 0.6 beneficiaries per contributor.

1.10 Financial problems became evident in the mid-1980s, when general revenue taxes began to be used regularly to finance the system. In the late 1980s, approximately 25 percent of expenditures were financed by transfers from the treasury. Despite these additional funds, the system was unable to pay the replacement rates established by law, and benefits were reduced by manipulating indexation.

1.11 The first significant unification process under INPS was not sufficient to avoid financial trouble. An aging population, together with socioeconomic problems (for example, increasing informal activities, tax evasion, and declining real wages) made it more and more difficult for the government to pay benefits. The annual expenditures of the national system in 1992, prior to the reform, reached 4.6 percent of gross national product. Adding 0.7 percent for the military and police, and another 1.5 percent for the provincial systems, meant total pension expenditures were about 7 percent of gross national product. In sum, the financial troubles of the old system resulted from a combination of negative circumstances, which included an increasing number of beneficiaries while the number of contributors remained constant. Real financing was not possible with an insufficient contribution rate to maintain the level of benefits: a contribution rate of 42.5 percent would have been necessary to fully finance the system. The existing rate of 26 percent was already high but insufficient to prevent deficits.¹

1.12 The old system was not progressive in the sense that the defined benefits—calculated on the basis of the realized average of the best three years worked within the last ten years—did not reward lifelong contributions. Neither were there higher percentages in recognition of workers who received lower incomes.

1.13 The old system provided high coverage to the elderly. The percentage of the population that remained uncovered² was poorly assisted through noncontributory mechanisms. The national scheme was administered by the National Commission of Noncontributory Pensions but it had low impact among the elderly poor, who generally had little access to the political stakeholders capable of granting such benefits. Furthermore, each province developed its own scheme of noncontributory pensions for old age. These also had limited scope though because they were arbitrarily assigned and, given budgetary restrictions, accumulated long waiting lists of candidates because openings could only be created when a current beneficiary died. In 1990, for example, of the 152,230 noncontributory pensions, 55 percent were designated for old age and disability, while 43 percent were directly delivered by the legislators, without necessarily meeting any socioeconomic requirement.³

¹ By 1992, a contribution rate of 44 percent would have been necessary to meet the promised benefits, according to calculations done by Schulthess and Demarco 1993, p.125).

² Less than 10 percent of the population age 65 and older at the time of the reform did not receive coverage either directly or through a spouse or from any other income source. For further information, see figure 1.2.

³ Bertranou and Grushka 2002, p. 41.

1.14 There were also substantial problems of equity: the special regimes were more generous than the regular system and had requirements of access to benefits that were not linked to real contributions to the system. This meant that with similar contribution rates, “privileged” beneficiaries obtained much higher benefits than the rest (on average, five times the average of the NPS). Second, the general and special regimes had different mechanisms for determining benefits: while the general regime applied indexes, politically manipulated downwards in order not to increase the system’s expenditures, the special regimes had the indexation linked to the salaries of the active workers. Therefore, the former tended to decrease, while the latter increased in the medium term.

1.15 In addition, there were deep inequities among the national, provincial, and municipal regimes. In some jurisdictions, the benefits paid by the provinces surpassed by 100 percent those paid by the national system. Teachers provided the most striking example. In the 1990s, there were teachers employed by the provincial-level *cajas* (in primary and secondary schools) and others employed by the national system of secondary schools (Caja Nacional del Estado y Servicios Públicos). At retirement, even though the same work had been performed, with similar salaries, similar contributions, and in the same province, the provincial-level teachers received benefits that accounted for an effective replacement rate between 70 percent and 82 percent, while the national-level teachers received benefits at a replacement rate of 50 percent or less.

Earlier Attempts at Reform

First Version of a Draft Law

1.16 After a serious macroeconomic crisis in 1989–90, the government decided to start a deep structural reform program. Within the context of a restabilized economy (after a convertibility plan implemented to provide a fixed one- to-one exchange rate system between the peso and the US dollar in 1991) and a conducive political environment, discussions of pension system reform began to take place. While Domingo Cavallo was Minister of the Economy, Walter Schulthess was appointed to the Secretariat of Social Security. These two public officers had defined the reform proposal, which had been presented during their work as consultants for the Fundación Mediterránea, a think tank often consulted by the government.

1.17 On June 5, 1992, a draft law was introduced in Congress by the president, proposing the creation of a new pension system with two components: (i) a public program, operating with PAYG for individuals older than 45 years, which imposed reductions of the replacement rate, and (ii) a contributory pension system (SIJP) scheme for workers younger than 45 and newcomers to the labor market, which was composed of a private fully funded pillar and a redistributive scheme for which the state was responsible. The two programs would supplement one another, providing a basic universal benefit for all those insured, with additional benefits from individual capitalization. The proposal standardized entitlement conditions for dependent workers

and the self-employed. It increased the retirement age to 65 for both men and women⁴ and made the adoption of the new integrated system of pensions mandatory for workers under 45 and elective for older workers.

1.18 The original proposal generated strong opposition in many social and economic sectors. Consequently, the government decided to withdraw the draft law and called for a political dialogue forum, inviting all political parties to participate so as to advance a consensus outside of Congress. After three months of discussions, the original project was rewritten and recognition of worker contributions that had been made under the old system was included in a compensatory benefit (*prestación compensatoria*), for which the state was responsible.

Second Version of a Draft Law

1.19 In the second version of the draft law it is evident that many different intermediary organizations from civil society actively participated in discussions of the Budget Commission and the Social Pension Parliamentary Commission. The broad spectrum covered by these organizations included professional, sectoral, and academic institutions, as well as national and international NGOs, pensioners associations, trade unions, and third-sector entities such as the following:

- Argentina Bond Restructuring Agency
- Asociación de Bancos Privados de Capital Nacional
- Asociación Argentina de Compañías de Seguro,
- Asociación Argentina del Trabajo y de la Seguridad Social,
- Asociación de Abogados de Buenos Aires,
- Asociación de Cajas Complementarias de Profesionales,
- Asociación de Aseguradores de Vida y Retiros de la República Argentina
- Cámara Nacional de Apelación de la Seguridad Social,
- Cátedra de Derecho del Trabajo de la UBA,
- Cátedra de la Seguridad Social de la Universidad de La Plata,
- Confederación General Económica
- Colegio Público de Abogados de la Capital Federal,
- Colegios de Graduados en Ciencias Económicas,
- Comisión Federal de Impuestos,
- Confederación General del Trabajo,
- Confederaciones Rurales Argentinas,
- La Confederación Intercooperativa Agropecuaria
- Consejo Federal de Previsión Social,
- Consejo Profesional de Ciencias Económicas,
- Federación de Bancos Cooperativos de la República Argentina
- Federación Agraria,
- International Labor Organization,
- Instituto Actuarial Argentino,
- Instituto Movilizador de Fondos Cooperativos,

⁴ The government was defeated on this point because the law finally passed by Congress limited the retirement age for women to 60 years.

- Mercado de Valores de Buenos Aires,
- Sociedad Rural,
- Unión Industrial Argentina,
- United Nation's consultants in demography, and
- former officials from the Secretariat of Social Security.

1.20 The negotiated agreements incorporated into law: (i) improvements in the compensatory benefit (from 0.85 percent to 1.5 percent per each year contributed to the old system); (ii) an additional benefit component granted to workers who chose to remain in the public sector; (iii) a guarantee of profit for the public pension fund administrator (AFJP); and (iv) authority given to the trade unions to constitute AFJPs (which, of course, lessened their opposition toward the reform). Likewise, a decrease in the required retirement age for women from 65 to 60 years helped to garner approval for the draft law by the lower chamber of Congress (finally achieved with the minimum required number of representatives, and under unprecedented pressure from the executive). In the Senate, no amendments were introduced. The new legislation, Law No. 24.241, was finally passed after more than 18 months of heated debate. The new system was enacted in October 1993 and began operating in July 1994.

1.21 However, modifications to the draft law left out the self-sustainable fiscal equilibrium criterion that was initially included in the first version of the law, thus resulting in unforeseen deficits.

1.22 There were also some irregularities during the whole approval process. Among these was the fact that a significant number of legislators were not present at the vote to approve the commissions' legal reports, and instead signed the documents in their offices. One case involved a representative that "signed," who was abroad at the time. There was another case of a representative from the pensioners' party (Partido Blanco de los Jubilados), well known for his public declarations against the reform, who finally voted in favor of it and was denounced afterward by his colleagues in Congress for accepting bribes.

1.23 Between 1991 and 1993, the government introduced several measures to gradually raise benefits to their mandated level, including the earmarking of tax revenues, reform of the collection function, and increase in the minimum years of contributions from 15 to 22. Additionally, the government issued consolidation bonds to pensioners in recognition of about US\$ 10 billion of arrears.

1.24 An internal regulation of the National Insurance Superintendent—Resolution No. 19.106—authorized insurance companies to consolidate voluntary savings plans, which were never a largely attractive option given the weak regulatory framework. By the time of the reform, only 20,000 certificates had been issued.

Fiscal and Other Motivations for the Reform

1.25 The reform, enacted in 1993/94, was the chosen tool for handling the growing pension system crisis. The main goals of this reform were to (i) stimulate individual

savings, (ii) provide a safety net to low-income individuals with very low savings capacity, and (iii) provide insurance to workers for such contingencies as disability or death.

1.26 From a broader perspective (although not explicitly expressed by the government in official documents) it could be concluded that the specific pension reform sought to (i) promote formal activity in the labor market, (ii) contain the growing fiscal cost of the system, and (iii) create the basic conditions for strong development of the local capital market.

Reactions of the Public, Trade Unions, and Politicians

1.27 As discussed above, various social and workers' organizations participated in discussions of the reform proposal in congressional commissions. However, the limited time given for the presentation of proposals limited any real possibility of influencing the draft project. During the debates, the most significant criticisms included:⁵ (i) lack of trust in the Chilean model of individual capitalization (it was too new); (ii) uncertainty about the long-term real returns of the pension funds (because of excessive liquidity in the capital market derived from the absence of appropriate middle- and long-term investment instruments in the private sector); (iii) high private administrative costs; (iv) lack of recognition of past contributions⁶ to workers younger than 45, and (v) concern about the government's ability to properly supervise private pension funds administrators and the investments of pension funds.

1.28 The pensioners' associations, together with the two strongest trade union organizations—CGT Azopardo and CGT de los Argentinos—firmly opposed the initiative, and even organized massive public demonstrations with 60,000 participants during the debates.

Changes in Pension Plan Design and Parameters

1.29 The main reforms included changes in the parameters of the system and in the institutional arrangements. The most relevant parametric reforms were (i) an increase in the employee contribution rate (from 10 percent to 11 percent),⁷ (ii) an increase in the minimum retirement age by five years, to 65 for men and 60 for women, (iii) an increase in the number of years of contributions required to obtain retirement benefits, from 20 to 30 years, and (iv) a reduction in the expected replacement rate, from 70 to 82 percent of

⁵ For further details and analysis of the different proposals and stakeholders' positions, see Isuani and San Martino 1993.

⁶ In the enacted reform, the government did recognize the past contributions by means of a compensatory benefit (*prestación compensatoria*), equivalent to 1.5 percent for each year contributed to the old system, from the actualized average of the last 120 months worked.

⁷ In November 2001, by Emergency Decree No. 1387/01, the government reduced the dependent employees' contributions to the capitalized scheme from 11 percent to 5 percent of taxable income, as a means of increasing the employees' take-home income to promote internal consumption. Given the negative future impact on previsual savings, the measure was revised and in 2002 it was decided that the contribution would be restored to the previous level, to be done in stages. By October 2003, all contributions should have been back at 11 percent, but in June 2003 the measure was again suspended, leaving the contribution rate at 7 percent.

the last three-year average of wages, to a rate defined by a contribution formula, which was expected to yield approximately between 45 percent and 60 percent of the last 10-year average of wages. Some of these changes, such as the increase in retirement age and years of contributions, were to be introduced gradually.

1.30 As for the institutional arrangements, the new system was organized into two pillars. The first pillar—administered by ANSES and financed with employers' and independent workers' contributions of 16 percent—would grant a flat benefit, called the *prestación básica universal* (PBU), of about 28 percent of the average wage to those who satisfied the minimum age and minimum years of contribution requirements.

1.31 ANSES was responsible for both the old pension system and the public component of the new pension system, as well as other pension schemes, and thus required large subsidies from the government to cover its expenditures.

1.32 The second pillar had two schemes, and workers had to make a choice. If they wanted to join the new PAYG, government-administered scheme, their personal contributions would be used to finance a benefit of 0.85 percent of a reference income (the average of the last 10 years) per year of contribution. Therefore, for a retiring worker with 35 years of contributions, benefits from this pillar would amount to approximately 30 percent of his salary. In the case of an individual with an average salary, the total benefit would be nearly 58 percent of his salary (28 percent from the first pillar and 30 percent from the second). The second option is a funded, individual-account-based model, in which workers accumulate personal contributions (net of administrative costs and disability and survivor insurance) and obtain a defined-contribution benefit at retirement.

1.33 The AFJPs deduct a management fee, which also covers the premium for mandatory disability insurance (initially calculated to remain around 3 percentage points).⁸ Workers can choose to change from the PAYG to the funded scheme at any time but the transfer does not operate vice versa. Workers are allowed to change pension funds twice a year.

1.34 The AFJPs are supervised by an agency that was created ad hoc—the Superintendent of Pension Funds (SAFJP) is financially and functionally independent of the Ministry of Labor and Social Security.

1.35 Simulations with reasonable assumptions on accumulated returns indicate that benefits from this fully funded scheme should approach 35 percent of salary, for a total benefit of 63 percent of wages. In short, calculations indicate that the design of the system made expected benefits under both schemes very similar to one another, with a small advantage under the funded scheme. A transitional benefit was created to compensate for the years of contributions before 1994 and was paid to all retiring workers.

⁸ The fund established by Banco de la Nación (Nación AFJP) was obliged to charge only the insurance component of the fee, and to guarantee returns in *pesos*. Initially, there was also a dollar guarantee.

1.36 The new system was strongly promoted by both the government and by the new AFJPs. At the start of the system, active workers were given the choice to join either the new PAYG scheme or the funded scheme, with the latter as the default choice. The effort developed by the new AFJPs was large; in a few months they had created a sales force of almost 30,000 and had spent more than half a billion dollars in marketing and sales commissions, even before actual operations started.

Preliminary Results of the Reform

1.37 The reform resulted in a decrease in coverage. Given the severe deficit, the government chose to reduce expenditures by shaving benefits: a defined-contribution scheme replaced the old defined-benefit criterion and the number of new benefits was decreased by increasing the retirement age and the years of contributions. And the government improved spending quality by reducing fraud, for instance. While participation in the system among active workers did not increase substantially after the reform (coverage as a percentage of employment rose from 29.3 percent in 1994 to 29.5 percent in 1999, before an unemployment crisis exploded), the more strict requirements to obtain benefits resulted in a gradual decline in the coverage level among older individuals.

1.38 The old system, despite its fiscal problems, was able to offer coverage to most of the elderly. By 1993, the percentage of the population older than 65 not covered by the pension system was 23 percent; this percentage declines to 12.5 percent if we consider the spouses of retirees as being covered. The first figure increased to almost 33 percent in 2001, and the growth is similar if we consider the percentage of people with no pensions of their own or through their spouses (12.5 percent to 22.7 percent). A related indicator of the proportion that have no pension or other source of income went from 7.4 percent in 1993 to 16 percent in 2001, which reveals a dramatic increase in the population with no income at all.

1.39 Coverage of the self-employed or informal-sector middle-income workers has been mandatory by law since 1968 but this was an issue during the pension reform discussions. The main problem related to self-employed workers has historically been that they often affiliate themselves with the pension system but do not continue to contribute to it, thus generating debts and jeopardizing their future pensions because they do not meet the retirement requirements of contribution years.

1.40 The process was affected by the labor market policies that the government used to try to improve the country's competitiveness: (i) incorporation of flexible labor schemes (testing periods and internships, for instance) and (ii) special regimes that eliminated or diminished employers' contributions (local regimes with differential contributions in some provinces and the domestic workers regime, among others).

Development of the New Pension Funds

1.41 Despite being a relative young scheme, by 2003, the 12 operating AFJPs⁹ were paying benefits to approximately 112,000 retirees, pensioners, and individuals with

⁹ Arauca Bit, Consolidar, Futura, Máxima, Met, Nación, Orígenes, Previsol, Profesión+Auge, Prorenta, Siembra and Unidos.

disabilities. The commissions charged oscillate between two percent and three percent of the taxable income.¹⁰ With a real annual average of roughly 10.5 percent of the gross domestic product (GDP), the returns broadly exceeded the expectations, although it should be mentioned that this figure is seriously affected by the valuation criterion applied by the supervisory agency.¹¹ The historical annualized return on the funds varies from one administrator to the other, ranging from 13.76 percent (Futura) to 29.68 percent (Met). The average effective annualized profitability is 21.78 percent¹² (with a minimum of 15.25 percent).

1.42 The capital market was characterized by a poor mobilization of long-term private resources, at the time affected by macroeconomic instability, the lack of institutional investors with resources of contractual savings for long-term investments, taxes on financial instruments, and shortcomings in the regulatory framework for the capital market development. On this last point, many improvements were introduced over the years (a process in which the World Bank actively participated by providing technical assistance). However, the returns derived from investing the contributions in the local capital market has been disappointing: the AFJPs' investments have been concentrated in public debt bonds which yielded return rates high above the market's average (the situation was made worse by the Argentinean crisis that exploded in December 2001 and the subsequent default in payments) and in short-term operations. At the time of the reform, it was calculated that by the year 2000, deposits in the pension funds would be about 10 percent of GDP. Those expectations were highly exceeded, because the accumulated funds represented 12 percent of GDP at the end of 2002.

Table 1.1: Pension Funds: Investments and Structure, 1994–2002

	<i>Dec 94</i>	<i>Dec 95</i>	<i>Dec 96</i>	<i>Dec 97</i>	<i>Dec 98</i>	<i>Dec 99</i>	<i>Dec 00</i>	<i>Dec 01</i>	<i>Dec 02</i>
Cash accounts	6.33	1.68	1.83	0.98	1.52	0.97	0.28	2.23	1.12
Govt. debt	49.83	52.68	52.70	43.36	49.99	52.30	54.62	67.97	75.73
Corporate debt	5.84	8.71	7.78	2.86	2.50	2.13	2.80	1.69	1.08
Fixed assets	27.55	24.76	14.19	24.44	18.83	15.47	15.63	10.89	2.72
Securities	1.53	5.85	18.74	21.46	18.36	20.54	12.26	10.24	8.46
Mutual funds	5.01	1.74	2.34	4.47	6.59	6.28	8.21	1.97	1.32
External investment	0.08	0.73	0.16	0.37	0.25	0.37	4.47	1.84	7.81

Source: Rofman, 2003.

1.43 The extension of the system among active workers resulted in the initial enrollment of 2.2 million workers into the AFJPs, while 2.7 million chose the PAYG scheme; another 800,000 that had not made a choice were randomly assigned to an AFJP, thus totaling 5.7 million workers registered in the new system. This figure is relatively low, given that the labor force was about 14 million at the time. After the initial massive enrollment, the number of pension fund members continued to grow, reaching 8.8 million

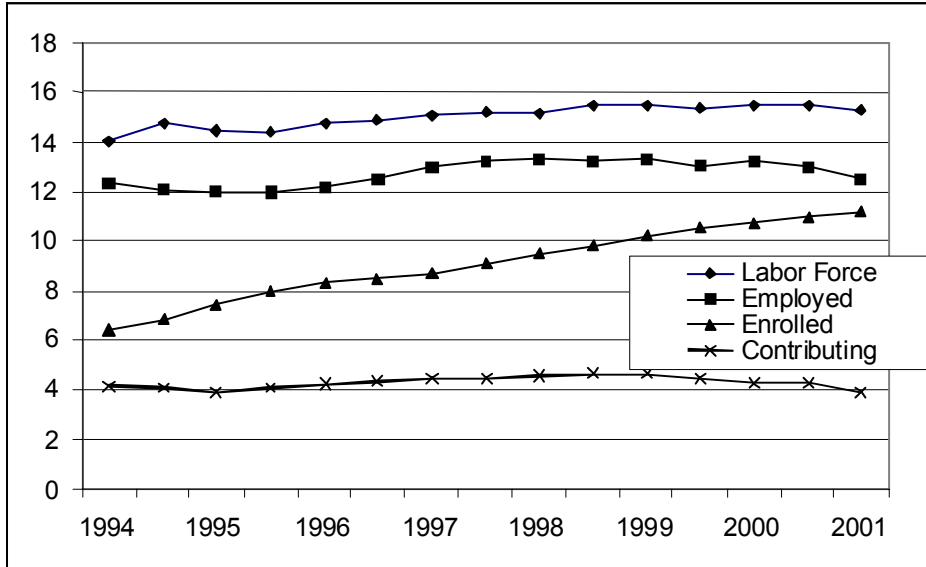
¹⁰ The commissions charged by the system have suffered two main increases since August 1994 (in July and August 2003), to meet the rise in the costs of the disability and death benefits (which jumped from 0.25 percent to 0.65 percent) and the deterioration in the number of contributors to the system.

¹¹ Rofman 2003, page 7.

¹² It excludes the Nación AFJP funds.

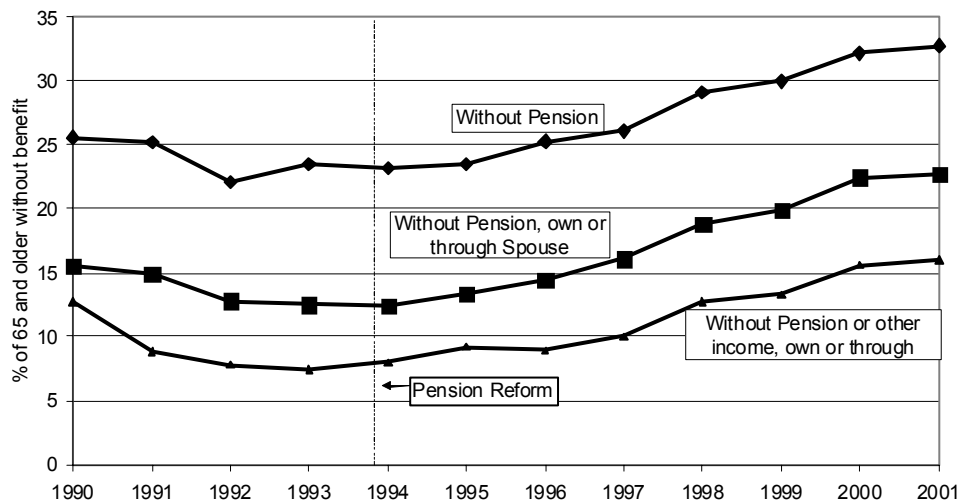
by the end of 2001, totaling 11.2 million when adding both schemes together. This growth can be explained by new enrollments in the AFJP (2.3 million), but most significantly by the assignment of 2.8 million new workers who had not declared a choice. The increase in the number of enrolled workers was not accompanied by an increase in the number of actual contributors, which remained around 4–4.5 million during the whole period, indicating that most of the newly enrolled workers were informal-sector workers with very short periods of formal employment or other individuals moving in and out of the labor force.

Figure 1.1: Numbers in the Labor Force and Pension System (in millions)



Source: Based on data from SAFJP.

Figure 1.2: Population Age 65 and Older without Coverage, 1990–2001



Source: Bertranou and Rofman, 2002.

1.44 The social security system was gradually modified during the years following the pension reform. Reforms in the labor insurance system changed the implicit labor taxes, for example, workers compensation costs were made clear and predictable, and insurance premiums were established. Also, family allowances were limited only to those workers earning less than \$1,500. The medical and unemployment insurance components were not modified in these years.

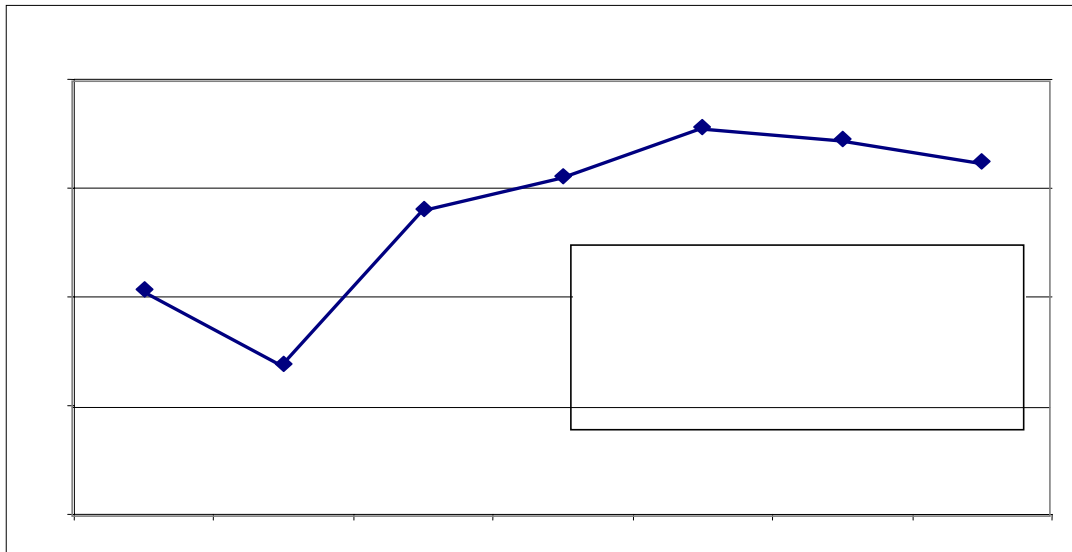
Unification of the Provincial Systems

1.45 While the central government had reformed its system, the provinces were having serious fiscal problems as a result of their inability to manage their pension schemes. Fraud, political manipulation, and poor administration were considered to be common problems. Consequently, the proposed solution was to transfer these systems to the national SIJP, where current pensioners' benefits would be paid and monitored by ANSES, and active workers would join the national system. In order to achieve this, the government sought financial aid from international organizations—mainly, the Inter-American Development Bank (IADB) and World Bank. The transfer process targeted eliminating differences in the benefits' access requirements, reducing fraud in the granting of new benefits, and strengthening the pension reform by incorporating into the capital market the contributions of roughly 500,000 active workers, which had previously financed the provincial PAYG schemes. Some of those provincial funds (*cajas*), which had growing pension deficits, were lured into the transfer process because the resulting deficit was going to be covered by the World Bank–IADB Provincial Pension Reform Adjustment Loan (PPRAL).

1.46 The rules for incorporating the provincial contributors into the SIJP were the same as those imposed on other national workers. Likewise, survivor benefits were equally affected by the elimination of the defined benefit, while the transfer of the disability benefits had a positive financial impact, given the application of uniform and strict criteria for the receipt of disability pensions, thereby decreasing fraud and laxity in many of the provincial regimes. Provinces that were incorporated into the SIJP were freed from the burden of paying benefits. However, they relinquished the option of using pension policy as a tool of negotiation and institutional engineering. The “big” provinces retained that power, choosing to remain separate from the national system.

1.47 Implementation of the transfers was more complex than expected. The Ministry of the Economy and the Secretariat of Social Security (SSS) were the agencies in charge of negotiating with the provinces. Coordination between the two counterparts was sometimes difficult, mostly owing to a divergence of goals: while Ministry of the Economy was interested in executing the loan and implementing the conditions established in the transfer agreements (for example, tax reform, fiscal adjustment measures, privatization of banks and enterprises, among others), the SSS and ANSES were more concerned with the transparency of procedures and equity among beneficiaries. This divergence was never fully resolved and in several cases, amendments to the transfer agreements had to be signed.

Figure 1.3: Number of Pensioners in the Provincial System in Tucumán (in thousands)



1.48 In order to privatize banks and enterprises, some provinces offered generous early-retirement programs, validated through political agreements, to their employees immediately before the transfer. This practice resulted in higher-than-expected costs for ANSES. One typical problem was to define when the province would transfer the authority to grant benefits, and whether special programs would be included or not. ANSES did not have access to individual records for several months after it began to pay benefits and, in some cases, records were never transferred because they were “lost,” for example, in a fire or while moving the archives.

1.49 Still, the auditing process applied by ANSES to the transferred benefits resulted in the identification and cancellation of almost 10 percent of all claims as being illegitimate. The problems we are referring to can be better appreciated by considering one sample case. Tucumán, a province in the northwest area of the country, agreed to transfer its system in July 1996. In only 20 months, from the date the agreement was signed, to the date when registration was closed, the number of beneficiaries grew by 50 percent.

1.50 The problems were even more complicated in other provinces, where there are still discussions and negotiations on whether some special groups should be included in the transfer, such as housewives from La Rioja or police force retirees in most provinces.

Transition Path and Financial Impact

1.51 The fiscal result of the transfer was significantly different from what was expected. Initially, the pension expenditures in the 11 provinces that joined the program declined by 0.7 percent of GDP. Taken together with the decrease in other expenditures of 0.3 percent, it accounted for a total reduction of 1 percent of GDP between 1993 and 1997. Since 1997, however, the level of expenditures began to grow again and, by 2000, half of the savings were lost. ANSES estimated that the added deficit to its accounts derived from the partial transfers was close to \$2 billion (0.9 percent of GDP), while previous estimations were a total cost of \$800 million, for all the provinces. At the same time, the provinces that did not enter the transfer program continued to increase their pension expenditures and general spending grew 1.6 percent of GDP between 1993 and 2000.

1.52 The higher cost (0.83 percent of GDP in 1997) was one of the reasons that the central government stopped the transfer process. Instead of having seven new provinces transferred in 1997 and the remaining seven sometime later, only the small province of San Luis (which had a surplus in its pension system) joined SIJP after the PPRAL was granted.

1.53 The resulting deficit (derived both from the provincial transfers and from the reorientation of resources toward the private accounts) was partly financed with the PPRAL and by issuing public debt, which was partly acquired by the new institutional investors, the AFJPs.

Table 1.2: Costs of the Unification Process and Fiscal Effects of the Reform (as a percentage of GDP)

Year	Unification costs (in percent)			Other policies that affected the pension system (in percent)			Total effect (in percent)
	<i>AFJP revenues</i>	<i>Savings in expenditures</i>	<i>“Pure” cost of transfer</i>	<i>Employers’ contributions reduction</i>	<i>Costs of the transferred provincial system</i>	<i>Other policies</i>	
1993	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1994	0.29	0.14	0.15	0.41	0.23	0.64	0.79
1995	0.83	0.28	0.55	0.37	0.35	0.72	1.28
1996	1.03	0.40	0.63	0.77	0.70	1.47	2.11
1997	1.16	0.50	0.65	0.84	0.83	1.67	2.32
1998	1.27	0.62	0.65	0.77	0.83	1.60	2.25
1999	1.41	0.80	0.61	1.09	0.88	1.97	2.58
2000	1.39	0.95	0.44	1.47	0.86	2.33	2.77
2001	1.37	1.16	0.21	1.47	0.91	2.37	2.58
2002	1.14	1.05	0.09	0.98	0.72	1.70	1.79

Source: Rofman 2003.

Quality of the Reform

1.54 The causes of repeated delays in implementing parametric reforms included the (i) high political cost implicit in reducing benefits, (ii) difficulties in articulating the necessary political hegemony, and (iii) deep economic instability caused by hyperinflation in the 1980s. In that sense, the 1994 reform produced an adequate

response, because the government profited from the macroeconomic and political momentum of introducing a deep structural reform of the system.

1.55 The short-term fiscal problems could have been solved through parametric reforms, but the decision was to advance an integral reform that globally included the needed parametric changes and structural reform of the financing model, in an attempt to achieve long-term fiscal equilibrium. Given competitiveness problems in the Argentinean economy, which were made worse by high contribution rates, the government chose to finance the system through general revenues, as a strategy to diminish distortions in the labor market and one that was in line with the goal of reducing labor taxes.

1.56 After evaluating the long-term results of the reform, it could be said to have a progressive character, in the sense that the uniform pension (PBU) provided by the first pillar implies a transparent redistribution within the system because it is funded by the employers' contributions and grants all formal-sector workers a minimum benefit to ensure a livelihood during old age.

The Pension System in the Absence of Reforms

1.57 Without pension reform, and assuming annual growth in the retirement-age population and in average benefits by 1.5 percent, the level of expenditures would have to grow by approximately 3 percent per year. Under these circumstances, an additional 1.05 percent of GDP would have been needed to pay the benefits.¹³

1.58 Beyond the fiscal issue and the aging population in Argentina, other matters would have made reform necessary in any case. It is not possible to determine whether it would have been structural or parametric, but modification of the old system had essentially been delayed for three decades. Also, the pension deficit and the social and political unrest generated by the situation would have exerted growing pressure on political officials to resolve the issue of benefits actualization. In the absence of solutions, legal actions would have clogged the judicial system and rulings against the state would have ruined the national budget.

1.59 Likewise, the administration of the system required the incorporation of modern management tools and improvements in information procedures, which were rapidly becoming obsolete. Growing social unrest in several provinces would have also forced the national government to tackle the pension problem in any case because beneficiaries were not receiving correct or timely payments of their retirement pensions.

1.60 Finally, the contagion effect of different ongoing reform processes in Latin America would have focused much attention on this issue. Chile and Peru had already undertaken reforms, and the issue was being discussed in Uruguay, Mexico, and Bolivia.

¹³ Rofman, 2003.

2. World Bank Assistance in the 1990s

The Genesis of Bank Involvement

2.1 The Bank was not a significant participant in the design of the pension reform in Argentina. Reform was an initiative developed locally, in the early 1990s under Carlos Menem's administration, as part of the structural reform program. Government officials that participated in the reform process recall that they had many meetings with international organizations interested in their actions, including the Bank. However, only the International Monetary Fund had a permanent basis of contact to assess the development of the reform; the commitment to reform the system was incorporated into a Stand-By Agreement signed in March 1992. During the phases of defining the reform model—discussion and approval of Law No. 24.241—there is no further evidence of conditions specifically related to the pension reform in loans from the Bank or the IADB.

Bank Diagnosis and Basic Strategy

2.2 The Bank's strategy toward the pension system in Argentina is best reflected in a document published in 1993, called "Argentina: From Insolvency to Growth." This study reviews the different areas of Argentina's economy and there is a full chapter that discusses pensions. The document defines the Bank's strategy in the 1990s, and most policy actions since then have been in line with it. The Bank also produced several country assistance strategy documents, as well as other economic and sector work papers referring (although not specifically) to pensions. Finally, two specific loans, approved in 1994 and 1996, give accounts of some aspects of the Bank's strategic approach. Table 2.1 lists some of the World Bank's documents reviewed for this report, with short references to the assessments and main recommendations they make. The documents directly attached to the loans are not included in this list (those documents will be discussed later).

2.3 *Argentina: From Insolvency to Growth (World Bank 1993)*. This document is highly critical of the old pension system. Its fiscal sustainability is discussed, emphasizing low compliance, as it mentions that financial surplus could be achieved if all legal workers actually contributed to the system. High levels of evasion and fraud are noted, and the report indicates that the system had implicit incentives for such activities (for example, manipulating the pensionable income, based on the *best* three years of earnings, was easy to do, and contributing for more than 15 years had no significant effect on benefits).

2.4 The Bank document is very positive towards the proposed pension reform, stating that "... the draft law promises to address the causes for the failure of the NPS (National Pension System) in an innovative and convincing manner within Argentina's constitutional and political constraints..." (World Bank 1993, p.152). It presents eight recommendations regarding the reform process, including: (i) protecting the new system against demands to raise benefits for pre-reform pensioners (and addressing poverty among old pensioners within the social assistance policy); (ii) resisting demands for

raising the compensatory benefits; (iii) lowering the expected average level of pensions by reducing the first-pillar benefit (PBU) from 27.5 percent of the average wage to 22 percent; (iv) resisting pressures for weakening the transition rules which imposed higher minimum years of contributions and a higher retirement age; (v) strengthening the audit program for disability pensions; (vi) further strengthening social security collections through systematic cross-checks with the tax authority; (vii) extending mandatory affiliation with the new system to provincial employees, and (viii) establishing a professional Superintendent of AFJPs.

2.5 *Averting the Old Age Crisis (World Bank 1994a).* This report was the culmination of a two-year research project that analyzed policy alternatives and provided a framework for identifying the policy mix most appropriate to a given country's needs. The study did not refer specifically to Argentina, but it summarized the Bank's points of view and recommendations in the pension area. It constituted the first comprehensive and global examination of old-age security, defining three functions of old-age financial security programs—redistribution, savings, and insurance. In addition, it evaluated the policy options for meeting these functions using two criteria: the impact on the aged and the impact on the economy as a whole. The study suggested that these goals could be better served if governments relied on a combination of three systems or pillars: (i) a publicly managed system with mandatory participation and the limited goal of reducing poverty among the old; (ii) a privately managed mandatory savings system, and (iii) a voluntary savings system. The document strongly encouraged countries to start the planning effort for their aging populations.

2.6 The database originally developed for the research project included social, economic, and financial information for 180 countries and for 96 years, chosen from the range between 1840 and 2150. The Socioeconomic Time-series Access and Retrieval System was developed as a tool for analyzing and disseminating statistical data, as well as for making demographic projections used to calculate numerous variables. The technical annex of the document was published in 1996, and provides supporting documentation to update and supplement the information presented in *Averting the Old Age Crisis*.

2.7 *Country Assistance Strategies.* The Bank has prepared five country assistance strategy documents since 1995 and is currently in the process of developing a new one. The pension system was not a critical part of the global strategy in this period, in view of the few references to pensions in these documents. However, general arguments reflect continuous support for the Argentinean government's policy. Among the Bank's main priorities was the strengthening of Argentinean public institutions and fostering of private sector development (financial intermediation and capital market development). The Bank's 2001 country assistance strategy recognized one area under discussion with the government to be the reform of the public pension system to revamp the legal basis on which claims are made and handled, a major source of fraud, to limit benefits for high income beneficiaries and commensurately to expand coverage for those who do not qualify for benefits).

2.8 One of the background materials for the latest CAS identifies the problem of coverage, suggesting the adoption of measures to promote participation in the social security system, and recommends the expansion of coverage to poor elderly individuals, by means of providing basic benefits to uncovered persons that do not receive benefits directly or through their spouses.

Table 2.1: Select Bank Documents

<i>Document</i>	<i>Main findings</i>	<i>Main proposals</i>
Argentina: From Insolvency to Growth (World Bank, 1993)	Considers the old system as unfeasible and discusses the proposed reform.	Supports reform project and promotes rejection to making proposals flexible.
Argentina Capital Markets Study (World Bank, 1994b)	Covers pensions as one of many financial sectors. Considers the potential role of the new pension funds in developing the capital market.	Diversify investment options, eliminate the minimum return guarantee, and relax investment restrictions.
Country Assistance Strategy (World Bank, 2000)	No references to pensions.	No references to pensions.
Country Assistance Strategy Progress Report (World Bank, 2001)	Minor reference to pension reform.	Proposes reforms in the public system to improve claim handling, reduce fraud, and expand coverage.
Background material for latest CAS	200,000 elderly have no social protection.	Expand coverage, by promoting participation and including the elderly poor

Description of Bank Assistance

2.9 Financial support from the Bank for the pension reform process began *after* the law was approved in Argentina’s Congress, and generally aimed at improving the implementation aspects. Structural or design aspects were rarely considered in the two specific loans (1994 and 1996), although they included in their policy matrices some goals related to the pension system.

Instruments, Outcomes, and Results

Programa Nacional de Asistencia Técnica para la Administración de los Servicios Sociales en la República Argentina (PRONATASS)

2.10 At the end of the 1980s, the World Bank, (along with technical assistance provided by the United Nations Development Programme) financed a program for social sector development aimed at improving the public management of social policies. It had several subprojects including one on “social security” (the rest were related to education, health, and justice administration, and other topics). It financed numerous studies and consultants, some of which developed the reform model. The goal was to generate diagnoses to create an pension alternative to the existing PAYG scheme. The most eloquent case was the one made by Walter Schulthess (1990), who eventually became one of the key local actors in the reform process.

2.11 An estimation model to measure the deficit resulting from the transfer of the provincial *cajas* to the central government was developed through PRONATASS. Even though this was not an actuarial model, and its technical soundness was minimal—as the model used flawed data provided by the government, jeopardizing its capacity to produce sensible results—it was a qualitative improvement over existing information.

2.12 Even if this exercise influenced the reform, the reform itself was an ongoing process determined by local circumstances that made its outcome inevitable in the medium term. Because the government was, in a sense, constrained in advancing the reform, the technical input provided by PRONATASS helped create an enabling environment for the promotion of reform and, from the start, gave the Bank the opportunity to identify the direction for the government to move, establishing a technical framework for development and policy discussion. This was reinforced by the later publication of *Averting Old Age Crisis* (World Bank 1994a), in which the Bank's preferences and pension policy were clearly stated.

Capital Market Technical Assistance Loan (CMTAL)

2.13 A US\$ 8.5 million CMTAL, approved in January 1994 (and closed a year behind schedule on September 1999), was supposed to operate with the parallel Capital Market Development Project, a US\$ 500 million loan, approved at the same time.

2.14 The CMTAL had the implementation of the new pension system as one of its three main objectives. Planned activities for the pension component included: (i) financing consulting contracts to develop norms and regulations required by the pension reform legislation; (ii) supporting the creation of the new supervisory agency (SAFJP) covering pension funds and their administrators, as well as the initial support for managing the new agency, including consultants and computer equipment; and (iii) preparing consolidated standards, including regulations and procedures, for the old system that remained active. Funding for these activities amounted to US\$ 3.4 million, and disbursement was to be completed by the fourth quarter of 1995. The government was expected to provide US\$ 400,000 for hiring consultants and purchasing computers, together with a contribution-in-kind in the use of staff, office space, and equipment.

2.15 The objectives of the loan were revised twice in two amendments, but the pension component remained substantially the same, although the allocation of resources was reduced from US\$ 3.40 to US\$ 2.40 million.

Capital Market Development Project (CMDP)

2.16 Approved in 1994, the CMDP included components for the organization and provision of equipment to SAFJP and other agencies that influenced investment activities of the pension funds, such as the Securities Commission. The project was cancelled in early 1997.

Provincial Pension Reform Adjustment Loan (PPRAL)

2.17 Approved in late 1996, the PPRAL provided financial support to transfer provincial pension systems to the national SIJP. This was a shared operation with IADB, where the World Bank contributed US\$ 300 million and IADB contributed US\$ 320 million. The loan was to be disbursed in three tranches.

2.18 The activities included in the policy matrix were aimed at facilitating transfers and strengthening ANSES management capacity: (i) to finance the transfer of provincial pension schemes to the national system; (ii) to monitor provincial compliance with transfer conditions; (iii) to implement an institutional restructuring at ANSES; (iv) to reduce irregularities and fraud in benefits, and (v) to reduce errors and irregularities in the transferred provincial schemes.

2.19 The PPRAL included the creation in ANSES of the Pension Special Technical Unit, which was responsible for the operation of the transfer process (the receipt of files and records, beneficiary listings, etc.).

2.20 The President's Report stated that 10 provincial systems were expected to be transferred by the end of 1996 and another seven by the end of 1997, while the remaining seven schemes would be transferred later. A number of conditions were set to admit a province into the transfer program, which was supposed to result in substantial deficit reductions (tax reform, privatization of state banks and enterprises, and the adoption of fiscal adjustment measures). It was expected that the provinces would achieve fiscal savings of US\$ 870 million after the transfers were completed. However, part of these savings would be needed to cover the higher contributions the provinces would have to start paying as "employers" in the national system.

National Pensions Technical Assistance Loan (NPTAL)

2.21 The US\$ 20 million loan NPTAL addressed technical assistance to promote institutional development at ANSES. Approved together with the PPRAL, the NPTAL was extended until December 2003. The main goals were to (i) eliminate irregularities, (ii) increase accountability, (iii) reduce operating costs, and (iv) improve procedures and processes and establish security and program safeguards. At the time of preparation, ANSES estimated the potential savings from reducing fraud at more than US\$ 300 million per year.

Evaluation of the Instruments

CMDP and CMTAL Ratings

2.22 While the CMDP was considered a failure by a number of internal project assessments (as it did not meet its fundamental capital market objectives), the view on the CMTAL was more positive. The outcome rating assigned to this loan by the internal project assessment was satisfactory, while the rating for the pension reform component was highly satisfactory. We agree with the overall ratings, although it should be mentioned that one of the three goals set in the policy matrix (preparing a consolidated

standard for the old system) was not completed. This is the reason that we downgraded the specific pension reform outcome rating to satisfactory. Furthermore, we also agree with the assessment that the objective was clear and realistic, well-suited to the capacities of the implementing agencies, and critical in supporting Bank involvement in country and financial sector structural reforms. The institutional strengthening was very much in line with the Bank's country assistance strategy.

Table 2.2: CMTAL: Performance Ratings

Ratings	IEG	This report ^a
Outcome	Satisfactory	Satisfactory
Sustainability	Likely	Likely
Institutional development impact	Substantial	Substantial
Borrower performance	Satisfactory	Satisfactory
Bank performance	Satisfactory	Satisfactory

a. Only refers to the social security component.

PPRAL Ratings

2.23 The internal project assessment for this loan rated the overall performance as highly satisfactory and an example of innovative program design, successful collaboration between the Bank, Borrower and Co-financers, reasonable conditionality, and timely political execution. The conditions of effectiveness and subsequent tranche releases were carried out in a professional manner, and the loan was fully disbursed within a year.

2.24 While IEG agreed with most of the internal project assessment ratings, considering the loan to be exemplary, we disagree with some of the evaluations, based on several aspects that need to be discussed: (i) the financial and implementation problems in the transfers resulted in the cancellation of the transfer program with only 10 provinces and the city of Buenos Aires incorporated into the SIJP (the other 13 provinces that were supposed to transfer their regimes after 1997 never joined the national system); (ii) the inability to sustain fiscal savings in the provinces (the provinces kept on increasing expenditures, a situation that was made worse by the crisis in the regional economies); (iii) a weak evaluation of the political pressure on ANSES to admit additional beneficiaries, and (iv) once implementation was completed, poor supervision to control compliance with auditing procedures and fiscal adjustment measures.

2.25 However, the loan's objectives were (and still are) highly relevant and were basically met, although with modest efficacy, owing to the shortcomings mentioned above. Nonetheless, the long-term impact of the project was positive in terms of equity and solvency of the system. Therefore, we rate the overall outcome as satisfactory.

Sustainability

2.26 Even if we agreed with the internal project assessment and IEG’s rating, some considerations need to be pointed out:

- *Economic sustainability was negligible* because the government ran out of resources to continue incorporating the *cajas* into the national system.
- The above point reveals *negligible technical assessment*, owing to the miscalculation of the magnitude of benefits to be transferred by the provinces, and does not consider the granting of the “stock” of benefits that accelerated after the transfer was decided.
- The program received *modest social support* from provincial pensioners that suffered from the deficiencies of the provincial system, but this group did not manage to strongly articulate their demands, while active provincial workers resisted the transfer because they wanted to maintain defined benefit pensions and opposed the reformed system.
- *High government ownership* was one of the factors that worked toward obtaining favorable results.
- *Modest institutional support* was initially received by ANSES, stemming from political pressures and from difficulties in changing deeply-rooted, elusive institutional practices. Nonetheless, there were administrative and institutional achievements made in ANSES and in the 11 transferred schemes, which are not likely to be reversed in the medium or long term.

Weighing all these considerations together, the overall sustainability of the loan components that were actually achieved can be considered as likely.

Institutional Development Impact

2.27 In terms of institutional development impact, this report is fully in agreement with the internal project assessment and IEG’s rating, considering it to be high.

Bank and Borrower Performance

2.28 Even if the Bank’s general performance was satisfactory, it is clear that the Bank was too optimistic in assuming that asking ANSES to review the records of transferred beneficiaries would suffice to limit fraud, and ignoring the fact that, in many cases, the fraud did not originate with individual disloyal employees but, rather, was part of standard institutional practices. More explicit conditions should have been imposed by the Bank to prevent the provinces from massively retiring workers into the new system (for instance, taking a census of beneficiaries prior to transferring pension systems; limiting transfers to benefits granted several months *before* the agreements were signed; or the rejection of all new benefits that did not meet the requirements demanded by the national system). The structure of the conditions limited the Bank’s capacity to press for compliance because the Bank’s counterpart was the federal government and not the provincial governments, which were in charge of adopting the required conditions.

2.29 The borrower's performance during (i) preparation was unsatisfactory owing to the initial miscalculation of the number of pensioners that were to be transferred from the provinces and the degree of fraud that was common practice in the institutional culture; (ii) implementation was also unsatisfactory, because the government was unable to correct the initial mistakes in design and lacked the political power to negotiate with the provinces or to revise the terms of the transfer agreements; and (iii) compliance was unsatisfactory as well because the objectives were met with major shortcomings (the process was closed with less than 50 percent of the provinces transferred, owing to the higher-than-expected costs, and the fiscal savings in the provinces that transferred their systems were not sustained). Consequently, the overall borrower's performance is considered to be unsatisfactory.

Table 2.3: PPRAL: Performance Ratings

Ratings	Internal Project Assessment	IEG	This report ^a	Reasons for differences
Outcome	Highly satisfactory	Highly Satisfactory	Satisfactory	Highly relevant goals met with modest short- and medium-term efficacy, but with positive long-term outcomes.
Sustainability	Likely	Likely	Likely	The provinces that were transferred and the institutional innovations introduced in ANSES are likely to be maintained over time.
Institutional development impact	Substantial	High	High	
Borrower performance	Highly satisfactory	Highly satisfactory	Unsatisfactory	The government miscalculated the size of the deficit that would be transferred and was unable to enforce medium-term compliance in the provinces.
Bank performance	Highly satisfactory	Highly satisfactory	Satisfactory	Global adequate performance, although the Bank was not able to properly supervise the compliance of transfer agreements, and deficits grew rapidly after the transfers.

a. Only refers to the social security component.

3. Assessment of Development Impact

3.1 The assessment of development impact will consider Bank assistance for social security as a whole, rather than by individual projects, as described in the previous chapter.

Outcomes

Relevance

3.2 To assess relevance, it is necessary to identify which were the main problems in the pension system in Argentina and to check if the Bank's strategic goals matched them.

3.3 As discussed earlier, Argentina's pension system had a fiscal problem, reflected in aggregate expenditures of about seven percent of GDP and declining or stagnant revenues. Even if coverage was extended, it did not reach some vulnerable groups and inequities across the system were significant (especially when comparing the general system to special or provincial regimes). A final and serious problem was the weak administration that led to significant delays, abuse, and fraud.

3.4 Although never explicitly expressed as such in country assistance strategies, the Bank's objectives towards pension reform could be summarized as follows:

- (i) Macroeconomic goals:
 - (a) to protect the new system against demands to increase expenditures,
 - (b) to reduce high evasion and fraud,
 - (c) to reduce the laxity and heterogeneity among the provincial schemes,
 - (d) to enhance the investment opportunities of the newly created private pension funds; and
- (ii) Institutional goals
 - (a) to strengthen the institutional, administrative and regulatory capacity of the new system.

3.5 With regard to the Argentinean problems identified earlier, both the macroeconomic and institutional goals were and still are highly relevant. The objectives are significant for the country's development priorities and existing conditions and needs, as well as consistent with the Bank's general assistance strategy and with the goals contained in the individual loans.

Macroeconomic Goals

3.6 To protect the new system against demands to increase expenditures, fiscal sustainability was (and currently is) one of the main areas of interest for both the Bank and the borrower. The fiscal issue was discussed and proposals to tackle the problem

were included in Bank documents (World Bank, 1993).¹⁴ Additionally, the 2001 country assistance strategy proposed to limit benefits for high-income beneficiaries, as a means of reducing spending.

3.7 The reduction of evasion and fraud was considered in several documents: “Argentina: From Insolvency to Growth” (World Bank 1993) recommends some measures in that direction in reference to audit programs and systematic cross-checking of information. Likewise, the 2001 CAS proposes to revamp the legal basis on which claims are handled, in order to reduce fraud. PPRAL and its parallel technical support program (NPTAL) contained provisions to limit fraud, irregularities, and errors, thus increasing the general accountability of the system.

3.8 The unification process was supported as a means of reducing the laxity and heterogeneity across the provincial schemes. This goal was part of a broader objective of improving the fiscal situation in the provinces. World Bank (1993) proposes the extension of mandatory affiliation to provincial employees. The PPRAL loan directly addresses the issue, providing financing to facilitate the transfer process of the provincial schemes, with conditions for the provinces to keep their fiscal deficits under control.

3.9 The development of the capital market was also part of a broader strategy of the Bank regarding modernization of the whole financial sector in Argentina. The capital market study (World Bank 1994b) extensively addresses this goal, including recommendations to enhance the investment opportunities of the new private pension funds.

Institutional Goals

3.10 The need to strengthen the institutional, administrative, and regulatory capacity of the new system was included in World Bank (1993), which recommended the establishment of a professional SAFJP. The CMTAL loan also considered activities to develop the regulations for the new system and to support the creation and operative implementation of the SAFJP, as well as the reorganization of the system. In addition, the capital market project included financing for strengthening the agencies with regulatory power over pension fund activities (SAFJP and the Securities Commission among others). One of the goals of the PPRAL was to improve ANSES managing ability. Its complementary technical support program was aimed at the promotion of ANSES institutional development, reducing its operating costs, and improving its procedures.

3.11 The Bank’s country assistance strategy for Argentina has been to consolidate the macroeconomic reforms, strengthen institutions, and foster development of the private sector. In this sense, the goals incorporated in the lending instruments were highly relevant and correctly identified the main obstacles for development of the pension system.

¹⁴ See chapter 2.

3.12 However, omissions by the Bank made us reconsider the overall rating in relation to the Argentina's recent situation and the current needs of the country. There are important aspects that were not properly addressed—especially those regarding inequalities existing within the system and the need to enhance coverage of the unprotected elderly—which were only recognized as a problem in the Bank's latest documents. In addition, even though the transition issue was extensively discussed in “Averting the Old Age Crisis” (World Bank 1994a, chapter 8), providing the analytical tools to continuously evaluate the fiscal sustainability of the transition path, the Bank was silent in that respect, not providing analysis of the vulnerability of the adopted system in advance of shocks, or actuarial simulations¹⁵ to project the different possible scenarios (recession, devaluation, increases in sovereign risk premia). The Bank also did not propose policies that would prevent worst-case scenarios or emergency policies to deal with these shocks after they emerged. Therefore, despite the high relevance of the individual goals, we consider the *overall* relevance of the strategy to be modest.

Objectives Efficacy Ratings

3.13 Assessing the efficacy of the Bank's strategy in Argentina is not easy because the different components had mixed results. While the main specific loan instruments (CMTAL and PPRAL) were rated as having satisfactory outcomes, there were shortcomings and omissions that require more careful consideration.

3.14 **Protect the new system against demands to increase expenditures.** By financing the deficit derived from the transfer of the provincial *cajas*, and by changing the rules for calculating and granting benefits, the Bank collaborated in the long-term achievement of this goal. It should be recognized that the cost of the transfer was very high for ANSES, however, without significant fiscal improvements at the aggregate level to compensate in the short term. Nonetheless, under a broader, longer-term perspective, we rate the efficacy of meeting this goal as substantial.

3.15 **Reduce high evasion and fraud.** The efficacy in achieving this objective was high, because fraud was substantially reduced by the institutional innovations financed by the Bank. In terms of evasion reduction, information is not available to determine whether the Bank's actions exerted a positive influence in this respect.

3.16 **Reduce the laxity and heterogeneity between the provincial schemes.** The transfer of provincial regimes also had substantial efficacy because it eliminated inequities among active workers in the national-level public or private sector and some of the provincial-level workers. However, it did not affect the differences existing among those already retired, or among active or retired workers in the 14 provinces in which the pension systems had not been transferred, representing approximately 30 percent of the formal labor force and 15 percent of retirees.

¹⁵ The sole exception is the utilization of the Socioeconomic Time-Series Access and Retrieval System (known as STARS), a prototype of the tool that eventually became the Pension Reform Options Simulation Toolkit (known as PROST), for the calculation of the deficit derived from the transfer of provincial *cajas*, under the PPRAL preparation process, with quite modest results, given the low quality of the information and the scarce development of the technology applied.

3.17 **Enhance the investment opportunities of the newly created private pension fund.** Given the evidence related to the high concentration of pension funds investments in public debt (currently above 75 percent), the efficacy in meeting this goal can be considered modest (see table 1.1).

3.18 **Strengthen the institutional, administrative, and regulatory capacity of the new system.** Improvements were clear in SAFJP and ANSES, and recommended institutional reforms were applied. As a result, we consider the efficacy to be high in this case.

3.19 **Overall efficacy.** The Bank's strategy to solve the main problems identified is considered substantial, owing to the fact that major objectives were met, but with shortcomings. In addition, some important aspects were not considered at all, or only recently considered, without adapting the strategy to provide more efficacious responses.

3.20 **Outcomes.** Given the preceding analysis of relevance and efficacy, overall outcome of the Bank's strategy is considered to be moderately satisfactory.

Institutional Development Impact

3.21 A review of the Bank's projects and documents show that substantial changes were made to promote economic and social activity—chiefly in the legal and regulatory system and in accountability—as well as a high development impact in the organizations themselves.

3.22 The two institutions supported by the Bank in which a high development impact was achieved are ANSES and SAFJP.

3.23 For ANSES, the Bank supported institutional reorganization plans, computer equipment, consultants, and other direct-support measures.¹⁶ A significant number of activities were developed with Bank support. Among these were improvements in the quality of membership information, which were achieved as a result of the re-registration of 207,294 provincial beneficiaries. In terms of system transparency, the process of registering beneficiaries from the old provincial *cajas* produced substantial savings. The consulting firm charged with updating the files identified 1,101 deceased beneficiaries whose benefits were still being paid; 1,477 pensions being paid to minors who had since reached adulthood; and 214 pensions that were being paid in error. By eliminating fraud and abuse, US\$ 26.6 million were saved, while the consulting cost financed by the Bank was US\$ 1.8 million.

3.24 For SAFJP, an agency internationally recognized for its work, the Bank actively supported the creation and the provision of equipment. The overall institutional development impact of the Bank's assistance was substantial because it supported an important transformation process, resulting in positive developments including the enhancement of SAFJP's ability to administer and control the new pension fund system,

¹⁶ NPTAL is expected to remain active at least until December 2003.

improvements in accountability, and collaboration in establishing clear rules for the operation of the system. In that sense, the Bank's involvement promoted transparency, enforceability, and predictability in the new institutional arrangements. However, the Bank did not improve the capacity of the authorities to make diagnoses, develop innovative proposals, or implement long-term actuarial simulations. Very little was achieved in terms of skills upgrading—necessary for introducing real changes in the cultural norms and customs of the organizations..

Sustainability

Objectives Sustainability Ratings

3.25 **Economic sustainability.** The transfer of provincial pension systems was a high-cost policy that was not sustainable over time when extended to the whole country. In fact, the transfer process was suspended with less than half of the provinces having joined, and it was not resumed afterward. Economic sustainability is thus rated as modest.

3.26 **Government ownership.** We rate this factor as substantial, and not high, because even though the government took full ownership of the reform process, the continuity of policies proposed by the Bank was jeopardized by a continuous rotation of the officers in charge of the relevant organizations, in addition to other circumstances.

3.27 **Institutional support.** The Bank collaborated with the launching and development of the new private pension fund industry, providing support for the development of standards and regulations, and the operation of the regulatory agency. The CMTAL played a significant role in supporting the implementation of the new pension fund legislation from the outset by providing financial resources and technical assistance. In view of the supportive legal and regulatory framework which resulted in improved institutional quality, sustainability is considered high.

3.28 **Overall sustainability.** During its short life, the reformed system was not able to increase coverage and to protect pension savings efficiently. The administration of the system was improved, however, and thanks to the innovations and the strengthening of its institutions, the pension system is better prepared today to adapt itself to changing circumstances, to withstand shocks in its operating environment, and even to resist pressures to return to a PAYG scheme. Therefore, the sustainability of the Bank's pension policy strategy can be considered likely, even though there have been some discussions on the need to reform several aspects of the current system to solve problems that have been identified -- primarily, a decline in coverage.¹⁷

¹⁷ Recently, the SSS published the "Social Security White Book," which formally reopened debate on the need to reform the system. The SSS recommends the incorporation of (i) a noncontributory benefit to assist the unemployed; (ii) a proportionality criterion according to which even if an individual does not meet the number of years of contribution required, he/she is entitled to receive a benefit proportional to the number of years that the individual effectively contributed, to be financed by a 3 percentage points allocation to the PAYG pillar and, (iii) that the state remain in charge of disability and survivor benefits. A proportional benefit provision was included in 2000 in Decree No. 1306, and was the first integral reform attempt of Law No. 24.241, which did not become effective because of judicial measures that stopped its implementation.

4. Results

Bank Performance

4.1 The Bank had a minor role in Argentina's pension reform during the early 1990s when the new system was being designed. During that period, there were informal contacts between the team that was preparing the reform and Bank officials and consultants. The Bank did not explicitly support the reform except for PRONATASS, which did provide background material and technical studies for the development of a reform model. (The relevance of this project was discussed earlier.)

4.2 After 1993, when the first document specifically pertaining to pension reform was issued, the World Bank's general strategy was to support government efforts, maintain a low profile, and finance implementation and second-level reforms. This approach toward Argentina's pension policy was expressed in revised documents and loan documents.

Quality-at-Entry Factors

The following points were discussed earlier in the report:

- The Bank's policies were consistent with Bank's strategy for the country, and the interventions were aligned with the implicit goals for Argentina.
- Given the late involvement of the Bank in the pension reform, economic and sector work was not extensive.
- Nonetheless, the objectives stated in the specific loans were mostly realistic and sufficiently demanding, although some important topics were omitted (see chapter 3). In the specific case of the provincial *cajas* transfer, it was overly ambitious to expect most of the provinces to join the national system.
- In terms of approach and design, the choice of technical assistance instruments proved adequate to tackle the problems identified, and were appropriate in scope and complexity, with realistic conditions set, although some technical aspects were not considered, which substantially affected the results (see the section on *technical aspects* in this chapter).
- However, during this preparatory phase, the relationship with the government evolved as expected. The state assumed full ownership of the projects, though with shortcomings in the borrower's commitment toward some of the activities. Full ownership by the government had a positive effect on the popular perception of the reform—at a time when many changes were being made in Argentina's economy, as the result of foreign pressure, the pension reform was seen as an initiative by the government, which had designed and implemented the reform by itself. The Bank's low-key role helped the reform get approval in Congress. Had the Bank been openly involved in the process, political resistance would have been stronger and the reforms might have been postponed. The Bank did not solicit the participation of other stakeholders or of the beneficiaries

- When these achievements are considered together, we rate the quality-at-entry during identification as substantial.

4.3 **Technical aspects.** Technical miscalculation about the amount of resources needed to finance the transfer process stemmed from the fact that neither the Bank nor the borrower took into account the benefits from the stock transfers stemming from the privatization of the *cajas*, or the generous early-retirement programs offered by provinces¹⁸ to employees of the companies that were to be privatized. The Bank's strategy to support the transfers seems to have backfired, resulting in a much more expensive process than initially calculated.

4.4 Furthermore, inflexible design resulted in implementation delays (for instance, the provinces found it difficult to meet the conditions imposed as part of the transfer agreements) and in inefficient work by the technical assistance and coordination units. Because the Ministry of the Economy approved disbursements when the provinces met the conditions, without checking the quality of the information, this allowed rampant fraud to take place; ANSES was obligated to make payments based on the records and files provided. This is clearly not the Bank's direct fault, but better design of the loan disbursement structure could have prevented such a situation. For example, by first requiring the sound cross-checking of records, and only then, allowing the disbursement of payments. Quality-at-entry is, therefore, considered modest.

4.5 **Poverty reduction and social aspects.** There are no specific policies recommended in Bank documents for helping the elderly poor. In "Argentina: From Insolvency to Growth" (World Bank 1993), it is suggested that poverty among old pensioners should be addressed within social assistance policy. The Bank was silent with regard to the social aspects of social security until its 2001 country assistance strategy, in which the need to "...commensurately expand coverage for those who do not qualify for benefits" is recognized. In background material for the latest country assistance strategy, the problems of covering 200,000 individuals are noted, recommending the adoption of measures to promote participation in the social security system and the expansion of coverage through basic benefits to uncovered individuals. Consequently, we consider this factor to be modestly satisfactory.

4.6 **Institutional analysis: assessment of risk and sustainability.** The IADB was the main institution involved in the social security reform process in Argentina. The World Bank correctly identified this fact and worked together with the IADB, in order to strengthen the local institutions and to enhance the implementation capacity of the government. This joint effort resulted in the relative success of the transfer process sought under PPRAL. This factor can be considered as generally satisfied, with a corresponding substantial rating.

4.7 Even though the Bank identified the main institutional problems that required support in SAFJP and ANSES, and developed programs to help them, obstacles in the organizations' background impeded the potential effect. Such obstacles included political

¹⁸ The provinces were forced to privatize enterprises as part of the conditions under the transfer agreements.

interference, which affected the Bank’s ability to positively improve institutional quality, as well as the abusive practices of many provinces during the transfer process and the high turnover of officials owing to political instability. The Bank is obviously not responsible for these problems, but they decreased the impact that the Bank’s support could have had on the institutions.

4.8 Moreover, the negative effect of the reform on coverage, together with other labor market policies supported by the Bank, were not included in policy discussions or considered as risks to be evaluated. These problems indicate that the assessment of risk and sustainability was negligible.

4.9 **Overall quality-at-entry.** The quality-at-entry problems reveal that some aspects of the system were never fully addressed. Therefore, the overall quality-at-entry is considered unsatisfactory.¹⁹

4.10 **Supervision.** The supervision of policy implementation also had some problems in terms of the focus on development impact and the adequacy of supervision inputs and processes.

4.11 **Focus on development impact.** As discussed in Chapter 3, the Bank did not identify impact problems on a timely basis or to propose appropriate solutions to ensure the effectiveness of Bank actions. The Bank should have included firmer recommendations about incorporating other special systems into the transfer process, such as the military, police, and judges, among others, which are major sources of benefit inequity.

4.12 While the general problems stated before continued to be relevant, other aspects gained relevance over time. The decrease in coverage was evident for several years, but the Bank only recently started to consider it in the preparatory work for the next CAS and recommended expanding coverage to the elderly poor. Consequently, we rate this factor as modest.

4.13 **Adequacy of supervision inputs and processes.** In most of the interventions, the Bank’s formal counterpart was the Ministry of the Economy, but the real executors of the policies financed by the Bank were other stakeholders (mainly, the provinces in the transfer process; and ANSES and SAFJP in the institution-strengthening components). The Bank was limited in its capacity to exert influence on these actors, but it should indeed have been able to supervise the formal counterpart’s compliance with the terms of the agreement. After many irregularities had taken place, the Bank reacted by incorporating mechanisms to verify the quality of the records and files provided by the provinces, yielding a better assessment of the political and institutional situation and where it was prone to diverse forms of fraud. Therefore, we consider this factor as substantial.

¹⁹ Unfortunately, “moderately unsatisfactory” does not exist in the IEG’s methodology for quality-at-entry, because the applicable category of “unsatisfactory” seems to be too strict in this case. Quality-at-entry clearly could not be considered satisfactory.

4.14 **Overall supervision.** Although the focus on development impact is rated as modest, compliance with the general formal conditions was duly supervised by the Bank. Therefore, we consider the overall supervision to be satisfactory.

4.15 **Overall Bank performance.** The Bank's performance in individual projects is considered satisfactory (for example, CMTAL and PPRAL). Despite the fact that its general performance regarding the pension system in Argentina, since the late 1980s, has had several problems, especially in the quality-of-entry, we rate the Bank's performance as satisfactory, taking into consideration that most of the conditions were met within a difficult local environment.

Borrower Performance

4.16 Borrower performance is assessed by considering the different loans and the overall performance of government policy, in accordance with the quality of preparation, implementation, and compliance of the programs.

4.17 **Preparation.** As discussed earlier, the government assumed full ownership and responsibility for the reform process. The Ministry of the Economy and the SSS were the agencies in charge of negotiating with the provinces during the unification process. The coordination between the two agencies was sometimes difficult, mostly owing to a divergence of goals not clarified at the beginning of the program, and was never fully resolved. Furthermore, even if a number of conditions were correctly established to admit a province into the transfer program, weak evaluation of the design gaps and political pressures to incorporate beneficiaries (even under irregular circumstances) into the new system resulted in higher-than-expected costs. The issue of access to files and records should have been addressed in a different and more transparent way. It should have been made clear from the start that no benefit would be paid unless the case met ANSES' quality standards. As stated earlier, ANSES did not have access to individual records for several months after it began to pay out benefits and, in some cases, records were never transferred.

4.18 Nonetheless, in general terms, government preparation was satisfactory because most policy initiatives were based on sound analysis by government officials or consultants. The design of the reform was completely developed in Argentina and the implementing agencies (mainly SAFJP) showed high commitment and efficiency (helped along by a broad political consensus on the need to advance pension reform).

4.19 **Implementation: government performance.** During the reform period, the government was successful in maintaining macroeconomic conditions favorable to the project's implementation. (The Convertibility Law imposed stability on the economy during most of the 1990s.) Top officials at the Ministry of the Economy and the SSS were publicly committed to implementing the new system, and they gave their political and institutional support (sometimes having to deal with complex financial engineering procedures) to raise the necessary funding to meet the local counterpart's required contributions. Furthermore, the Ministry of the Economy's coordination unit was highly experienced and did a good job in monitoring the accomplishment of the conditions.

However, because of problems in the PPRAL's design (discussed above), it could not prevent fraud and abuse. Lack of continuity in supervision, due to the high turnover of the officials in charge of the projects, generated delays in implementation. Nonetheless, because government generally supported the program, its performance is considered substantial.

4.20 Implementation: agency performance. The implementation of technical assistance to SAFJP is rated as high because equipment and consultants were hired on a timely basis and their contribution to reform goals was adequate, despite the rotation of six agency superintendents between 1995 and 2002.

4.21 The implementation of technical assistance for ANSES showed modest results, partly because the organization underwent many changes in leadership, as a result of political changes in the government. Between 1995 and 2002, there were close to 10 different executive directors at ANSES, and a period when the director was replaced by a board of directors, as well as other operational disruptions. The continuity of policies has been irregular, with blame and cross accusations made by current and previous administrators.

4.22 At CMTAL, implementation required a large volume of work, administering consultant contracts and purchasing equipment. An additional inconvenience was a reduction in the budget allocation. Furthermore, as with many other international projects, there was strong resistance on the part of government to hiring consulting firms (required by the Bank for the implementation of projects) because the public-sector trade unions workers opposed such initiatives. The procurement processes were generally slow (approximately eight months in a public bidding), which generated significant delays in implementation. Nonetheless, the borrower's performance under CMTAL was satisfactory and much was achieved, thanks to local efforts. Considered as a whole, the implementing agencies' performance is rated as substantial.

4.23 Overall borrower implementation performance is rated as satisfactory. Even though the government did not address political pressures and shortcomings in the program with great strength (showing low adaptive capacity), both the government's performance and the implementing agencies' performance are each evaluated as substantial.

4.24 Compliance is the weakest aspect of the borrower's performance, and it is considered unsatisfactory. PPRAL conditions and goals fell short of being satisfied. The government was unable to conclude clear agreements with many provinces or define the exact conditions of the transfer. The design of the program could be partially to blame because some policies the national government was committed to had to be implemented by the provinces. The mechanisms for improving the government's ability to force compliance were weak even before strong political interference, while involvement by the provinces was low. In some cases, the political attitudes could be described as being

close to sabotage.²⁰ ANSES made several fraud claims and there are currently several criminal cases against the provincial governments in the federal justice system.

4.25 Furthermore, provincial expenditures in non-pension programs grew rapidly after the transfer agreements were signed, indicating that fiscal savings were not sustainable within the existing political environment.

4.26 Finally, even though the problem of coverage was recognized by the De La Rúa administration, and legislative initiatives to reform the system and expand coverage were prepared and introduced to Congress (and some approved by Decree No. 1306/00.), their application was blocked in court.

4.27 **Overall borrower's performance.** The performance of the borrower in the individual project evaluation was alternatively considered satisfactory (CMTAL) and unsatisfactory (PPRAL). During the general preparation and implementation of the program, the borrower had a moderately satisfactory performance, but compliance had major shortcomings: the SSS and ANSES were politically too weak to guarantee smooth implementation of the program and unable to control the process and meet major commitments. For these reasons, we rate the overall borrower's performance as unsatisfactory.

Other Contributors to the Outcomes

4.28 The IADB was the co-financer of the transfer of the provincial *cajas*; the IADB–World Bank PPRAL loan provided US\$ 320 million. Cooperation between the two international organizations during the lending operation developed smoothly, and both participated in joint evaluation missions.

4.29 The International Monetary Fund was the international institution that kept in closer contact with the reform process in Argentina, after a Stand-By Agreement was signed in March 1992, which included the government's commitment to reform the pension system. The United Nation's role was mainly restricted to its participation in the preparatory phase, providing technical assistance, within the framework of the PRONATASS project, through the United Nations Development Programme.

Counterfactual

4.30 Given the situation as explained in Chapter 1, pension reform was an issue the government had to confront. The matter had been postponed for several decades and

²⁰ For example, one could note the weakness of ANSES in enforcing the audit procedures over the transferred beneficiaries: ANSES hired a consulting firm to register all beneficiaries in one of the most problematic provinces in the northwest area of the country. An important number of beneficiaries could not be located and their existence was doubted, so ANSES decided to suspend their payments until beneficiaries presented themselves to register, but political pressures and legal orders imposed by the judiciary forced ANSES to continue payments, even though it was not clear who was receiving the benefits.

fiscal, demographic, and internal pressures forced the government to finally tackle the problem. With or without the Bank's support, the reform would have taken place.

4.31 Nonetheless, thanks to the Bank's intervention, the transfer of the provincial *cajas* to the national system was less chaotic than it would have been in the absence of Bank support. The Bank, among its activities, collaborated on the creation of the Pension Special Technical Unit, which was in charge of monitoring the process of listing and checking the beneficiaries' files and records transferred from the provinces. Despite numerous irregularities, the NPTAL and PPRAL loans included some conditions that prevented further fraud and incorporated some rationality in procedures that were otherwise mostly non-transparent.

4.32 Moreover, if the Bank (together with IADB) had not provided the funds (PPRAL loan) to finance the first-year deficit generated by the transfers, it is quite unlikely that the government would have not have been capable of initiating the process because it would have lacked the resources.

Table 4.1: Bank Assistance to Argentina: Performance Ratings

Category	Rating	Main reasons for assessment
Outcome	Moderately Satisfactory	The Bank supported the reform process and financed activities to reduce inequities and improve administration. Some significant problems were not addressed and, in other cases, the policy was not the most efficient.
Institutional development impact	Substantial	Technical assistance to ANSES and SAFJP was appropriate and useful.
Sustainability	Likely	Despite the existing problems (declining coverage, problems with financial aspects of the funded scheme), the system is well prepared to weather shocks and resist pressures. The need to introduce corrective reforms is becoming evident and discussions about it are emerging.
Bank performance	Satisfactory	Some problems with risk assessment at entry and supervision, but the general approach was reasonable, as well as the instruments chosen to implement it.
Borrower performance	Unsatisfactory	Preparation was moderately satisfactory, but some important aspects were ignored. There were problems with implementation and compliance, owing to political pressures.

5. Lessons Learned and an Agenda for Future Action

5.1 Several lessons can be learned from the Bank's experience in Argentina with regard to the pension policy strategy.

5.2 Technical assistance projects should be limited in scope to ensure adequate preparation and supervision. This should be evaluated when addressing structural issues. Furthermore, during the project design, local procurement and contracting limitations should be considered to avoid delays in the implementation phase.

5.3 Borrower commitment is crucial to meaningful implementation, so the Bank should try to maintain a flexible strategy to ensure the full involvement of the governments in the processes, through adjusting the instruments' designs, in order to promote compliance with the conditions.

5.4 A solid project management and coordination team during implementation is vital for success of the programs. The experience in Argentina demonstrates the importance of having an experienced project coordinating unit.

5.5 The Bank should try to keep a very low profile, supporting reforms but not publicly pushing for them, especially when they imply unpopular measures. While playing this role in the Argentinean case, the Bank was perceived as supporting the improvement of institutions and quality of service, and not as imposing unpopular economic measures.

5.6 The experience in PPRAL implementation shows that the Bank should be more careful when assessing the political context in which proposed policies are to be implemented.

5.7 The Bank should offer technical assistance in terms of improving the governments' ability to simulate future scenarios in the phase of policy definitions, by means of actuarial tools such as PROST (Pension Reform Options Simulation Tool-kit).

5.8 A final lesson is that the Bank should have a more flexible approach toward the pension policy problem, avoiding the application of standardized solutions to problems that are rarely standard. Pension policy should be designed with the goal of improving pensions, that is, the system that provides income security to retired workers, and not to promote capital markets or privatization in local governments. These goals are valid, but should not be the basic motivation for pension policy by the Bank.

5.9 Future actions in the pension area should start by preparing a detailed diagnosis of the situation of the whole system, evaluating whether it is able to satisfy its income replacement goal at a low fiscal and social cost, minimizing negative incentives and promoting responsible participation. Based on this diagnosis, reforms should be proposed to increase the efficiency and quality of the system, and the Bank should take the lead in this process.

Appendix: Key Metrics Of Argentina's Pension System

ARGENTINA	1990	1995	2000	Source
I. COVERAGE AND MATURITY OF PENSION SYSTEM				
1. Population	32.527.095	34.768.455	37.031.803	Projections INDEC-Celade
0-14	30.6%	28.9%	27.7%	Projections INDEC-Celade
15-64	60.4%	61.7%	62.6%	Projections INDEC-Celade
65+	8.9%	9.4%	9.7%	Projections INDEC-Celade
2. Labor Force	39.5%	42.00%	42.35%	INDEC
3. Employment	36,10%	34,70%	36,20%	INDEC
4. Affiliates (Registered Workers)		7.069.603	10.615.530	Social Security Secretary. DNPSS
5. Active Contributors		4.347.104	4.973.256	Social Security Secretary. DNPSS
6. Beneficiaries				
Old age	1.960.544	2.053.404	1.974.281	Social Security Secretary. DNPSS
Disability				
Survivors	1.100.342	1.200.154	1.295.336	
7. Key Indicators				
Old Age Dependency Ratio (65+/15-64)	14,80%	15,20%	15,50%	
System Dependency Ratio: Beneficiaries/Contributors	62,00%	74,80%	65,70%	
Coverage of Contributors: Contributors/Labor Force		29,80%	31,70%	
Coverage of Contributors: Contributors/Employment		36,00%	37,10%	
Coverage of Old Age Population: Beneficiaries/Pop 65+	74,40%	76,50%	67,80%	Rofman, 2003
II. BASIC PARAMETERS				
8. Contribution Rates				
Employer	16,0%	Priv. 11%, Pub. 16%	Priv. 11%, Pub. 16%	
Employee	10,0%	11,0%	11,0%	
9. Retirement Age	M: 60, F: 55	M: 65, F: 60	M: 65, F: 60	
10. Minimum Years of Service/Contribution	20	30	30	
11. Target Replacement Ratios for Full Career Workers	82,0%	PAYG:58%-Cap.:63%(*)	PAYG:58%-Cap.:63%(*)	
Entry Level Old Age Pension/Average Wage by Income Class				
III. LEVEL AND STRUCTURE OF BENEFITS				
12. Effective Replacement Ratios	48,0%			
Average Entry Level Pension/Average Wage	0,55%			
Average Pension/Average Wage			43,8%	
Old Age				
Disability				
Survivors				
IV. FINANCES OF PAYG				
13. Contribution Revenues (in million of \$)	6.675	8.458	5.748	
14. Pension Expenditures	9.940	14.320	15.834	
Old Age				
Disability				
Survivors				
Other				
15. Balance	-3.265	-5.862	-10.086	
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)		0,97%	7,17%	
19. Composition of Pension Fund Portfolios		see on doc.		
20. Returns on Pension Fund Assets		19,84%	-11,74%	
21. Administrative Costs of Pension Funds		2,61% + insurance 0,87 %	2,39% + 1,01% insurance	

(*) Expected benefits according to projections.

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