

PUBLIC

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

REGIONAL

NETWORK FOR PENSIONS IN LATIN AMERICA AND THE CARIBBEAN (PLAC NETWORK)

(RG-T2609)

TECHNICAL COOPERATION DOCUMENT

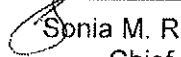
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NETWORK FOR PENSIONS IN LATIN AMERICA AND THE CARIBBEAN (PLAC NETWORK)

RG-T2609

CERTIFICATION

I hereby certify that this operation was approved for financing under the Social Fund (SOF) through a communication dated July 10, 2015 and signed by Su Hyun Kim (ORP/GCM). Also, I certify that resources from said fund are available for up to **US\$400,000**, in order to finance the activities described and budgeted in this document. This certification reserves resources for the referenced project for a period of four (4) calendar months counted from the date of eligibility from the funding source. If the project is not approved by the IDB within that period, the reserve of resources will be cancelled, except in the case a new certification is granted. The commitment and disbursement of these resources shall be made only by the Bank in US dollars. The same currency shall be used to stipulate the remuneration and payments to consultants, except in the case of local consultants working in their own borrowing member country who shall have their remuneration defined and paid in the currency of such country. No resources of the Fund shall be made available to cover amounts greater than the amount certified herein above for the implementation of this operation. Amounts greater than the certified amount may arise from commitments on contracts denominated in a currency other than the Fund currency, resulting in currency exchange rate differences, for which the Fund is not at risk.


Sonia M. Rivera
Chief
Grants and Co-financing Management Unit
ORP/GCM

10/19/2015
Date

APPROVAL

Approver:

Hector Salazar
Sector Manager
Social Sector
SCL/SCL

10/21/2015
Date

Network for Pensions in Latin America and the Caribbean (PLAC Network) (RG-T2609)

TC Document

I. Basic Information for TC

▪ Country/Region:	Regional
▪ TC Name:	Network for Pensions in Latin America and the Caribbean (PLAC Network)
▪ TC Number:	RG-T2609
▪ Team Leader/Members:	Solange Berstein (Team leader, LMK/CCH); Ethel Muhlstein (SCL/LMK); and Betina Hennig (LEG/SGO).
▪ Indicate if: Operational Support, Client Support, or Research & Dissemination	Client Support (CS).
▪ Date of TC Abstract authorization:	July 8, 2015
▪ Beneficiary (countries or entities which are the recipient of the technical assistance):	Entities that regulate and supervise pensions systems in: Chile, Costa Rica, México, Panama, El Salvador, Jamaica, Uruguay. Other countries in Latin America and the Caribbean (LAC) will be added upon request later on.
▪ Executing Agency and contact name (Organization or entity responsible for executing the TC Program)	Inter-American Development Bank, through the Social Sector, Labor Markets and Social Security Unit (SCL/LMK). Solange Berstein (LMK/CCH)
▪ Donors providing funding:	Special Program for Employment, Poverty Reduction and Social Development in Support of the Millennium Development Goals (ORC/SOF)
▪ IDB Funding Requested:	US\$400,000
▪ Local counterpart funding, if any:	0
▪ Execution period:	36 months.
▪ Disbursement period:	40 months
▪ Required start date:	November, 2015
▪ Types of consultants (firm or individual consultants):	Individual consultants and consulting firms
▪ Prepared by Unit:	Labor Markets and Social Security Unit (SCL/LMK)
▪ Unit of Disbursement Responsibility:	Labor Markets and Social Security Unit (SCL/LMK)
▪ TC Included in Country Strategy (y/n):	No
▪ TC included in CPD (y/n):	No
▪ GCI-9 Sector Priority:	Social Policy for Equity and Productivity

II. Objectives and Justification of the TC

- 2.1 **Objective.** The general objective of this technical cooperation (TC) is to improve the institutional and technical capacity of the pension institutions through the creation of a Technical Support Network for Pensions for Latin America and the Caribbean (PLAC Network). This network will provide technical support through: (i) improving the institutional capacity of pensions institutions, in the areas of regulation and supervision of pension systems; (ii) providing technical support to the design of pension policies, with a focus on sustainability, adequacy, equity and efficiency of the pension systems; nonetheless, special acknowledgement of pension systems over savings, investment and growth would need to be considered as well; and (iii) fostering exchanges of local and international good practices between countries.
- 2.2 **Justification and background.** The limited coverage of labor and scant enforcement of social security laws represent significant challenges for social security systems, and have an important impact on the adequacy and sustainability of pensions. Achieving universal coverage, regardless of type of employment, will require rethinking social security systems and having strong institutions to promote and implement necessary changes to provide effective protection.
- 2.3 Current lack of pension coverage, combined with aging, represent a hidden potential fiscal cost that governments are expected to assume, given increasing demands for pension benefits (Bosch, et al, 2013). Facing the challenge of financing pensions in Latin America and the Caribbean (LAC) requires strong institutions that can design and implement pension policies in a sustainable way. It also requires adequate regulation, supervision and management of pension systems. The institutions in charge of pension issues are not always well defined, well-

coordinated and do not have the necessary capacity.¹ Indeed, in LAC there is weakness in terms of government effectiveness² and regulatory quality³, which is shown by the World Bank World Wide Governance Indicator (WGI). In terms of government effectiveness, there are countries in LAC that rank less than 50%, such as El Salvador and Peru; this is far below OECD countries, with an average of 94% on the same indicator. For regulation quality, a number of countries in the WGI also rank low, close to 60%, like Colombia, Panama, El Salvador and Jamaica.⁴ The average of the region for these two indicators was in 2013 58% (Government Effectiveness) and 56% (Regulatory Quality), with very few countries in better stance, like Chile with 86% and 92%, both close or even above the OECD average, which is 86% for both indicators. Therefore, strengthening pension's institutions is important for the region in the long term. There are also short-term demands that policy makers would need to give responses to, and strong institutions need to determine what can be done in a context of increasing longevity.⁵

- 2.4 The PLAC network will provide technical support for policies and regulations with a long-term horizon, focusing in strengthening human capital and governance. There are countries that have taken action to improve pension systems around the world, in terms of sustainability, efficiency, coverage and adequacy. Nevertheless, there is no systematic assessment of the performance of different pension systems in the region that consider all these areas. Just Mexico and Chile are included in the Melbourne Mercer Global Pension Index and the methodology does not give sufficient relevance to some aspects in LAC, as low coverage. The PLAC Network will help to provide better information to assess performance of pension systems. Considering international experiences, the PLAC Network would not only promote learning initiatives and best practices from other countries in LAC, but also from OECD countries. PLAC Network would provide support to countries that is not found in other international associations and at the same time it would benefit from ongoing relationships between the IDB and supervisory and policy organizations, such as the Working Party on Private Pensions (WPPP) at the OECD, the International Organization of Pension Supervisors (IOPS), the International Association of Pension Supervisors in Latin America (AIOS) and the Caribbean Association of Pension Supervisors (CAPS). This is of great importance, given that these organizations currently do not have the capacity to provide a platform for cooperation that would help the region to share experiences, in and outside the region.
- 2.5 PLAC Network will provide technical support in line with the guidelines established in the Sector Framework Document-Labor (GN-2741-3) to provide institutional strengthening to the participant countries. The proposed activities are also aligned with the Ninth General Capital Increase (GCI-9, AB-2764) under the priority area of Social Policy for Equity and Productivity and with the update to the Institutional Strategy 2010-2020 (AB-3008) under the objective of developing quality human capital. In particular, as mentioned in GCI-9 Report "The presence of strong and effective institutions is a determining factor of a country's development." This Report explicitly considers the design and financing of social insurance programs as a priority area for labor markets development. Given that strong institutions are critical for

¹ There is evidence of the challenges that pension institutions face, for the case of Colombia see "Diagnóstico del Sistema Previsional Colombiano y Opciones de Reforma", Bosch, Berstein, Castellani, Oliveri y Villa. Unidad de Mercados Laborales y Seguridad Social, Nota técnica nº 825, Junio 2015.

² WGI Definition: "Government effectiveness captures perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies."

³ WGI Definition: "Regulatory quality captures perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development."

⁴ Government Effectiveness, Chile 86.1, Costa Rica 67.9, Uruguay 66, Panama 63.6, Mexico 63.2, Jamaica 54.5, El Salvador 49.3; Regulatory Quality Chile 91.9, Costa Rica 68.9, Uruguay 68.4, Mexico, 67, Panama 62.7, El Salvador 60.3, Jamaica 58.4

⁵ The LAC member countries have different pension systems, for example Mexico, and El Salvador have a private defined contribution systems and Chile, Costa Rica and Uruguay have mixed systems. Jamaica has a public defined benefit pay as you go system. Level of coverage (% of workers that contribute) also is in general low, but diverse: Costa Rica 70.9, Uruguay 70.8, Chile 69.7, Panama 52.9, Jamaica 41.3, Mexico 34.7, Colombia 31.5, El Salvador 29.5, Peru 17.2 (Bosch, et al, 2013). This variety would allow the network to benefit from other countries experiences.

implementation and sustainability of sound policies; this network will help build technical capacity and promote good practices for pensions systems to attain their long-term goals.

- 2.6 The execution of the TC will take into consideration Regional Strategies that might be relevant for the studies, action plans and policy dialogues. This initiative seeks to promote horizontal and vertical cooperation at the regional level that could accelerate the incorporation of policies that increase the sustainability, adequacy, equity and efficiency of the pension systems. It would be also critical to consider the macroeconomic impact that this policies might have, given that there evidence of the importance of pension financing over economic growth.⁶ These goals will be supported, not only by generating and spreading knowledge, but also helping to develop institutions and human capital as needed. The IDB created a similar effort: Red SEALC I (RG-T1752, ATN/SF-11829-RG) in 2009 and Red Sealc II (RG-T2276, ATN/OC-13888-RG) in 2013 to support the efforts of governments to build and strengthen their public employment services in LAC. This network is still active and has been very successful in promoting international cooperation and learning through technical assistance and exchange.

III. Description of activities/components and budget

- 3.1 **Component 1. Technical assistance and identification and dissemination of good practices through technical visits, courses and workshops.** The objective of this component is to provide technical assistance and support to improve the institutional capacity in the areas of: policy design and implementation with emphasis in sustainability, adequacy, equity and efficiency of the pension systems and in regulation and supervision of pension systems. Technical assistance and support will be based on demand, but it is expected to cover: (i) exchanges of experiences between countries in and outside the region; and (ii) support for training; and (iii) organization of workshops or courses.
- 3.2 **Technical assistance procedure.** Technical assistance shall be determined on the basis of country requests. The procedure in order to receive it is as follows: PLAC Network member countries receive calls for proposals twice a year for submitting requests in order to receive technical assistance. The requesting countries interested in receiving assistance during the period in which the call for proposals is launched must send a request indicating an area of interest, justifying the relevance, the duration (a maximum of 5 days in each occasion) and planned dates, the type of support that will be provided in order for the visit to be carried out and a working plan. SCL/LMK analyzes the request through the project team leader and the SCL/LMK specialists responsible for the operations in the countries receiving and providing the technical assistance, and recommends adjustments to the request. Technical assistance will be documented by preparation of a technical report, including a diagnosis of the areas that need technical strengthening within the subject of exchange and an implementation plan. In case it is required, follow-up assistance will be given for support on the implementation process. In case of support for training, the recipient will provide a report and proof of assistance. The technical assistance can be performed by government officials as well as by independent expert consultants. The resources assigned to this activity are intended to cover the travel expenses for government officials to exchange knowledge with other countries in the region. And, in the case, that expert consultants conduct the technical assistance; expenditures will be covered according to the Bank's procedures. The technical assistance could be courses or workshops organized based on the topics of interest of the PLAC Network member countries. These courses or workshops could be organized jointly with other pension associations that will be partners of the PLAC Network mentioned in paragraph 2.4. PLAC Network will co-sponsor these activities and human capital in international annual meetings or will invite those partner associations to events requested by the member countries. The resources assigned to this activity are also intended to cover the organization of the event and travel expenses of participants of PLAC Network member countries.

⁶ "Contribución del sistema privado de pensiones al desarrollo económico de Latinoamérica. Experiencias de Colombia, México, Chile y Perú." Editor: Rodrigo Acuña. Authors: Leonardo Villar, Alejandro Villagómez, Rodrigo Fuentes, Pablo Secada. SURA Publication.

- 3.3 The activities of Component 1 will be: (i) videoconferences with IDB staff/technical consultants/government officials between two or more countries on specific issues; (ii) technical visits or Workshop/courses to promote exchanges of experiences between countries in and outside the region. A report summarizing discussions, proposals and conclusions is expected to be generated with the activities and recommendations during the technical visits or workshops; and (iii) furthermore, this component supports the hiring of short-term consultants to prepare reports that generate new knowledge and recommendations. The activities will be prepared by the TC coordinator in agreement with SCL/LMK specialists. Reports will be prepared to summarize the work done each semester.
- 3.4 Finally, the TC will finance a coordinator consultant of the PLAC Network who will: (i) organize and systematize all the documentation and experiences between countries, (ii) lead communications between the team leader, SCL/LMK specialists, country office specialists, and PLAC Network members; and (iii) coordinate call for proposals and the technical assistance through videoconferences and regional workshops or courses.
- 3.5 Component 2. PLAC Network Functionality.** The objective of this component is to build the Network for which it would be necessary to establish a platform for the PLAC Network members to interact and improve knowledge sharing through disseminating the activities mentioned in Component 1. This component will finance: (i) design of a communication and implementation strategy for the PLAC Network; (ii) translation and editing of documents to facilitate communication between countries speaking different languages; and (iii) design and construction of a website for the PLAC Network where the call of proposals will be launched twice a year and country members can send their request for technical assistance and be informed of the activities. Additionally, the webpage will contain information provided by countries about their pension systems.
- 3.6 Component 3. Sustainability of the Network.** The objective of this component is to design a systematic collaboration approach for the PLAC Network, so as to keep it running once the TC has concluded. This component will finance: (i) a consultancy to identify complementary sources of international technical and financial cooperation and country contributions with the purpose of making the PLAC Network sustainable over the medium-term; (ii) finance complementary study that constitute a knowledge base that would help the sustainability of the network, building up from experiences and lessons learned; (iii) documentation of good practices that includes institutional arrangements for pension systems policy design, regulation, supervision and administration, considering international experience in and outside the region; and (iv) data compilation of historic and current data on pensions, fiscal sustainability and other related variables provided by the PLAC Network country members.

Indicative results Matrix OUTCOMES

Increase the region knowledge of best practices and foster institutional capacity by exchanging experiences and building skills										
	Indicator	Unit of measure	Baseline	Baseline Year		Year 1	Year 2	Year 3	EOP	Means of Verification
1	Number of countries incorporated as members of the Network	Number	0	2015	P	7	2	1	10	Source: Letters of expression of interest.
					A					
2	Number of Government officials attending workshops, seminars and courses	Number	0	2015	P	0	10	10	20	Source: IDB approved reports that documents international good practices that were identified during the PLAC Network activities.
					A					
3	Number of	Number	0	2015	P	0	3	4	7	Source: Visit Reports and

Increase the region knowledge of best practices and foster institutional capacity by exchanging experiences and building skills										
	Indicator	Unit of measure	Baseline	Baseline Year		Year 1	Year 2	Year 3	EOP	Means of Verification
	Governments that have used the Network to learn from other countries experiences				A					Videoconference Reports (Approved by IDB).

OUTPUTS

1	Component 1: Technical assistance and good practices							
	Outputs	Unit of measure		Year 1	Year 2	Year 3	EOP	Means of Verification
1.1	Videoconferences with IDB staff/technical consultants/government officials between two or more countries on specific issues. (Number)	Number	P	2	3	2	7	IDB approved reports with the meeting objective, attendants, discussion, and next steps
			A					
1.2	Technical visits or workshop/courses to promote exchanges of experiences between countries in and outside the region.	Number	P	1	2	1	4	IDB approved report summarizing discussions, proposals and conclusions.
			A					
1.3	Hiring of short-term consultants to prepare reports that generate new knowledge and recommendations. (Number)	Number	P	0	1	1	2	IDB approved reports about pension issues with focus on sustainability, adequacy, equity and efficiency.
			A					
2	Component 2. PLAC Network Functionality							
	Outputs	Unit of measure		Year 1	Year 2	Year 3	EOP	Means of Verification
2.1	Design of a communication and implementation strategy for the PLAC Network.	Number	P	1	0	0	1	Document on communication and implementation strategy for the PLAC Network approved by IDB.
			A					
2.2	Translation and editing of documents to facilitate communication between countries speaking different languages.	Number	P	0	7	7	14	All documents generated by the Network translated to English, Spanish and Portuguese (Excluding Video Conference Reports)
			A					
2.3	Website for the PLAC Network	Number	P	1	0	0	1	Report with print out of screens of main pages of the Website.
			A					
3	Component 3. Sustainability of the Network							
	Outputs	Unit of measure		Year 1	Year 2	Year 3	EOP	Means of Verification
3.1	Consultancy to identify complementary sources of international technical and financial cooperation.	Number	P	0	0	1	1	IDB approved report that identifies complementary sources of international technical and financial cooperation
			A					
3.2	Lessons learned study that would help the sustainability of the network.	Number	P	0	0	1	1	IDB approved report that systematizes lessons learned during the PLAC network activities.
			A					
3.3	Documentation of good practices on coverage, equity, efficiency and financial sustainability of pension systems for sustainability of the network.	Number	P	0	1	2	3	IDB approved reports that documents international good practices that were identified during the PLAC Network activities.
			A					

3.4	Data compilation of historic and current data on pensions, fiscal sustainability and other relevant variables.	Number	P	0	1	0	1	IDB approved report that summarizes the data on Pensions and other relevant variables from member countries.
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Indicative Budget (US\$)

Activity/Component	Description	IDB/Fund Funding (ORC/SOF)
Component 1. Technical assistance and good practices		200,000
TC coordinator - Item 1	Organize and coordinate all activities of the PLAC network	60.000
Short-term consultants - Item 2	Generate reports about pensions with focus on sustainability, adequacy, equity and efficiency of the pension systems. This depends on members requests.	30.000
Expert consultants - Item 3	Prepares reports summarizing discussions, proposals and conclusions of each.	40.000
Logistics - Item 11	Technical assistance, visits, courses, workshops.	30.000
Travel expenses government officials Item 12	Technical assistance, visits, courses, workshops.	40.000
Component 2. PLAC Network Functionality		80,000
Communication and implementation strategy - Item 4	Design of a communication and implementation strategy for the PLAC Network.	30.000
Translation and editing of documents - Item 5	Translation and editing of documents to facilitate communication between countries of different languages	20.000
Design and construction of PLAC Network website - Item 6	Design and construction of a website for the PLAC Network where country members can send their requests for technical assistance and be informed of the activities.	30.000
Component 3. Sustainability of the Network		120,000
Consultant sustainability - Item 7	Identifies complementary sources of international technical and financial cooperation that allows sustainability	20.000
Consultant lessons learned - Item 8	Systematizes lessons learned during the PLAC network activities	20.000
Consultant good practices- Item 9	Documents international good practices that were identified during the PLAC Network activities.	20.000
Research assistant - Item 10	Gathers data and prepares reports about pensions, fiscal sustainability and other related variables.	30.000
Contingency/Miscellaneous/Incidentals		30,000
Total		400,000

- 3.6. The budget under **communication and implementation strategy** will finance the development and execution of an appropriate communications strategy disseminating the results achieved in the project among the key stakeholders in the countries, including the dissemination of the main findings of the labor market assessments, the process to develop the action plans and roadmaps including lessons learned, and the main results from the workshops, among others. The **monitoring / contingency / miscellaneous / incidentals** budget, on the other hand, will finance progress reports every six months during the implementation, financial report and final report at the end of the program in order to follow-up on the main results of the TC. The eligible expenses include gathering of information on the advance of the products and evaluating the final products of the TC with the Governments.

IV. Executing agency and execution structure

- 4.1 The Labor Markets and Social Security Unit (SCL/LMK) will be responsible for the direction, supervision and coordination of this TC. Given the nature of this TC, and the experience of SCL/LMK in comparing pension systems policies and institutions and identifying policy

innovations and reforms across countries, SCL/LMK will be responsible for the execution of this TC, upon request of the beneficiary countries (letters of request in annexes).

- 4.2 The execution of the TC will take into consideration Regional Country Strategies (CS) that might be relevant for the studies, action plans and policy dialogues. On the other hand, the Country Strategy (CS) with Jamaica is aligned with the Social Protection and Safety priority area; Mexico's the CS looks for actions that will contribute to the development of a regulatory framework and social security system; The priority of the Government Program 2014-2019 (Plan Quinquenal de Desarrollo 2014-2019 "El Salvador – Productivo, Educado y Seguro") for El Salvador is to adjust the current conditions of the pension system to ensure equity and sustainability.⁷ Within the priorities areas in the Strategy 2014-2018 of Chile is labor markets and health. One of the objectives of the government's strategic plan in Costa Rica is to consolidate social progress and extend protection to vulnerable groups to gradually but systematically reduce poverty. Panama in its Strategy CS wants to implement results-based fiscal management and social inclusion opportunities for the less developed regions and social spheres. The Country Strategy of Uruguay (2010-2015)s aligned with the Social Protection and labor markets priorities areas, as well as with the new CS (2015-2020) in preparation, in respect to the State Management Strategic Axis.
- 4.3 **Procurement.** The Bank will contract individual consultants, consulting firms and non-consulting services in accordance with current Bank procurement policies and procedures.
- 4.4 Each country will have the specialists of SCL/LMK as a focal point to monitor the activities planned in this TC. If there is a need to travel to these countries, the staff will cover their travel expenses with the Bank's supervision budget for this TC. SCL/LMK, specialists will be in charge of the submission of all reports required by the Fund and the Grants and Co-financing Management Unit (GCM).⁸
- 4.5 The execution period will be 36 months and the disbursement period will be 40 months.

V. Major issues

- 5.1 There are no major risks associated with the execution of this technical cooperation. Technical staff of the governments may have restrictions of availability to attend workshops or courses. However, this could be remedied with the technical assistance of short duration of the Component 1. On the other hand, the sustainability of the project after the TC, will be supported with Component 3 and also with the cooperation between the IDB and supervisory and policy organizations, such as the Working Party on Private Pensions (WPPP) at the OECD, the International Organization of Pension Supervisors (IOPS), the International Association of Pension Supervisors in Latin America (AIOS) and the Caribbean Association of Pension Supervisors (CAPS). Finally, the consultant for good practices and the experiences between countries will analyze the need for additional support by the Bank with other operations to improve the institutional and technical capacity of the pension institutions. Additionally, the TC will support the development of coordination agreements between governments with the objective to continue with the experiences, and to contribute to the strengthening of the institutions.

⁷ The priorities to be considered in this TC for El Salvador are mentioned in the Plan Quinquenal mentioned: "...los recursos del sistema de pensiones deben orientarse a actividades productivas generadoras de empleo que coadyuven a mejorar la capacidad productiva del país, y que permitan garantizar pensiones dignas." (pág. 146). Más adelante, dentro de la línea estratégica "E.1.6. Consolidación del sistema financiero público y de las alianzas con el sector financiero privado como motores del desarrollo", el Plan incluye la línea de acción "L.1.6.5. Promocionar las fuentes alternativas de financiamiento para el desarrollo productivo: uso de remesas, titularizaciones, fondos de pensiones, fondos de inversión y socios público-privados."

⁸ Institutions that will be focal points in each Country are: Superintendencia de Pensiones (Chile); Superintendencia de Pensiones (Costa Rica); Comisión Nacional para el Sistema de Ahorro para el Retiro (CONSAR in Mexico); Sistema de Ahorro y Capitalización de Pensiones de los Servidores Públicos, SIACAP, (Panama); Banco Central de Uruguay (Uruguay), Ministry of Finance and Planning (Jamaica), Superintendencia del Sistema Financiero (El Salvador).

VI. Exceptions to Bank policy

- 6.1 There are no exceptions to Bank policy.

VII. Environmental and Social Strategy

- 7.1 Based on the nature of this operation, there are no expected negative environmental or social impacts. Based on the Environmental and Social Safeguard Filter, the proposed technical assistance has been classified as category C. See [Safeguards](#).

Required annexes:

- [Requests from the clients](#)⁹
- [Terms of Reference](#)
- [Procurement Plan](#)

Optional annexes:

- [Expresiones de apoyo Red PLAC](#)

⁹ The program activities will only be implemented in a particular country when the letter of non-objection of the country is obtained.