# Chapter 4

# World Bank Lending to Support Pension Reform

THE DISCUSSION IN CHAPTER 3 ARTICULATES the concepts and principles that constitute the World Bank's perspective on pension reform among its client countries. These are the result of an ongoing process of development, research, and evaluation over more than a decade of work in this field. Although there has been considerable evolution and refinement of this perspective, the essential foundations of World Bank policy have been relatively constant throughout the period. These embody two essential principles: (1) a focus on enhancing the stability and sustainability of pension systems by diversifying the risks and establishing some degree of prefunding and (2) the need to accommodate the conditions and circumstances of a given country in developing a path to reform.

The most readily accessible evidence of the application of any policy framework, however, is in its implementation. For the World Bank, this takes the form of direct financial support for pension reforms through its lending activities. This chapter reviews the record of the Bank's lending related to pension reforms during the period of fiscal 1984 through fiscal 2004. This record indicates that the World Bank has made a substantial commitment to pension reforms within a broad range of settings over an extended period. It also demonstrates that, while there is strong adherence to the policy of supporting the multipillar framework, the financial support is also characterized by a highly diverse range of reform designs, with only a relatively small proportion of loans directed toward a dominant, mandatory second pillar. This evidence describing the World Bank's pension reform activities demonstrates its commitment to the diversity, flexibility, and application of the World Bank's framework as a benchmark rather than as a blueprint for pension reform.

As part of the regular process of internal review of World Bank operations, the Operations Evaluation Department (OED) has compiled data on all of the loans made since 1984 with a meaningful pension component. Information on these loans was obtained from original documentation in the World Bank's archives and includes the classification of loans by amounts, the nature of the loan (investment, technical assistance, or structural adjustment), and the characteristics of the pension reform involved (first, second, third, or multipillar). These data provide a comprehensive look at World Bank financial support for pension reforms and the capacity to evaluate the level and characteristics of World Bank activities in this area.

## Scope of the World Bank's Pension Lending

The World Bank made 204 loans involving 68 countries with some pension reform component over the 21 years from fiscal 1984 through fiscal 2004.[13] Pension lending activities were both in the form of direct support for specific reforms through technical assistance and investment loans and in the form of indirect support through program and structural adjustment lending (a type of lending that currently is included in the category of Bank operations termed development policy lending). A rough estimate of the full scope of pension-related lending in this second category can be developed by assigning the share of "adjustment" loans in proportion to the share of pension-related conditions associated with the loans.

Over this 21-year period, loans that had some pension element represented more than $34 billion of World Bank lending, a substantial portion of the Bank's operations.[14] Using the rough measure for assessing the share of adjustment lending in combination with lending in which the pension component is explicit indicates that about $5.5 billion, or 16 percent of the aggregate dollar value of these loans, was related directly to pension issues. As shown in table 4.1, there was significant lending activity for pension reforms in every year during the period, although the total amounts varied considerably. The highest levels of pension lending were from 1997 to 1999, during which pension lending averaged more than $1 billion a year. The average pension component of loans was $26.8 million, indicating that pension issues were a major share of the lending activity when present in a loan. This figure may understate the significance of Bank financial support for pension reform because pension lending tends to be associated with larger loans. Among all of the loans (weighing each equally rather than in proportion to total dollars), nearly 20 percent of the loan, on average, was associated with pensions.

When a narrower measure of Bank financial support, which includes only technical assistance and investment lending, was used, the significance of pension components of loans was found to be similar. Within this

**Table 4.1. World Bank Lending with Pension Components, Fiscal 1984–2004**

| *Fiscal year* | *Total Bank lending with pension component (US$ million)* | *Value of the pension component (US$ million)* | *Pension component as a percentage of total* |
|---|---|---|---|
| 1984 | 5.0 | 0.4 | 8.0 |
| 1987 | 80.0 | 11.4 | 14.3 |
| 1989 | 181.1 | 16.3 | 9.0 |
| 1990 | 295.2 | 14.2 | 4.8 |
| 1991 | 654.3 | 12.3 | 1.9 |
| 1992 | 1,777.2 | 163.0 | 9.2 |
| 1993 | 1,003.1 | 159.3 | 15.9 |
| 1994 | 929.0 | 39.5 | 4.3 |
| 1995 | 2,237.0 | 161.9 | 7.2 |
| 1996 | 947.4 | 46.7 | 4.9 |
| 1997 | 2,591.2 | 985.6 | 38.0 |
| 1998 | 8,500.8 | 1,286.5 | 15.1 |
| 1999 | 7,013.0 | 1,309.3 | 18.7 |
| 2000 | 2,342.5 | 788.7 | 33.7 |
| 2001 | 1,184.5 | 50.0 | 4.2 |
| 2002 | 2,687.7 | 197.5 | 7.3 |
| 2003 | 1,147.2 | 149.0 | 13.0 |
| 2004 | 603.6 | 76.3 | 12.6 |
| Total | 34,179.8 | 5,468.0 | 16.0 |

*Source:* OED forthcoming.

narrower category of loans, the total dollars associated with pension elements accounted for 13.6 percent of the lending operations, and the average among loans (weighing each loan equally) was 26.5 percent.

The World Bank's lending activities were broadly distributed geographically during the past decade, covering countries in all regions of the world. Table 4.2 shows the regional distribution of Bank loans. The Latin America and Caribbean region received 56 percent of the dollar value of pension lending, with a pension component of $3.1 billion. The largest number of loans (93) was in the Europe and Central Asia region.

## Diversity of Pension Reforms

The World Bank supported a wide range of pension reforms over the relevant period. In reviewing the underlying loan documents, a simple descriptor that classifies lending as related to a first, second, or third pillar—or

**Table 4.2. Regional Distribution of World Bank Lending Activities, 1984–2004**

| *Region* | *Number of countries* | *Value of the pension component (US$ million)* | *Number of loans* |
|---|---|---|---|
| Sub-Saharan Africa | 14 | 122.2 | 26 |
| East Asia and Pacific | 4 | 518.4 | 7 |
| Europe and Central Asia | 25 | 1,626.2 | 93 |
| Latin America and Caribbean | 15 | 3,067.5 | 57 |
| Middle East and North Africa | 6 | 76.0 | 9 |
| South Asia | 4 | 59.0 | 12 |
| Total | 68 | 5,468.0 | 204 |

*Source:* OED forthcoming.

some combination—was assigned to each loan. This classification provides the basis for some simple measures to evaluate whether and to what extent the Bank did, in practice, implement the policy of flexibility and adaptation to local conditions or whether it pursued an agenda focusing on one particular reform design or, as some observers have suggested, placed a pronounced emphasis on reforms that involved the implementation of a funded and privately managed second pillar.

This is essentially a simple test of whether there is any indication of the imposition of a pension "blueprint." To this end, a classification among the Bank's pension experts and the Bank's independent evaluation department (OED) assessed the extent to which financial support was distributed among the various types of pension systems and reforms. In addition, for loans focusing on more than one pillar but with a second-pillar-dominated reform, a judgment was made to determine whether the lending occurred before or after enactment of the reform to assess whether there is evidence that lending exerted a significant degree of policy influence on these types of reforms.

### *Single and Multipillar Reforms*

The distribution of pension lending between the different kinds of reforms (combination of pillars) demonstrates that World Bank lending supported a wide range of pension system design and reforms. Table 4.3 indicates that Bank lending supported all types of basic reform designs and was broadly distributed across the full range of pillars and potential combinations. The table indicates that lending was distributed approximately equally between single and multipillar reform efforts, with 120 loans and $2.4 billion associated with single pillars and 80 loans and $3.1

**Table 4.3. World Bank Pension-Related Lending Classified by Pillar Support, 1984–2004**

| *Type of pension project* | *Number of loans* | *Total Bank lending with a pension component (US$ million)* | *Value of the pension component (US$ million)* | *Pension-related lending as a percentage of total lending* |
|---|---|---|---|---|
| Loans associated with a single pillar | 120 | 18,694.8 | 2,373.9 | 43.4 |
| First pillar | 92 | 13,356.4 | 2,078.2 | 38.0 |
| Second pillar | 10 | 322.6 | 125.5 | 2.3 |
| Third pillar | 18 | 5,015.8 | 170.2 | 3.1 |
| Loans associated with more than one pillar | 80 | 13,824.8 | 3,094.0 | 56.6 |
| First and second | 24 | 4,105.8 | 1,432.1 | 26.2 |
| First and third | 22 | 5,634.9 | 1,170.3 | 21.4 |
| Second and third | 2 | 167.0 | 12.1 | 0.2 |
| All three | 32 | 3,917.1 | 479.4 | 8.8 |
| Loans not associated with any pillar | 4 | 1,660.0 | 0.0 | 0.0 |
| Total | 204 | 34,179.8 | 5,468.0 | 100.0 |

*Source:* OED forthcoming.

billion associated with multipillar efforts. The vast majority of the lending ($5.2 billion or more than 90 percent) was associated with reforms of first-pillar arrangements, either alone or in combination with other components. Well over half of the dollar value of the lending (57 percent) was associated with reforms involving multiple pillars of the pension system. Only 10 of the loans and $125 million (less than 5 percent by either measure) were associated with the second pillar alone, and less than 40 percent of the lending related to pensions ($2 billion involving 68 of the loans) was attributable to second-pillar reforms, either alone or in combination with other pillars (usually the first pillar).

### *Lending for Second-Pillar Reforms*

It has been suggested that, even within this broad range of reform structures, the World Bank has focused primarily on lending to support the implementation of mandatory privately managed funded second pillars.

**Table 4.4. Proportion of Pension-Related Lending for Second-Pillar Implementation, 1984–2004**

| | *Loans* | | *Value* | | *Countries* | |
|---|---|---|---|---|---|---|
| *Type of lending* | *Number* | *Percent* | *Amount (US$ million)* | *Percent* | *Number* | *Percent* |
| Second-pillar implementation | 43 | 21 | 1,648.3 | 30 | 24 | 35 |
| All lending | 204 | 100 | 5,468.0 | 100 | 68 | 100 |

*Source:* OED forthcoming.

Table 4.4 indicates the proportion of lending throughout this period in which some portion of the loan was associated with either "actual reform measures" or "institutional capacity building" for a second pillar. (It does not include loans with "general analytical support," which may or may not have resulted in the implementation of a second pillar). Because it is not possible to distinguish the proportion of any individual loan associated with each pillar (many of these are multipillar reforms), this represents an upper bound of the proportion of Bank operations that supported second-pillar implementation during this period. This shows that just slightly more than one-fifth (21 percent) of pension-related loan operations had some element of second-pillar implementation, representing 30 percent of the value of lending and involving a similar proportion (24 of 68) of the countries in which the Bank engaged in some pension-related operations.

Similarly, some observers have suggested that the World Bank's lending for second-pillar pension reforms have been oriented exclusively toward reforms associated with a dominant second pillar. Only a handful of the pension reforms over this period met these criteria: Bolivia, Chile, Kazakhstan, Mexico, and Peru. Table 4.5 shows the lending related to these reforms in proportion to the total value of pension lending over the period. The pension component of these loans was $943.1 million out of the total pension component of $5.4 billion, indicating that 17.2 percent of all pension-related lending was associated with reforms with a dominant second pillar. This represents less than half of the approximately $2 billion in lending (including general analytical support) for loans that had any association with second-pillar reforms.

### *Supporting Implementation*

The manner in which the World Bank has engaged in pension reform activities with its clients can also be viewed in relation to the extent to which its loans were made in advance of the enactment of a reform (and

**Table 4.5. World Bank Lending for Reforms with a Dominant Second Pillar, 1984–2004**

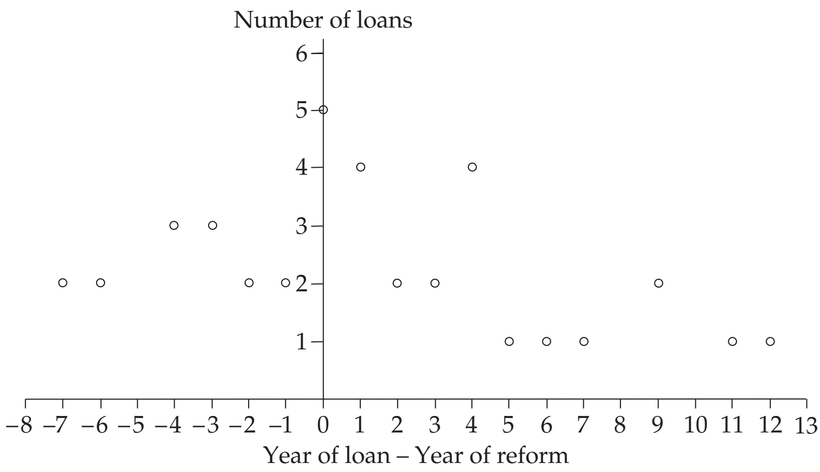
| *Type of lending* | *Value (US$ million)* | *Percent of all loans with a pension component* |
|---|---|---|
| All loans with a pension component | 5,400 | 100 |
| Loans for reforms with a dominant second pillar | 943.1 | 17 |

*Source:* OED forthcoming.

thus may have influenced the design of the reform) compared with the extent to which loans were approved and disbursed after enactment of the reform (and thus responded to a policy framework that the country had already put in place). Figure 4.1 indicates that most of the pension-related loans were made in the years immediately following enactment of the reform rather than prior to enactment.

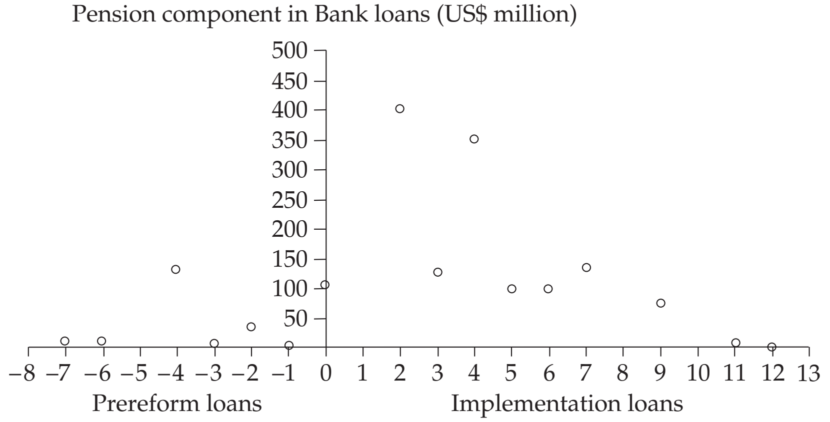
The World Bank's role in multipillar reforms emerges even more clearly when the value of World Bank lending before and after reform is considered. Figure 4.2 shows that most of the World Bank's pension lending went to postreform implementation loans. About half of total pension lending was made in the two years following reform. Prereform lending

**Figure 4.1. Timing of World Bank Loans to Multipillar Schemes, by Number of Loans**




*Source:* OED forthcoming.

**Figure 4.2. Timing of World Bank Loans to Multipillar Schemes, by Amount of Loans**




*Source:* OED forthcoming.

was relatively small, and, within this subset, lending in the two years prior to reform was negligible.

As this analysis indicates, the pension-related lending operations of the World Bank were a very significant part of the overall activities of the Bank. These loans were widely dispersed over time and among regions, reflecting an approach that strongly emphasizes multipillar system designs. The majority of the lending involved some reform of existing publicly managed first-pillar systems, and there was an important, but certainly not dominant, focus on the development of funded second pillars. A large part of the lending took place after enactment of the reform, indicating a significant orientation to the implementation of client-enacted reforms rather than the use of lending to impose a policy "blueprint."