

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

REGIONAL

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

(RG-T3105)

TC DOCUMENT

This document was prepared by the Project team consisting of: Waldo Tapia (Team leader, LMK/CPN); Oliver Azuara (SCL/LMK); Luciana García Nores (INT); Ethel Muhlstein (SCL/LMK); Tania Gaona (SCL/LMK); Margie-Lys Jaime (LEG/SGO); and Monica Maday (INT).

Under the Access to Information Policy, this document is subject to Public Disclosure.

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

RG-T3105

CERTIFICATION

I hereby certify that this operation was approved for financing under the **Ordinary Capital Strategic Development Program for Integration (RIN)** through a communication dated August 2, 2017 and signed by Goro Mutsuura (ORP/GCM). Also, I certify that resources from said fund are available for up to **US\$800,000** in order to finance the activities described and budgeted in this document. This certification reserves resource 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, represent a risk that will not be absorbed by the Fund.

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

Date

Approved: _____

Marcelo Cabrol
Sector Manager
Social Sector
SCL/SCL

Date

TC Document

I. Basic Information

• Country/Region:	Regional
• TC Name:	Network for Pensions in Latin America and the Caribbean (PLAC Network) Phase II
• TC Number:	RG-T3105
• Team Leader/Members:	Waldo Tapia (Team leader, LMK/CPN); Oliver Azuara (SCL/LMK); Luciana García Nores (INT); Ethel Muhlstein (SCL/LMK); Tania Gaona (SCL/LMK); Margie-Lys Jaime (LEG/SGO); and Monica Maday (INT).
• Taxonomy:	Client Support (CS)
• Date of TC Abstract authorization:	July 25th, 2017
• Beneficiary (countries or entities which are the recipient of the technical assistance):	Argentina, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Haiti, Jamaica, Mexico, Panama, Paraguay, Peru and Uruguay. ¹
• Executing Agency and contact name (Organization or entity responsible for executing the TC Program)	Inter-American Development Bank (IDB), through the Social Sector, Labor Markets Division (SCL/LMK).
• IDB Funding Requested (Facility for the Promotion of Regional Public Goods):	US\$800,000 IDB Regional Public Goods Initiative (BPR) under the Strategic program for the Development of Integration (RIN).
• Local counterpart:	US\$214,435 (in kind)
• Execution period:	36 months
• Disbursement period:	40 months
• Required start date:	November, 2017
• Types of consultants:	Individual consultants and consulting firms
• Prepared by Unit:	Labor Markets Division (SCL/LMK)
• Unit of Disbursement Responsibility:	Labor Markets Division (SCL/LMK)
• TC Included in Country Strategy (y/n):	No
• TC included in CPD (y/n):	No
• Alignment to the Update to the Institutional Strategy 2010-2020:	Social inclusion and equality & strengthen institutional capacity

II. Objectives and Justification

- 2.1 **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 in Latin America and the Caribbean (LAC). Achieving universal coverage, regardless of type of employment, will require rethinking social security systems and having strong

¹ Other LAC countries may be included upon request later. Each additional member will be invited by IDB in accordance to the suggestions of the steering committee of this TC (see par. 4.2), but there is no restriction for any institution in charge of regulating or managing a pension system in the countries of the region to be affiliated. New members will be announced during the annual meeting of the Network.

institutions to promote and implement necessary changes to provide effective protection. Pension systems across LAC are facing similar challenges in term of coverage, adequacy, and fiscal sustainability (BID, 2015). In addition, the aging process -decrease of fertility rates and increases of life expectancy, together with the high informality levels of the labor market will increase the pressure on governments to provide pension benefits to the elderly.²

- 2.2 A proper response to these challenges requires strong institutions that can design and implement pension policies in a sustainable way. It also requires adequate regulation, supervision and management of current and future pension systems. However, the current institutional functioning of many pension systems lack some of these characteristics. In many cases, the rules and roles of regulators and other authorities are neither well-defined nor well-coordinated, and many times there is a need to strengthen the capacity of pension institutions. The World Bank World Wide Governance Indicator 2015 (WGI) shows that government effectiveness of many LAC countries is below the average of the distribution. For example, El Salvador and Peru average less than 50% for the Government Effectiveness indicator, a value far below the mean of the countries that belong to the Organization for Economic Co-operation and Development (OECD) (88%). In terms of Regulatory Quality, the average of the region was 54% in 2015, a low value compared to OECD countries.³ Only Chile showed higher values for both indicators, 83% and 89% respectively.
- 2.3 The IDB has supported the analysis and improvement of the pension systems in LAC during recent years. This support includes the creation of the Network for Pensions for Latin America and the Caribbean (PLAC Network) in 2015. The Bank provided the technical assistance and the funds required for the functioning of the Network through the operation RG-T2609, ATN/OC-15231-RG, PLAC Network Phase I.⁴ The network has helped to build technical capacity and promote good practices regarding pension systems to attain their long-term goals through specific technical consultancies and workshops. The network improved the dialogue among its members by serving as consulting body and facilitating the exchange of information and experiences.⁵ The new phase of the network will strengthen its functioning by facilitating the exchange of information and experiences in the implementation of policy changes, improve the quality of regional indicators and provide evidence of effectiveness of policy alternatives -including those being tested through the IDB Pension Innovations Lab. This Lab is an IDB initiative and it designed to test policy alternatives to increase the volume of retirement savings for independent and low-income workers. It is based on translating international learnings, particularly behavioral economics, that spur long term savings, to the contexts of specific countries which lead to the adoption and use

² See Bosch, Melguizo and Pages. (2013).

³ See <https://data.worldbank.org/data-catalog/worldwide-governance-indicators>.

⁴ A total of 17 different institutions in the following countries are included in the Network (number of institutions by country in parenthesis): Argentina (1), Brazil (1), Chile (1), Colombia (1), Costa Rica (1), El Salvador (1), Haiti (1), Honduras (1), Jamaica (2), Mexico (1), Panama (2), Paraguay (1), Peru (1), Dominican Republic (1), Uruguay (1).

⁵ The first phase was funded with RG-T2609 and it provided the funds to create the Network. The original plan was to include 10 countries and provide 8 technical assistances (video conferences, technical visits or workshops), one technical note on the pension system of the region, seven translations of documents and one virtual platform. Almost all products have been completed and exceeded the original goals. Currently, the Network includes 17 institutions in 15 different countries, it has provided 23 technical assistances, 7 technical notes, one communication strategy, one platform and one transaction. It is expected to complete all products by 2018. These products have been critical to facilitate IDB presence in the region and the technical exchange among the institutions in charge of the pension systems.

of retirement savings projects. Many members of the Network are interested in participating in the Lab and adapt policy interventions in their countries.

- 2.4 **Objective.** The general objective of this technical cooperation is to improve the institutional and technical capacity of at least 13 pension institutions in countries of Latin American and Caribbean. Additional countries may be included in the TC later, through the support of PLAC Network Phase II. This network provides technical support through: (i) assisting governments in the design of pension policies, with a focus on coverage, sustainability, adequacy, equity and efficiency of pension systems based on technical evidence of their effectiveness; (ii) strengthening the institutional functioning of pension institutions in the areas of regulation and supervision of pension systems; and (iii) fostering exchanges of local and international good practices among countries. This new phase will ensure the proper functioning of the network, promote its institutionalization, and it will provide valuable information on the effectiveness of policy alternatives to improve pension systems.
- 2.5 This TC will include the following activities: (a) cooperation of the different countries in the network in topics of common interest, with focus on coverage, adequacy, and sustainability; (b) provision of technical assistance for developing cutting edge policies to improve the functioning of pensions systems; (c) seminars, courses and training information dissemination among participants; and (d) participation of member countries in different pension related events sponsored by the partner institutions.
- 2.6 **Alignment.** The support provided through the PLAC Network follows the guidelines established in the Sector Framework Document-Labor (GN-2741-7), which includes a description of institutional strengthening activities provided by the IDB. The proposed activities are also aligned with the update to the Bank's Updated Institutional Strategy (UIS) 2010-2020 (AB-3008) and its accompanying Second Revised Version of the Corporate Results Framework (CRF, GN-2727-6) as it contributes to the strategic policy objective of including all segments of the population in financial markets and furthers social inclusion, equality and labor formality. Additionally, the TC is in line with the sectoral priorities of access to formal employment (section V, dimension 1, page 41) and access to adequate and sustainable social security systems (section V, dimension 3, page 44) of the Labor Sector Framework Document (GN-2741-7). The TC is also consistent with the objectives of the of the Ordinary Capital Strategic Development Program for Integration (GN-2819-1), and in particular, with its objectives ii (strengthen the Bank's borrowing member countries' capacities to engage in regional initiatives) and vi (promote collective action and South-South Cooperation in LAC to address collective development challenges and opportunities. Finally, this TC will take into consideration country strategies that might be relevant for the studies, action plans and policy dialogues. It will also consider the macroeconomic impact of pension systems, given the evidence of their economic effects, particularly on economic growth.
- 2.7 **Related operations.** The functioning of the PLAC Network initiated with the operation RG-T2609, ATN/OC-15231-RG. This new operation will reinforce the current functioning of the network by improving the exchange among the members and by providing strategic support to better identify policy alternatives to improve the pension systems. This network is similar to others created by the IDB, including the Red SEALC I (RG-T1752, ATN/SF-11829-RG), established in 2009, and Red SEALC II (RG-T2276, ATN/OC-13888-RG), established in 2013. Red SEALC is a network that supports governments in LAC to build and strengthen their public employment

services. Red SEALC 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 This TC will be financed with US\$800,000 in resources from the IDB Regional Public Goods (RPG) Initiative, under the Strategic Program for the Development of Integration (RIN), and will also have US\$214,435 of in kind counterpart resources.
- 3.2 **Component 1. Regional technical assistance and identification and dissemination of good practices through technical analysis, courses and workshops (US\$400,000).** The objective of this component is to provide technical assistance and support to improve the institutional capacity of participants of the regional public good for policies focused on coverage, sustainability, adequacy, equity and efficiency of the pension systems and the regulation and supervision of pension systems in general. Technical assistance and support will be based on an annual definition of a general topic, and it is expected to cover: (i) policy design in several aspects of pension systems according to members' needs; (ii) support for training; and (iii) organization of workshops and/or courses.
- 3.3 The subject of the technical assistance will be agreed between the Bank and the members of the PLAC network on an annual basis. During the first quarter of the year, each participant will submit the order of preference of the subjects previously defined by the steering committee of this TC (see ¶4.2). The committee will define the final subject of technical assistance and the technical work will be contracted by IDB. The results and findings of the technical assistance will be communicated to the members of the network through following forms: (a) workshops or videoconferences; or (b) support for courses or training on a specific policy or regulatory element(s) of the pension systems. The courses and workshops could be organized jointly with other pension associations. The 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.
- 3.4 This component will require a coordinator consultant of the PLAC Network who will: (i) organize and systematize all the documentation and experiences among countries, (ii) lead communications between the team leader, SCL/LMK specialists, country office specialists, and participants of this network; and (iii) coordinate the technical assistance activities.
- 3.5 **Component 2. Pensions Innovation Lab (US\$300,000).** This component will finance two interventions in one or many countries for: (i) developing cutting edge policies that foster contributions to pensions systems. These interventions will be developed to spur long-term savings and they will entail state of the art technology, behavioral science elements, price incentives, persuasion and compliance mechanisms, as well as financial education; (ii) developing complementary studies currently implemented by members of the network. These studies will be focused on the improvement of the functioning of pension systems through the analysis of the behavior of workers and beneficiaries with respect to savings and labor decisions for retirement. The final purpose is to find evidence on the effectiveness of specific policy interventions to support a potential scaling-up. The topic and the country(ies) to implement these interventions will be announced during the annual meeting of the network. Those interested in participating in this subcomponent will submit a proposal during the first quarter of each year to the Labor Markets Division

(SCL/LMK) of the IDB. The specialists will analyze the proposals and present the results to the Steering Committee to select the most viable proposal, both technically and financially.

- 3.6 **Component 3. PLAC Network Functionality and Dissemination (US\$100,000).** The objective of this component is to support the dissemination of the activities included in Components 1 and 2. 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 among countries speaking different languages; and (iii) redesign the website of the PLAC Network, available in the languages of the participating countries. This Website would work as a repository of the documents produced by participants focused on practices for institutional arrangements for pension systems. It will also provide information on the results of the Pension Innovation Lab and relevant literature on policy design, regulation, supervision and administration of pension systems, considering international experience in and outside the region- and data generated by the activities in the Network - historic and current data on pensions, fiscal sustainability and other related variables.⁶ Finally, this component will finance (iv) the evaluation of the TC and (v) the contingencies that could potentially appear during the execution of the operation.⁷

- 3.7 The table below describes the distribution of funding in the TC between components.

⁶ All the information published in the network website will comply with the IDB information policies, in agreement with each member country.

⁷ The value was estimated on an annual basis with two possible sources of contingencies. The first is the possible extra costs derived from new members of the network. The current estimate is to include two more members in the Network every year. However, there is no restriction to affiliate more institutions from the same country. If this is the case, there could be increase the annual cost of organization of events and activities. The second source is Component 2, the Pensions Innovation Lab. The design and execution of the experimental interventions imply different risks during the collection of data and implementation of the interventions. This component would provide minor extra funding for any of this type of contingencies.

Indicative Budget (US\$)

Activity/Component	Description	Local*	IDB/Fund Funding (ORC/BPR)	Total
Component 1. Technical assistance and good practices		\$114,435	\$400,000	\$514,435
TC coordinator - Item 1	Organize and coordinate all activities of the PLAC Network		\$100,000	\$100,000
Short-term consultants - Item 2	Generate reports about pensions with focus on coverage, sustainability, adequacy, equity and efficiency of the pension systems.		\$180,000	\$180,000
Logistics - Item 3	Technical assistance, visits, courses, workshops.	\$114,435	\$70,000	\$184,435
Travel expenses government officials. Item 4	Technical assistance, visits, courses, workshops.		\$50,000	\$50,000
Component 2. Pension Innovation Lab		\$100,000	\$300,000	\$400,000
Short-term consultants - Item 5	Design of two regional experimental interventions in selected countries		\$70,000	\$70,000
Piloting of interventions - Item 6	Measurement and fine tuning of instruments of interventions		\$40,000	\$40,000
Execution of interventions. Item 7	Implementation of two designed experimental interventions	\$100,000	\$160,000	\$233,566
Logistics for intervention - Item 8	Technical assistance and oversight of interventions		\$30,000	\$30,000
Component 3. PLAC Network Functionality			\$100,000	\$1000,000
Communication and implementation strategy - Item 9	Design of a communication and implementation strategy for the PLAC Network.		\$30,000	\$30,000
Translation and editing of implementation strategy - Item 10	Translation and editing of documents to facilitate communication between countries of different languages		\$15,000	\$15,000
Design and construction of PLAC Network website - Item 11	Design and construction of a website for the PLAC		\$30,000	\$30,000
Other			\$25,000	\$25,000
Evaluation Item 12	Final evaluation of the regional public good		\$10,000	\$10,000
Incidentals			\$15,000	\$15,000
Total		\$214,435	\$800,000	\$1,014,435

* In kind. See Annex A for details of each country.

IV. Executing agency and execution structure

4.1 **Executing Agency.** Given the nature of this TC, and the experience acquired by the Labor Markets Division 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 (see letters in annex). The execution of the TC will also take into consideration Regional Country Strategies (CS) that might be relevant for the studies, action plans and policy dialogues.

4.2 **Steering Committee.** As required for the RPG, this TC will have a steering committee (SC). The purposes of this committee are: (i) analyze and monitor the development of the work program; (ii) propose and comment the annual topic to be evaluated in

participating countries each year; and (iii) facilitate the development of activities in order to achieve project objectives, contact and encourage cooperation with institutions of each country, provision of information necessary for the webpage of the network, participation in meetings and workshops. This Body will meet virtually every year and it will be composed for at least five delegates of the participating countries of the Network, with a respective alternate who would act in the absence of the delegates. Each country of the network will be part of this committee for at least one year of the duration of this RPG. The members of the SC will be selected by simple majority each year during the annual meeting of the network. The IDB-Project Team will act as the technical secretariat of the SC and will organize the annual meeting and will follow-up the agreements for the work plan.

- 4.3 **Monitoring and evaluation reports.** The Bank will prepare an annual progress report . These reports will include, a progress report, a detail of the in-kind contributions made during the period, the results obtained from the planned activities, the difficulties encountered and suggestions for adjustments for the remaining implementation period. A final evaluation will be carried out to determine the level of achievement of the objectives of the project, which must be carried out in accordance with Bank policies and submitted 180 days after execution period. This evaluation will be executed by a consultant.
- 4.4 **Procurement.** The Bank will contract individual consultants, consulting firms and other services in accordance with current Bank procurement policies and procedures. Specifically, Section AM-650 of the Administrative Manual “Complementary Workforce” will be applied in the case of individual consultants, the Policy for the Selection and Contracting of Consulting Firms for Bank-executed Operational Work (GN-2765-1) and its Operational Guidelines (OP-1155-4) for hiring consulting services of intellectual nature and the Corporate Procurement Policy (GN-2303-20) for other services. The project team leader in SCL/LMK will 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.
- 4.5 The execution period will be 36 months and the disbursement period will be 40 months.

V. Risks

- 5.1 The main risk associated with this TC is the low institutional capacity of many countries in general, to execute the interventions designed in the Pensions Innovation Lab component. These risks will be mitigated by the experience that SCL/LMK has acquired through its efforts in implementing similar interventions in the region.
- 5.2 The sustainability of the project after the TC is expected to be supported with the cooperation of the members of the Network and the IDB. The current fiscal imbalances of the pension systems will force countries to analyze policy alternatives to improve their functioning. In fact, many of them have been very active in participating in the Network and are providing in-kind support for the functioning of the network and the exchange of experiences in different countries. Similarly, the IDB and SCL/LMK have

an active agenda on the improving of pension systems of the region, so it would be expected to provide additional support to maintain the network in the coming years.

VI. Exceptions to Bank Policies

6.1 None.

VII. Environmental and Social Strategy

7.1 Based on the nature of this operation, there are no expected significant negative environmental or social impacts. Based on the Environment and Safeguard Compliance Policy (OP-703), the proposed technical assistance has been classified as Category C. See [Safeguard Policy Filter \(SPF\)](#) and [Safeguard Screening Form \(SSF\)](#).

Required Annexes

- [Letters of Commitment from Participant Countries](#)
- [Results Matrix](#)
- [Terms of Reference for Components and Activities to be Acquired](#)
- [Procurement Plan](#)