

## IMPLEMENTATION OF PENSION REFORM

(TC-98-05-06-3-BO)

### EXECUTIVE SUMMARY

**BENEFICIARY:** Republic of Bolivia

**EXECUTING AGENCY:** Superintendency of Pensions, Securities, and Insurance (SPVS), through the Pension Administration

**FINANCING:**

Modality:	Grant - Window 1
MIF:	US\$1,100,000 - 60%
Local contribution:	<u>US\$ 720,000 - 40%</u>
Total:	US\$1,820,000 - 100%

**OBJECTIVES:** The principal objective of the project is to improve, design, install, and put into operation systems to monitor and supervise the compulsory social security system and the capitalization process, incorporating the reforms contained in legislation on pensions, property, and public credit. Specifically, action will be taken to: (i) develop and adapt regulatory standards and procedures within the framework of the Property and Public Credit Act and the Pensions Act; (ii) train staff at the Pension Administration, auxiliary agencies, and the Vice-Ministry of Financial Affairs; and (iii) strengthen information systems (software and hardware) in order to improve monitoring and supervision.

**IMPLEMENTATION SCHEDULE:**

Execution:	36 months
Disbursement:	39 months

**SPECIAL CONTRACTUAL CONDITIONS:** Prior to the first disbursement, the SPVS is to meet the following conditions to the Bank's satisfaction: (i) appoint a project coordinator with the necessary authority and time availability to coordinate this operation (paragraph 4.18); and (ii) commit the local counterpart funding (paragraph 4.2). The agreement will also contain stipulations on program monitoring and evaluation, the presentation of duly audited financial statements, and the observance of Bank procedures to procure goods and consulting services.

**EXCEPTIONS TO BANK POLICY:** None

## I. ELIGIBILITY

### A. Country eligibility

- 1.1 Bolivia was declared eligible to receive MIF financing on October 6, 1993.

### B. Project eligibility

- 1.2 Providing support for the implementation of pension reforms is consistent with the MIF's general objectives, since this operation will bolster reform of the country's social security system. The new system calls for private administration of contributions and individual capitalization, which will make it possible for long-term savings to be used in investment projects. The project is also consistent with the technical-cooperation criteria set forth in the Agreement Establishing the Multilateral Investment Fund, which stipulates (Article III, section 2, subparagraphs (d) and (e)) that funding may be granted under this facility for "assistance on developing and strengthening financial systems" and "to develop sound prudential safeguards, including accounting and disclosure standards, and institutions to administer them".

## II. OBJECTIVES

- 2.1 The principal objective of the project is to improve, design, install, and put into operation systems to monitor and supervise the compulsory social security system and the capitalization process, incorporating the reforms contained in legislation on pensions, property, and public credit.
- 2.2 The specific objectives will be to: (i) develop and adapt regulatory standards and procedures within the framework of the Property and Public Credit Act and the Pensions Act and their regulations; (ii) train staff at the Pension Administration and the Vice-Ministry of Financial Affairs in order to improve social security reform; and (iii) strengthen information systems (software and hardware) for purposes of monitoring and supervising operators in the compulsory social security system.

## III. BACKGROUND

- 3.1 The Pensions Act, which was passed in November 1996, replaced Bolivia's pay-as-you-go system with an individually-funded system based on private administration of pension funds, including safeguards for the management of medium and long-term resources on financial markets. The new system will promote investment by

stimulating financial markets and infusing highly liquid, fresh resources into capital markets. For this to happen, information on the new system must be disseminated, and monitoring and supervision must be improved. These are the objectives that will be supported under the project.

- 3.2 The Property and Public Credit Act was promulgated in June 1998 and established the Superintendency of Pensions, Securities, and Insurance (SPVS), which includes the Pension Administration [Intendencia de Pensiones]. The SPVS was organized as a decentralized agency under public law, and has its own technical and administrative management structure and nationwide jurisdiction; it is under the supervision of the Ministry of Finance, which has delegated this authority to the Vice-Ministry of Financial Affairs. The powers of the SPVS are set forth in the Pensions Act, the Securities Act, the Insurance Act, and the Property and Public Credit Act. By way of the Pension Administration, the SPVS oversees the payment of benefits, collection of contributions, the safety and solvency of investments, liquidity, profitability, and other activities related to pension funds, pension fund administrators, and other auxiliary agencies provided for under the law.

#### IV. THE PROJECT

- 4.1 Technical assistance will be provided in three areas: (i) consulting services specializing in standards and regulations and in information systems; (ii) staff training; and (iii) the procurement of computer equipment. The consulting component will assist in finalizing the regulatory framework, which is required for the Property and Public Credit Act and the Pensions Act; regulatory standards and procedures manuals on monitoring and supervision are also needed. Under the training component, national officials will take part in training programs offered by specialized consultants in Bolivia, as well as workshops, internships, courses, and other training events held in neighboring countries that have similar systems. The information technology component will allow for computer equipment to be purchased and systems to be developed that will make for better data management and better service and monitoring of the pension system.

##### A. Cost and financing

- 4.2 According to preliminary figures, the MIF will finance US\$1,100,000 and the local counterpart US\$792,000. The SPVS will be responsible for the local counterpart and for providing the necessary support staff and physical and logistical infrastructure. An executing unit will be set up to administer the funds in accordance with Bank policy and procedures; the unit's coordinator will be experienced in managing this type of program. This structure will ensure

proper compliance with standards and requirements and will prevent bureaucratic procedures from having a negative impact on project implementation. The distribution of costs and financing will be as follows:

<b>COSTS AND FINANCING</b> (in thousands of US\$)			
<b>Subprogram</b>	<b>Local counterpart</b>	<b>MIF</b>	<b>TOTAL</b>
<b>Subprogram I: Institutional strengthening</b>	280	800	1,080
- Consultants to prepare standards, regulations, procedures, manuals, and systems	215	580	795
- Training activities: professional-training events, workshops, panels, formal courses, and in-service training	65	220	285
<b>Subprogram II: Dissemination</b>	90	-	90
- Dissemination, information, statistical materials, and publications			
<b>Subprogram III: Information systems development</b>	200	200	400
- Purchasing hardware and software for the computer network and for the work of the Pension Administration			
Executing unit	122	-	122
Contingencies	28	100	128
<b>GRAND TOTAL</b>	720	1,100	1,820
Percentages	40%	60%	100%

B. Subprograms

- 4.3 The program is divided into three subprograms and includes a coordination component, as described below.

**Subprogram I: Institutional strengthening (US\$1,080,000)**

- 4.4 To allow the SPVS to better perform its assigned functions, institutional strengthening efforts will seek to support the development of regulatory and control structures in each of the areas of work by (i) hiring consulting services, and (ii) training staff who will contribute specialized knowledge and appropriate technology in pursuance of the objectives of the new social security system.

1. Consulting services (US\$795,000)

- 4.5 Bolivia has adopted a new format for its pension system but lacks experience and familiarity with the new system's administration. However, it can look to the experience of neighboring countries as

a good source of knowledge that can be tapped. Preliminary inquiries have shown that individual consultants and specialized firms are available in Argentina, Brazil, Chile, Colombia, and Mexico, and can provide the services called for in the project.

- 4.6 The following consultants would be hired: (i) two specialists in the preparation of rules and regulations for supervising pension fund administrators, for a period of six months each at a cost of US\$84,000; (ii) two specialists in investment regulation, for five months each at a cost of US\$96,000; (iii) an international advisor specializing in pensions, for one year (at the Santa Cruz regional office) at a cost of US\$102,000; (iv) two specialists in monitoring benefits, for ten months at a cost of US\$160,000; (v) one specialist to prepare and implement the account books, for one year at a cost of US\$102,000; (vi) two systems specialists to introduce automated control systems, for twelve months at a cost of US\$168,000; and (vii) two specialists in plan membership and transfers, for six months at a cost of US\$83,000. The SPVS has the administrative and technical capacity to hire and supervise all these consultants.

## 2. Training (US\$285,000)

- 4.7 Training activities will focus on staff at the Pension Administration and its regional branches, the Vice-Ministry of Financial Affairs, and other sector operators, such as pension fund administrators, agents, rating agencies, etc. The following areas will be covered: (i) monitoring and supervision of investments; (ii) control of their safekeeping; (iii) regulation of benefits; (iv) plan membership and transfers; (v) regulation of domestic and international market investments; (vi) benefit administration and policy; (vii) management of housing investments; and (viii) other issues.
- 4.8 Training will be provided through (i) professional-training events, (ii) workshops, (iii) panels, (iv) formal courses, and (v) in-service training. The professional-training events will address new, current, or general-interest topics and will focus on sharing the speaker's specialized knowledge, with possible exchanges of opinions with the participants. As a rule, these events will last two to five days, will be led by two speakers, and will have a maximum attendance of 30 to 40 persons. Six such events are planned, for a total cost of US\$45,000.
- 4.9 The workshops will provide more in-depth coverage of specific issues affecting the work of the Pension Administration and regulated operators. Workshops will normally last three to four days and will be run by moderators and/or consultants hired specifically for that purpose. In order to make effective use of facilities, equipment, and materials, the number of participants will be limited to 20. Two types of workshops will be held: local, on-site workshops and special-topic workshops held around

the country. Ten workshops are expected to be organized, at a cost of US\$97,000.

- 4.10 The panels will address controversial topics or issues that are open to different interpretations. These panels, which will be organized as single two-to-three-hour sessions, will be administered by two or three panelists representing different currents of thought. The panels will be held in public places that can hold 80 to 100 people and ideally should allow for the use of audiovisual aids. Three panels will be held, for a total cost of US\$38,000.
- 4.11 Formal courses will be used when standardized, extensive knowledge is to be imparted to a group of persons in a given field. Each course should have no more than 30 students and will be conducted by a team of qualified instructors, selected on the basis of the syllabus. Local universities interested in such extracurricular initiatives will be approached about making their facilities and faculty available. The total cost for this activity would be US\$45,000.
- 4.12 In-service training will consist of sending Pension Administration staff members to work at agencies in other Latin American countries (e.g., Chile or Colombia), so they may gain first-hand knowledge that they can then apply in their own work. A total of 20 Pension Administration employees could take part in this kind of training, at a total cost of US\$60,000.

**Subprogram II: Design and dissemination of educational and informational material (US\$90,000)**

- 4.13 The objective here is to transmit information to the population in the simplest way possible, thus making people aware of their rights and obligations as set forth in the Property and Public Credit Act and the Pension Act. This activity will be financed in full by the local counterpart.
- 4.14 The SPVS should seek to foster a culture of civic-mindedness with regard to the compulsory social security system and the benefits of capitalization. To achieve this goal, consultants should be hired to identify the market segments having the greatest need for informational material. Formats should be designed in such a way as to ensure reaching the sectors with the least knowledge of finance, using such means as pamphlets, leaflets, booklets, etc. In addition to the toll-free information line, models will be designed to disseminate information, publish statistical summaries, design spaces in the mass media for the beneficiary, and address other needs.

**Subprogram III: Information systems (US\$400,000)**

- 4.15 This subprogram, which will serve as a complement to the institutional strengthening component, will provide Pension Administration employees with computer software and hardware as a way of building a pensions, securities, and insurance information network that maximizes performance and efficiency.
- 4.16 For its first phase of institutional consolidation, the Pension Administration must have the necessary computer and printing capabilities so its staff can perform the specialized tasks of monitoring and supervising the institutions under its jurisdiction. The following items will be procured under this subprogram: (i) personal computers for the main office and nine regional offices (US\$222,000); (ii) three network printers (US\$18,000); (iii) nine personal printers (US\$5,000); (iv) three projectors (US\$25,000); (v) three servers (US\$30,000); and (vi) specialized, external fax/modem software and JAZ storage drives (US\$100,000). The MIF and the local counterpart will finance equal portions of the cost of this activity.

**Executing unit (US\$122,000)**

- 4.17 This heading will cover the fees of a consultant with experience in external-resource management. The consultant will serve for three years as the technical coordinator of the executing unit and administrative support services, in addition to carrying out project accounting. However, the SPVS will be responsible for project execution and for providing technical and administrative support to external consultants to ensure proper performance of their work. This activity, which will be financed by the local counterpart, also includes funding for contingencies in the amount of US\$128,000.

**ORGANIZATION AND EXECUTION**

- 4.18 The SPVS, through the Pension Administration and an executing unit, will be responsible for program execution. As a condition precedent to the first disbursement of funds, the SPVS must appoint a coordinator, who will oversee the unit's work and will: (i) hire the necessary consulting services; (ii) organize the tender processes for procurement of equipment and services; (iii) administer the operational aspects of the subprograms; (iv) report to the SPVS and the Bank on program execution; (v) supervise preparation of the program's accounting and operations records; and (vi) conduct an interim evaluation twelve months after the first disbursement as well as a final program evaluation. The procurement of goods and services and the presentation of the program's audited financial statements will observe Bank policies and standards. In addition, a revolving fund equivalent to 10% of the financing will be established to facilitate program management.

- 4.19 The MIF is currently financing another technical-cooperation operation for the SPVS aimed at consolidating and developing the securities market. Responsibility for that operation lies with the Securities Administration. Although both these operations fall under the SPVS, they will be executed by two separate departments with different objectives, purposes, and functions.

## V. PROGRAM RATIONALE

- 5.1 The proposed program is consistent with the government's development strategy, which focuses on a comprehensive, long-term macroeconomic adjustment program aimed at improving the competitiveness of the economy. Furthermore, one of the Bank's priority areas of action in Bolivia is institutional strengthening, in line with the process of reform and modernization of the State. The Eighth General Increase in Resources sets forth the need for the Bank to support the modernization and strengthening of financial and legal institutions in its borrowing member countries. The proposed operation is therefore fully in keeping with the Bank's program in the country.

## VI. BENEFITS AND RISKS

- 6.1 The program will play a very important role in the development of the compulsory social security system. With the social security system now privately administered, the State is responsible for regulating and supervising the institutions that will collect and invest contributions to retirement, survivor's, disability, and work-injury pensions. The program will support the establishment of agencies that efficiently oversee system operators to ensure proper allocation of long-term domestic savings and appropriate service delivery for the beneficiaries of the system.
- 6.2 The greatest risk would be that there is not enough available staff in the SPVS and the Vice-Ministry of Financial Affairs or that the staff does not have the necessary expertise for this program. In this connection, the SPVS and the Ministry of Finance have committed to assigning and keeping on the job qualified, trained personnel who will receive further training under this operation.

## VII. PERFORMANCE BENCHMARKS AND EVALUATION OF RESULTS

- 7.1 The criteria on which project performance will be evaluated will be based strictly on quality and the timely completion of anticipated outputs as a result of the activities to be carried out in the



various components. These outputs are described in the logical framework (Annex I). The progress and successful completion of the program will be evaluated on the basis of the annual and final reports to be filed by the executing agency.

#### VIII. EXCEPTIONS TO BANK POLICIES OR PROCEDURES

- 8.1 This project does not call for any exceptions to Bank policies or procedures in effect for this type of operation.

#### IX. ENVIRONMENTAL AND SOCIAL IMPACT CONSIDERATIONS

- 9.1 The profile was forwarded to the CESI on June 19, 1998, and no comments were received.

**IMPLEMENTATION OF PENSION REFORM  
SIMPLIFIED LOGICAL FRAMEWORK**

**GENERAL OBJECTIVE**

design, install, and put into operation systems to monitor and supervise the compulsory social security system and the capitalization

**SPECIFIC OBJECTIVES**

op and adapt regulatory standards and procedures within the framework of new legislation; (b) to train staff; (c) to strengthen informa  
d (d) to transmit information about the new system.

<b>Subprograms</b>	<b>Activities</b>	<b>Outputs</b>
<b>nal strengthening</b>	<ol style="list-style-type: none"> <li>Hire consultants to prepare: (a) supervisory standards and regulations, (b) investment regulations, (c) advisory services for the regional office, (d) standards on benefits, (e) account manuals, (f) systems, and (g) plan membership and transfers</li> <li>Provide training through professional-training events, workshops, panels, formal courses, and in-service training</li> </ol>	<p>Appropriate standards and rules formulated and in force (six months)</p> <p>Advisory services for Santa Cruz and standard benefits completed (12 months)</p> <p>Manuals, membership and transfer arrangements and systems completed and in effect (12 months)</p> <p>Staff from the Pension Administration, the Vice Ministry of Financial Affairs, and auxiliary operators trained (30 months)</p>
<b>ation</b>	Design educational and informational material to make people aware of their rights and obligations under the new legislation	Extensive dissemination of information on the pension system, especially among the population with the least knowledge about finance (30 months)
<b>tion systems</b>	Procure computer equipment, on-line systems, and appropriate software	Systems, programs, and equipment procured and in operation (24 months)
<b>ng unit</b>	Administer the project, prepare evaluation reports and financial statements, and see to other operational aspects	Successful program execution and supervision, completion of the work, and effective implementation of actions (39 months)

**PROPOSED RESOLUTION**

**BOLIVIA. NON REIMBURSABLE TECHNICAL COOPERATION PROGRAM FOR  
THE IMPLEMENTATION OF PENSION REFORMS**

The Donors Committee of the Multilateral Investment Fund

**RESOLVES:**

1. That the President of the Inter-American Development Bank, or such representative as he shall designate, is authorized, on behalf of the Multilateral Investment Fund, to enter into such agreements as may be necessary with the Republic of Bolivia and to adopt such other measures as may be pertinent for the execution of the plan of operations incorporated in the donors memorandum referred to in Document MIF/AT-\_\_\_\_ with respect to a technical cooperation, the purpose of which is the implementation of pension reforms.
2. That up to the amount of US\$1.100.000 is authorized for the purpose of this resolution, chargeable to the Technical Cooperation Facility of the Multilateral Investment Fund.
3. That the above mentioned sum is to be provided on a non-reimbursable basis.