



Contextualising SDG Targets for the Senior Citizens in Bangladesh

Introducing a ‘Universal Pension Scheme’

Mustafizur Rahman
Towfiqul Islam Khan
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Funded by
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FOREWORD

One of the significant achievements of human civilisation over the last half century had been its ability to prolong individual human life in the world. This manifested in growing life expectancy at birth. It happened in almost all countries in the world and Bangladesh is no exception. If immediately after independence (1974) life expectancy of every new born in the country had been only 47.4 years, today as we approach the 50th anniversary of our nationhood, the comparable figure stands at 72.6 years (2019). In other words, people of Bangladesh are now living 1.5 times more in comparison to their post-independence compatriots. This achievement is much superior to the corresponding global record. What is more spectacular is that today, average life expectancy of the citizens of Bangladesh – a least developed country (LDC) – is no less than the global average.

An immediate fallout of this demographic transition in Bangladesh had been the increase in number and share of senior citizens in the country. For example, if in 1974, share of people aged 60 years and above was 5.1 per cent of the total population, the corresponding share was more than 7.7 per cent about five decades later. In terms of number, this implied an increase in number of this population cohort from less than 2.1 million to 8.2 million.

The above-mentioned positive shift in the population structure of the country was, as may be expected, accompanied by a number of economic and social challenges including health-related concerns. As this group of the population (senior citizens) formally exits the labour force, they have to be covered either by pensions or other social security arrangements to ensure proper livelihood conditions. In this connection, we observe that the country currently spends about 2 per cent of its GDP on account of social protection of which about 1 per cent accounts for pension of the former government staff. The share of senior citizens (non-government) in this total allocation is pretty meagre, amounting to 0.1 per cent of GDP. Thus, current fiscal allocation for the

purpose is much less than necessary and compares quite unfavorably with that of other developing countries.

Admittedly, the government has rolled out a plethora of social safety net programmes providing cash allowances to different vulnerable population groups. Besides the provision for retired government employees and their families, the only other social safety net programme available for private citizens is “Old Age Allowance Programme” (for 65 year and above). Arguably, the scheme providing “Allowance for the Widows” also covers a large number of senior citizens. However, effectiveness of these allowance schemes have been fraught with, among others, lack of organisational coordination, infiltration of non-targeted recipients and corruption in distribution. One may also argue that the eligibility criteria for old age allowances (65 years and above) should be at par with the retired government employees (59 and above).

Further, these schemes do not cover all potentially eligible population groups and the allocation per head is pretty modest. The current coverage comprises retired government employees (8 per cent of the demographic cohort), old age allowance beneficiaries (about 40 per cent) and private sector employees receiving gratuity or provident fund (about 10 per cent). Accordingly, estimates show that about 40 per cent of the senior citizens in Bangladesh are outside the ambit of any regular social protection scheme. Full coverage of these people (59 years and above) would possibly require an additional annual allocation of 1.6 per cent of GDP.

The experience during COVID-19 pandemic further revealed how absence of effective social protection schemes puts the disadvantaged population in extreme livelihood conditions. These “left behind people” had to confront not only income deprivation, but also other forms of exclusion because of their gender, geographical location, occupational status and civil identity. The pandemic further exposed that such social protection is not only necessary for the traditionally disadvantaged people experiencing exacerbation of their vulnerabilities, but also for the so-called “new poor”.

In view of the above, the rationale for introduction of a universal pension scheme (UPS) in Bangladesh is gathering critical momentum. It is now being convincingly argued that Bangladesh economy is capable of allocating

enhanced share of public resources towards protection of its senior citizens. Indeed, for a modicum of its current status of (low) middle income country, Bangladesh needs to make visible and effective strides towards launch of UPS for all of its citizens. The country's commitment to the United Nations' 2030 Agenda for Sustainable Development also calls for this. The process of distribution of cash and food support by the government to vulnerable population groups during the novel virus scourge has created a great opportunity to make a move for putting together a relevant database.

The relevance and value of the current publication titled “Contextualising SDG Targets for the Senior Citizens in Bangladesh: Introduction of a Universal Pension Scheme” have to be appreciated in the evolving demographic, economic and social context elaborated earlier. The volume is coming out at a very opportune time as the country positions itself for the Eighth Five-Year Plan, graduation strategy for exiting the LDC group and reworking the SDG implementation Plan in the post-COVID situation. It is based on a study implemented under the project “Enhancing the Participation of Community-based Organizations (CBOs) and Civil Society Organisations (CSOs) in Democratic Governance in Bangladesh”, which is jointly implemented by CPD and Oxfam in Bangladesh with support from the European Union. It is my privilege to warmly congratulate the authors and my fellow colleagues – Professor Mustafizur Rahman, Mr Towfiqul Islam Khan and Mr Mostafa Amir Sabbih – for this very important and robust policy-oriented study. I would like to also sincerely felicitate all others who are associated in executing the study and putting this publication together.

Taking note of the success recorded by Bangladesh during half a century of its independent existence, we can foresee an early launch of a UPS for the senior citizens of the country. I trust that the present publication will make a defining contribution to that end.

Dhaka
December, 2020

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“Enhancing the Participation of CBOs and CSOs
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PREFACE

The present research was undertaken as part of the project titled ‘Enhancing the Participation of CBOs and CSOs in Democratic Governance in Bangladesh’, a joint initiative of the Oxfam in Bangladesh and the Centre for Policy Dialogue (CPD), funded by the European Union. The project seeks to strengthen capacity of grassroots community-based organisations (CBOs) and civil society organisations (CSOs) with a view to securing social and economic rights of vulnerable individuals and communities. The purpose is to enable them to have a greater say in the design and implementation of government policies and in the context of budgetary allocations associated with implementation of the Sustainable Development Goals (SDGs) in Bangladesh. One of the key features of the project is to help realise the SDG goals and targets in the specific context of Bangladesh in a way that the concerned activities meet the aspirations and cater to the demands of the country’s marginalised groups and communities through more effective delivery of public services at the local level.

While Bangladesh does have a large number of safety net programmes in place, a large section of the marginalised citizens of the country lacks adequate coverage and appropriate entitlements under the existing social protection schemes. This, however, goes against the principle of social inclusiveness embedded in the SDGs. The concerned issues are of growing importance and relevance to Bangladesh also because of the demographic momentum and the rising income inequality experienced by the country. In this backdrop, there is a growing demand from the CBOs and CSOs to have in place policies that favour a more comprehensive universal coverage under social protection, by moving from safety net type of programmes to universal social security coverage. Introduction of a Universal Pension Scheme (UPS) is reckoned to be a critically important step in this direction. The incumbent government in Bangladesh has also expressed its political commitment to adopt a UPS for the citizens of the country, which have been articulated in its planning documents and election manifesto.

The present study deals with the various practical aspects of introducing a UPS in Bangladesh including possible resource involvement, forms of contributions on the part of the government and labour market participants and the needed regulatory framework. It is hoped that the study will raise awareness and trigger broad-based discussion on this much needed policy initiative. In this regard, the CBOs and CSOs at national and local levels have an important role to play, through outreach and advocacy programmes and by highlighting the interface between UPS and the SDG implementation in a manner that leaves no one behind. A UPS could play an important role to promote social inclusion and development with equity through a more participatory and inclusive labour market, in light of the spirit of the SDGs.

As may be recalled, an earlier version of the study was presented at a national dialogue where key policymakers and representatives of relevant stakeholders groups were present. Thanks to this dialogue, the ideas flagged in the study had received wide coverage in the print and electronic media in Bangladesh. It is hoped that CBOs and CSOs will keep the agenda alive in the public discourse and advocacy groups will continue to pursue the issue with necessary policy activism. Publication of the present report will hopefully facilitate these activities. It is also hoped that policymakers will find the concrete policy recommendations presented in the report helpful, and that appropriate initiatives will be taken to launch a UPS in Bangladesh by taking cue from the three ILO pillars which the study has taken as its reference point. The possibility of policy buy-in in this connection should be strengthened by the fact that launching a UPS will be a crucially important step in going forward to attain the SDGs in Bangladesh by 2030.

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The authors would like to take this opportunity to express their sincere thanks to a number of concerned government agencies for sharing necessary documents and data which have helped as valuable background information for the study. These include the Bangladesh Bureau of Statistics (BBS), General Economics Division (GED), Ministry of Finance (MoF), Ministry of Social Welfare (MoSW), National Board of Revenue (NBR) and Ministry of Public Administration (MoPA). The authors would like to put on record their appreciation of the very helpful support received from government officials, experts and representatives from insurance sector who have shared their views at different stages of implementing the study.

The team gratefully acknowledges the comments and suggestions offered by representatives of various stakeholder groups and the experts who had participated in the national dialogue titled “Introducing a Universal Pension Scheme in Bangladesh: In Search of a Framework”. The dialogue was held on 3 November 2019 to discuss the findings presented in an earlier draft of the present report. In this regard, authors would like to register their deep appreciation of the presence of, and valuable inputs provided by, Mr M A Mannan, MP, Honourable Minister for Planning, Government of Bangladesh. The authors thankfully recall positive consideration of the ideas presented in the study by Mr Abul Kalam Azad, MP, Chairman, Parliamentary Standing Committee on Ministry of Planning. Dr Zahid Hussain, former Lead Economist, The World Bank, offered a number of insightful suggestions at the dialogue which helped to improve the quality of the revised draft. Comments offered by Mr Md Faizul Islam, Joint Chief at Planning Commission, Government of Bangladesh are also gratefully acknowledged. The authors would like to thankfully recall the thoughtful comments offered at the national dialogue by Mr Daniel Rackowski, Attaché, Project Manager-

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Dhaka
December, 2020

Professor Mustafizur Rahman
Distinguished Fellow, CPD

ABOUT THE PROJECT

The overarching objective of the project titled “Enhancing the Participation of CBOs and CSOs in Democratic Governance in Bangladesh”, funded by the European Union, is to promote the cause of transparency, voice and accountability in the implementation of Sustainable Development Goals (SDGs) in Bangladesh.

Bangladesh is at present working towards implementing the SDGs, which have set the global ambition of attaining 17 goals and 169 targets by 2030. A total of 193 countries including Bangladesh have committed to implement the 2030 Agenda for Sustainable Development with its global vision of economic growth, inclusive societies and sustainable development.

Transparency and accountability in public decision-making are key to ensuring that efforts at implementing the SDGs deliver the expected results. In this backdrop, it is critically important that the voices of the people, especially the marginalised, the women and the other left behind groups, are being heard and actions taken accordingly. However, oftentimes, it is seen that the demands of the marginalised groups remain unaddressed and their expectations are not reflected in national policies. There is thus an urgent need for participatory governance which will ensure meaningful participation of grassroots people through inclusion in decision making power structures.

The project’s aim is to contribute towards implementation of the SDGs in Bangladesh through enhanced participation of the community-based organisations (CBOs) and civil society organisations (CSOs). Oxfam in Bangladesh and Centre for Policy Dialogue (CPD) have joined hands to implement the aforesaid project which seeks to strengthen the role of local CBOs and CSOs through capacity building to ensure that the demands made by people at the grassroots get heard and measures in view of this are implemented by policymakers at national level.

The project is making best use of the comparative advantage of the two collaborating institutions to achieve the expected results. Oxfam in Bangladesh

is taking advantage of its extensive network to reach the local level to ensure engagement and capacity building of local communities and marginalised groups in support of SDGs implementation in Bangladesh. CPD, a leading think tank of the country, is contributing by undertaking research and through wide-ranging publication and advocacy activities. It is to be noted that, the CPD, the secretariat of the Citizen's Platform for SDGs, Bangladesh, connects the project activities with one of the most well-represented networks of non-state actors working towards implementing the SDGs in the country.

The project activities largely focus on a select set of riverine islands (Char in Bengali), wetlands (Haor in Bengali) and coastal areas belonging to 13 districts of Bangladesh. These are Barguna, Chattogram, Gaibandha, Jamalpur, Kishoreganj, Kurigram, Netrokona, Nilphamari, Pirojpur, Rangpur, Satkhira, Sirajganj, and Sumanganj. These are considered to be areas with high levels of poverty, suffering from remoteness, vulnerability to climate change and proneness to disasters. It is reckoned that the need for improved service delivery through transparency, accountability and good governance is of heightened importance and relevance as far as these marginalised and geographically handicapped areas are concerned. Winning the fight to achieve the SDGs, from the vantage point of leaving no one and no area behind will, without doubt, hinge on how successfully specific challenges faced by these communities and these areas are addressed adequately. It is also hoped that in the process the project will contribute towards implementation of the national five-year plans and the Vision 2021 Perspective Plan of the government.

The project's target groups include 50 thousand members belonging to 325 women-led CBOs/CSOs and 300 CSO representatives from 13 upazilas. Also, 450 local authority representatives and 650 local government officials will have an opportunity to enhance their knowledge and understanding about effective delivery of the SDGs. Project activities will focus on how best to deliver local level public services to the doorsteps of the beneficiaries. It is also hoped that project-related stakeholders will use the new knowledge to advocate the needs of local communities they serve and by working with local level communities will work to ensure delivery of public services at the local levels. Overall, the project is expected to benefit 175,000 people living in the 13 districts during the three and a half-year period of its implementation.

EXECUTIVE SUMMARY

Bangladesh's journey of dual transition from a least developed country (LDC) to a developing country, and from a low-income country to a lower middle-income country—entails that it will need to design and pursue policies that are commensurate with the growing expectations of its citizens for better social welfare and a more economically secured life which reflect its economic achievements. The number of people over 60 years of age in Bangladesh is projected to constitute 20 per cent of total population by 2051. This demographic momentum makes it necessary and urgent to undertake policies that guarantee a secured life for its senior citizens. Introduction of a UPS demands careful and prioritised allocation in this connection. The idea of a Universal pension scheme (UPS) is also aligned with five specific targets across five SDGs which concern social protection for the elderly and other vulnerable groups in the society. As may be recalled, the government of Bangladesh is also committed to establish a comprehensive pension system for the elderly citizens of the country. The present study aims to contribute to the design of the proposed scheme by the government by coming up with a framework for the proposed UPS, financing modalities and regulatory—institutional architecture to facilitate operationalisation of the proposed UPS.

With a view to introduce a UPS in Bangladesh, the study first undertakes an analysis of the available secondary information concerning social security for the senior citizens at the country level. Rationale for introducing a UPS is justified on the grounds of aligning the scheme with commitments of the Seventh Five Year Plan, the SDGs, election manifesto of the ruling party and budgetary commitments. Analytical framework was designed based on detailed review of the literature and national and global-level policy documents. Secondary data on the labour force, government budget and financing are then analysed to estimate the costs, benefits and sources of financing related to various proposed scenarios. Perspectives of government officials, civil society experts, think tank members, private

sector representatives, and development partners have informed this exercise, for which a number of dialogues, discussions and Key Informant Interviews (KIIs) were held.

According to the findings of the study, it is estimated that currently more than 40 per cent of old age population (65+) do not receive any type of pension or social security benefits. Based on the ILO multi-pillar pension model and drawing from various country experiences, the study develops the different scenarios of introducing UPS in Bangladesh and outlines the needed legal reforms, institutional framework and the required financing under the different scenarios, and in consideration of the assumptions. The study shows that fundamental reforms will need to be undertaken before the UPS can be introduced in full measure. However, a UPS can be launched, under the prevailing conditions in Bangladesh, in a limited format, which then could be expanded in scope, depth and coverage, in a gradual and phased manner.

Need for legal and policy reforms

The Old age allowance (OAA) was introduced in Bangladesh in 1998 for the elderly people in line with Article 15(d) of the Constitution of Bangladesh. The law regarding the provident fund (PF), however, is an old one. The Provident Funds Act (PFA), 1925 is the legal instrument that guides the government employees' provident fund system. However, PFA 1925 does not cover the private sector employees' provident funds; its membership is limited to government public servants. There are few private sector organisations in Bangladesh which have recently initiated the contributory provident fund system. These organisations deploy the accumulated funds according to their own investment strategies. Tax deductions and incentives are subject to approval by the National Board of Revenue (NBR) under the Income Tax Ordinance, 1995. Private trusts in Bangladesh are guided mainly by the Trusts Act 1882. For the insurance sector, Insurance Development and Regulatory Authority (IDRA) Act of 2010 provides the guidance in concerned areas.

To avoid the aforementioned legal complexities, a single Pension Act incorporating the acts related to provident fund and pensions in Bangladesh could help introduce a two-pillar model of pension in the country like the one in operation in Maldives. Unlike the PFA, the proposed Act includes both government and private sector employees. The administration or the trustee board of the pension scheme would be legally bound by the Pension Act. Eligible people would have an obligation under the Pension Act to register their names in the Pension Scheme. Regulatory framework would protect the contributions made by the citizens during times of political unrest and financial upheaval. It will also have to incorporate the revised Trust Act 1882 to ensure efficient utilisation of pension funds and investment made from the fund. Knowledge about the scheme should be disseminated among people living in rural areas such as farmers and others when such scheme gets introduced, with all the legal aspects involved. CSOs and CBOs could play a major role in disseminating the knowledge about the scheme by encouraging people to participate and disseminating knowledge about rights and obligations.

Proposed institutional framework

Finance Division under the Ministry of Finance (MoF) is the only public institution in Bangladesh which manages both GERP and OAA. It is important to distinguish between the responsibilities of the government as an administrative authority and as a “trustee” vested with the responsibility to deal with pension benefits and to manage the funds. Due to absence of a separate trustee board, the employees in the private sector do not have legal accountability as regards the pension funds. To address this discourse, in order to cover the non-government employees under social security programme, a separate Pension Office, which would operate on an autonomous basis, could be formed under the MoF. The idea is to facilitate the operation of the UPFA and manage the overall process following the Universal Pension Act. The UPS framework in Bangladesh could include both non-contributory social protection pillar and a contributory social insurance pillar. The Pension Office could be divided into various groups

and the overall administrative responsibilities would be distributed among these groups.

The committee designated to register Pillar 0 participants at the upazila level should include representatives from CSOs and CBOs. The committee will examine if there is duplication in beneficiary selection and should have the power to take appropriate measures to address the problem. The committee would be under the supervision of the Pension Office. The beneficiaries under Pillar 0 would collect their pension benefit on a monthly basis similar to the current OAA. Another group of members would be responsible for collecting the amount of contribution from various organisations, paid for by respective employers and employees. They would transfer the contribution amount to pension accounts of the participants.

When the separate trust law for the introduction of UPS is enacted, a trustee board will need to be set up to operationalise the UPS. UPFA would act as a “trustee” to ensure that the pension fund is properly managed. Trustees should be capable of managing risks and ensuring that investment returns are promised. The trustee board will be obligated to follow the legal aspects of the UPS. The institution administering the fund could include both public sector administrators and private fund managers. The trustees should have the expertise and capacity in dealing with administrative aspects and investment management. The trustees should be guided by the rules and regulations informing the law enacted for setting up the UPS. They should ensure that sound corporate governance practices are followed in administering and managing the contributory pension scheme. The appointed pension fund managers will need to follow appropriate investment guidelines and in turn they should be subjected to proper oversight.

An appropriate institutional mechanism may be put in place to involve insurance companies in Bangladesh (GOB) in administration and management of the pension funds. The cumulative fund collected from the government and the private sector contributions could be converted

into NSIS with the assistance of an insurance company, such as the Jiban Bima Corporation (JBC). The selected entity would oversee the investment of pension funds in a variety of financial instruments; these could be government bonds, treasury bills, corporate stocks, and derivatives.

Financing framework

Government of Bangladesh (GOB) currently allocates about 0.9 per cent equivalent of GDP annually for OAA and GERP together; of this GERP alone accounts for 0.8 per cent of GDP. For introducing UPS with Pillar 0, it would require an additional average allocation equivalent to 0.1, 0.4 and 0.5 per cent of GDP annually to cover all the elderly citizens (65+), excluding those under GERP, at the rates of Tk. 500, Tk. 1,853 and Tk. 2,264 respectively by 2040. If the current trend is taken as the reference point, GoB would not require any additional allocation after FY2030 for covering OAA at the prevailing rate of Tk. 500.

GoB may opt for introducing contributory Pillar I following defined benefit (DB) scheme using PAYG method. If the government decides to provide fixed pension benefits of Tk. 2,511 (at the replacement rate of 15 per cent) and Tk. 3,349 (at the replacement rate of 20 per cent) to all eligible pensioners (65+), excluding GERP beneficiaries, in FY2020, it would require a monthly contribution of Tk. 325 and Tk. 433 respectively from all the private sector workers in the relevant fiscal year. However, if the informal sector employees do not participate, GoB and only the formal private sector employees do, contribution at the rate of Tk. 325 and Tk. 433 respectively per month will be required in FY2020 with the GoB plugging the resource gap (because of non-participation of informal sector employees) from its own coffer. Estimations carried out for this study suggest that at the replacement rate of 10, 15 and 20 per cent it would require an additional average allocation equivalent to 0.4, 0.7 and 0.9 per cent of the GDP respectively per annum from on the part of the GoB. Overall, to introduce UPS in Bangladesh, under different scenarios, including under contributory and non-contributory systems, an additional average allocation equivalent to about 0.1 to 0.9 per cent of GDP annually will be

required over the next twenty years to cover all the elderly citizens (65+). The corresponding requirement would be equivalent of 0.1 to 1.6 per cent of GDP annually to cover all the elderly citizens who are 60 years and above.

At a later stage of Pillar I, GoB, following defined contribution (DC) method, could require a mandatory contribution of 20 per cent of employee's pensionable wage (basic salary declared in the employment contract), requiring a minimum of 10 per cent each from the employee and the employer. Each employer will open a Retirement Pension Account (RPA) for the employees and will collect and make contribution on employees' behalf. The contribution rate can be adjusted annually in line with the changes in the level of salary of the employees using an indexation method. There will be a contribution period of 10 years as minimum and 20 years as maximum throughout the participant's employment period. Members will be eligible for early pension withdrawal if the balance in their RPA is sufficient to provide them lifetime monthly payment, that is, at least twice the amount of Pillar 0 pension amount prevailing at the time of retirement. The monthly pension payment will be calculated by dividing the balance in the member's RPA at the time he/she reaches 65 years, considering that the life expectancy is 72 years (which is the case at present). Thus, pension benefit will be calculated for a total of 84 months.

The study also highlights various preconditions and challenges under the aforementioned three areas and offers a number of recommendations to address the challenges.

Raising revenue mobilisation

Bangladesh has one of the lowest tax-GDP ratios among the South Asian countries and in the world. Introducing UPS, without raising more revenue, could result in lower allocation for other competing expenditures or an unsustainable involvement of the GoB. To be true, the government has taken a number of reform initiatives in recent years including the implementation of VAT and SD Act 2012, launching of the VAT online project and bringing more people under the tax net. The government

envisages to raise the tax-GDP ratio to 14 per cent by 2023 through implementation of the public finance management reform strategy for the period 2016-2021. If this target is reached, it will provide the needed fiscal cushions for introducing the proposed UPS in Bangladesh. However, the 7FYP target of attaining a tax-GDP ratio of 14 per cent is unlikely to be attained in the current FY2020. As a matter of fact, the ratio is stalling at about 9 per cent in recent years.

Bringing the private sector on board

PF in Bangladesh was introduced only for the government employees in 1982. Later, some private organisations took initiative to set up their own PF programmes and gratuity systems. Currently, very few private sector employers have a system in place for mobilising contribution from employees and providing pension benefits to their employees. As it is, without a mandatory and active participation of private sector employers, the contributory Pillar I will be difficult to operationalise in the Bangladesh context. Administration and regulation of contributory pension scheme for employed people will also require that private sector pension fund companies get involved in the market since they have the expertise in running this type of instrument and offering professional services which would ensure good returns on the investment funds.

Attracting informal sector employees by raising awareness

As is known, like in majority of developing countries, Bangladesh's labour market is predominantly informal in nature. Majority of the employed population do not have any institutionalised pension plans from their employers. Informal sector workers are engaged in a diverse range of activities, spatially distributed all over the country. This makes it difficult to reach to these people. Further, due to job market nature, migration rate is quite high among workers in the informal sector. Hence, workers, particularly with low income, are unlikely to be interested in a long-term pension scheme, more so if it is contributory in nature. It will also be difficult to take advantage of economies of scale. Significant work will have

to be taken to raise awareness about the benefits of a UPS even when it is contributory, and the fact that no one is being cheated is very important to attract the workers in this sector.

Ensuring financial inclusion

Nearly 59 per cent of the population in Bangladesh do not have access to financial institutions while almost half of the elderly population remain outside the coverage of the banking system. Majority of the people go to banks to receive transfer payments but not for “banking” in real terms. The central bank in Bangladesh has identified ten barriers to financial inclusion, including poor banking infrastructure, geographical coverage and high average distance from household to bank branches. Many low-income citizens are not aware of the advantages of holding a bank account. Greater financial inclusion will be needed as a precondition for introducing the UPS and here an extensive campaign to raise awareness will be called for.

Developing a private pension market and making it functional

For the funding of the DB schemes or the graduation from the DB to the DC system, it is important that private pension market is developed. However, at present insurance penetration remains very low in Bangladesh. Private insurance markets will also need to be regulated. IDRA Act 2010 states that the responsibility of pension market regulation has been given to the IDRA. Capacity of IDRA in managing insurance is also an issue. There exists a regulatory capacity gap in Bangladesh. Introduction of UPS will require significant qualitative improvement in the work of all concerned authorities including the regulatory bodies. Since Pillar I is a social insurance pillar, it will call for a sound, professionally run insurance industry and there have to be adequate opportunities to invest the pension funds and generate good returns. The necessary steps in this regard will have to be undertaken in right earnest in tandem with introduction of the proposed UPS.

Managing pension funds in a professional way

In order to make the proposed UPS sustainable, the funds will need to be invested in income-generating activities which will generate returns that make the scheme a reasonably profitable venture. Thus, what will be needed is improved investment climate where the UPS can sustain as a viable business model. Because of current restrictions, which limit the level of investment in government and government approved securities, neither the public nor private sector insurance and pension schemes in Bangladesh are active participants in the capital market. Furthermore, there is a pervasive trust deficit where workers in Bangladesh are reluctant to participate in UPS type initiatives. The procedures are often very time consuming and when there is a dispute it is very difficult to resolve the cases in the labour court to avail the PF benefits. Hence, there is general lack of interest in participating in UPS type schemes. Here is a classical principal-agent problem. Asset management companies in Bangladesh are also rare, making it difficult to manage public or private funds. There are also no regulations for institutional investors that could help manage the fund for investment. Also, banking sector of Bangladesh is not adequately prepared to provide a secure service which is needed to operationalise the UPS. Thus, there is a need for a qualified authority to oversee investment decisions of pension fund assets and proper management of liquidity reserves to generate good returns on investment and facilitate smooth transfer of incomes to beneficiaries after retirement.

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ACRONYMS

7FYP	Seventh Five Year Plan
APPV	Average Pension Point Value
BBS	Bangladesh Bureau of Statistics
CBO	Community Based Organisation
CPF	Contributory Provident Fund
CPPV	Current Pension Point Value
CRA	Central Recordkeeping Agency
CSO	Civil Society Organisation
CSPS	Civil Service Pension Scheme
DB	Defined Benefit
DC	Defined Contribution
DFI	Development Financial Institution
DNS	Directorate of National Savings
DSS	Department of Social Services
EDLIS	Employees' Deposit Linked Insurance Scheme
EFT	Electronic Fund Transfer
EPFO	Employees' Provident Fund Organisation
EPFS	Employees' Provident Fund Scheme
EPS	Employees' Pension Scheme
ERPS	Earnings-related Pension Scheme
FCB	Foreign Commercial Bank
FFPI	The Federation of Finish Pension Institutions
GDP	Gross Domestic Product
GEPF	General Provident Fund

GERP	Government Employees' Retirement Pension
GoB	Government of Bangladesh
GPF	Government Provident Fund
GSSA	Georgia Social Service Agency
IDRA	Insurance Development and Regulatory Authority
IESS	Institute of Elderly and Social Services
ILO	International Labour Organization
IMF	International Monetary Fund
INSS	Institute of Social Security
IRD	Internal Resources Division
JBC	Jiban Bima Corporation
KII	Key Informant Interview
LDC	Least Developed Country
LFS	Labour Force Survey
LIC	Life Insurance Corporation of India
MIPAA	Madrid International Plan of Action on Ageing
MoEPF	Ministry of Economy and Public Finance
MoESA	Ministry of Employment and Social Affairs
MoF	Ministry of Finance
MoFLSP	Ministry of Family, Labor, and Social Policy
MoLE	Ministry of Labour and Employment
MoLGRD	Ministry of Local Government and Rural Development
MoLHSA	Ministry of Labor, Health and Social Affairs
MoLSA	Ministry of Labour and Social Affairs
MoLSS	Ministry of Labor and Social Security
MoLSW	Ministry of Labor and Social Welfare
MoPA	Ministry of Public Administration
MoPDSP	Ministry of Population Development and Social Protection

MoPESW	Ministry of Poverty Eradication and Social Welfare
MoSAI	Ministry of Social Affairs and Integration
MoSD	Ministry of Social Development
MoSP	Ministry of Social Policy
MoSS	Ministry of Social Solidarity
MoSWL	Ministry of Social Welfare and Labor
MRPS	Maldives Retirement Pension Scheme
NAV	Norwegian Labour and Welfare Administration
NBFI	Non-banking Financial Institution
NBR	National Board of Revenue
NDC	Notional Defined Contribution
NLPL	National Lower Poverty Line
NOAPS	National Old Age Pension Scheme
NPS	National Pension Scheme
NSIB	National Social Insurance Board
NSIS	National Social Insurance Scheme
NSSS	National Social Security Strategy
NUPL	National Upper Poverty Line
OAA	Old Age Allowance
OABP	Old Age Basic Pension
OECD	Organisation for Economic Co-operation and Development
PAYG	Pay-As-You-Go
PCB	Private Commercial Bank
PFA	Provident Funds Act
PFRDA	Pension Fund Regulatory and Development Authority
PPF	Public Provident Fund
PVP	Private Voluntary Pension

RPA	Retirement Pension Account
SBC	Shadharan Bima Corporation
SCB	State-owned Commercial Bank
SD	Supplementary Duty
SDG	Sustainable Development Goal
SSIGO	State Social Insurance General Office
TFP	Total Factor Productivity
TyEL	Employees Pensions Act
UK	United Kingdom
UNDESA	United Nations Department of Economic and Social Affairs
UPFA	Universal Pension Fund Authority
UPS	Universal Pension Scheme
USA	United States of America
USD	United States Dollar
VAT	Value Added Tax



INTRODUCTION

1.1 Background

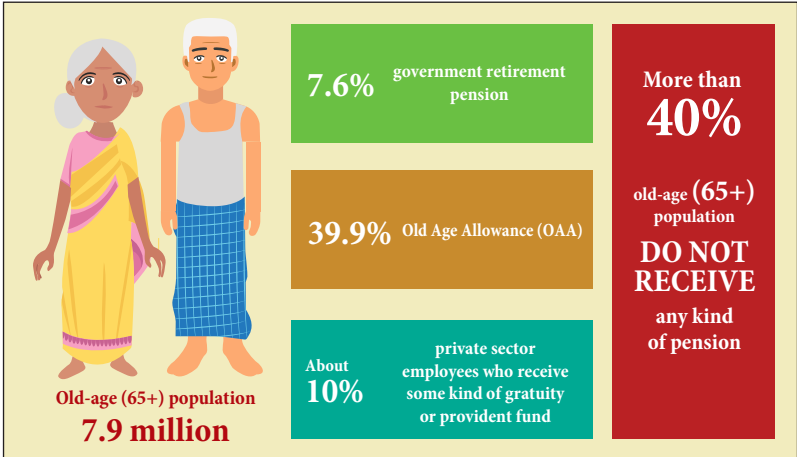
Bangladesh is currently undertaking a dual graduation journey, from a least developed country (LDC) towards a developing country, and from a low-income country to a lower-middle income country. This journey of dual transition entails that Bangladesh as a state will need to design and pursue policies that are commensurate with the growing expectations of its citizens for better social welfare and a more economically secured life. The issue of introducing a universal pension scheme (UPS) should be seen and examined from this broader perspective of the rising aspirations of the citizens of Bangladesh. In addition, Bangladesh's demographic momentum makes such a consideration both necessary and urgent.

With the rise in longevity, the declining mortality rate and the consequent rapidly growing ageing population, many developing economies are having to face a complexity of fiscal and administrative challenges in providing quality social security benefits to the elderly citizens of their countries. At stake is the issue of ensuring that they are able to live a life of dignity and security. Bangladesh is no exception to this newly emerging demand which consequently is attracting growing attention on the part of both policymakers and development practitioners. As may be noted, the number of people over 60 years of age in Bangladesh is projected to rise from about 12.6 million (8 per cent of total population) in 2017 to 20.7 million (11 per cent of total population) by 2031 and 42.3 million people (20 per cent of total population) by 2051 (BBS, 2015). The trend of increasing average life expectancy (72 years at present) is expected to raise the dependency ratio in Bangladesh, resulting in greater

vulnerabilities to be faced by a significant segment of the population. In the particular context of Bangladesh, the gravity of the situation is further accentuated by the inadequate coverage of social protection of those working in the informal sector of the country which constitutes about 85.1 per cent of the total employed people in Bangladesh.

Apart from the pension schemes in place exclusively for employees in the public sector, and a small fraction of those in the corporatised non-public sector in the country, the majority of those in the workforce in Bangladesh remain outside the ambit of any pension scheme. There is no system of “universal” pension scheme for the elderly in Bangladesh. In 1998, for the first time in Bangladesh, a modest “Old Age Allowance” (OAA) for the elderly was introduced by the government. However, OAA is a “means-tested” scheme and covers only 39.9 per cent of total population belonging to the age group of 65 years and above (Figure 1). Hence, a significantly large number of elderly people in Bangladesh continue to live outside the remit of this modest endeavour. It is also pertinent to recall here that the Sustainable Development Goals (SDGs) have set out an aspiration of life with dignity for all. Indeed, at least five SDG targets including SDG 1.3, SDG 3.8, SDG 5.4, SDG 8.5 and SDG 10.4 are associated with the issue of providing social protection to the citizens.

Figure 1: Status of old-age pensions in Bangladesh



Source: Authors’ estimation based on the data of Bangladesh Bureau of Statistics (BBS) and Ministry of Finance (MoF).

In this backdrop, a UPS merits serious consideration as a foundation to extend social protection to all citizens in Bangladesh. Indeed, the rationale for this becomes even more compelling if the SDG aspiration of leave no one behind is to be achieved in the Bangladesh context. The constitution of Bangladesh in Part II, Article 15(d) does mention about the rights of the citizens “to public assistance in cases of demand arising from unemployment, illness or disablement, or to deal with the needs of widows or orphans or those in old age, or in other such cases.” As a matter of fact, the need for a comprehensive pension system for the elderly in Bangladesh has been outlined in the ongoing *Seventh Five Year Plan (7FYP)* and the *National Social Security Strategy (NSSS)*. These testify to the government’s commitment to have a universal social protection for all elderly citizens of Bangladesh. The idea of a universal pension system for all ‘working population’, engaged in both formal and informal employment, has also been articulated in the national budgets for FY2019 and FY2020.

1.2 Objectives of the Study

The present study mainly aims to propose a framework for designing and implementing a UPS in Bangladesh. The study also attempts to answer a number of important questions. These are:

- Why the issue of UPS has acquired urgency in the Bangladesh context?
- Which model of UPS will best suit Bangladesh?
- What legislative changes will be required to introduce the proposed UPS in Bangladesh?
- What would be the ideal institutional framework to introduce the proposed UPS?
- What will be financial envelope needed to introduce UPS in Bangladesh based on different assumptions? How can the scheme be financed – through non-contributory tax-financed vs. contributory vs. mixed method?
- What are challenges that need to be addressed for successfully introducing a UPS in Bangladesh?

1.3 Methodology

A comprehensive review of literature to learn from global and regional experiences of UPS was undertaken. The relevant knowledge and models, including how universal pension schemes operate under various legislative and institutional environments, were reviewed. A further review of strengths and weaknesses of different strategies, for expanding existing coverage to every person was undertaken to feed into the analysis and to identify challenges, and in order to glean insights as regards best practices.

The study has drawn insights from relevant proposals outlined in the NSSS, as also national policies of other countries which have successfully implemented universal pension schemes of their own. Particular focus was put on other developing countries with similar social, demographic, and fiscal challenges as those facing Bangladesh. A draft study report was prepared on the basis of analysis along the aforesaid lines. The draft report was discussed with experts and practitioners and presented at a national dialogue to elicit comments and suggestions. Following incorporation of the suggestions, the draft was finalised.

Both quantitative and qualitative methods were used for the purpose of the study. Primary and secondary data sources were generated and accessed to gather the necessary information for study and learn from cross-country experiences. Secondary data sources include facts and figures gathered by the Department of Social Services (DSS), budget documents prepared by the Ministry of Finance (MoF), and different surveys conducted by the Bangladesh Bureau of Statistics (BBS), the United Nations Department of Economic and Social Affairs (UNDESA) and International Monetary Fund (IMF). Primary data were collected through key informant interviews (KIIs). Further, expert group consultations with the participation of academia, policymakers, and international development partners were held to learn from expert opinion, validate research questions and methodology to be applied, and get feedbacks on research findings.

1.4 Layout of the Report

The report has eight sections. Following the introductory section, rationale for introducing a UPS in the Bangladesh context is argued in Section 2. A brief overview of international pension models and country experiences is presented in Section 3. Section 4 provides a brief synopsis of the current available pension schemes in Bangladesh. Section 5 puts forward an implementation strategy with tentative timelines based on drawing insights from global experiences and various frameworks in place in different countries. Sections 6, 7 and 8 propose the necessary legal, administrative and financing framework respectively for introducing a UPS in Bangladesh. The report ends with a set of recommendations for addressing the key challenges which are anticipated in view of introducing the proposed UPS in Bangladesh.



RATIONALE FOR INTRODUCING A UPS IN BANGLADESH

2.1 SDG Commitment

A UPS should be seen as a crucial component of social protection in Bangladesh towards achieving SDG targets, particularly SDG 1.3, as also SDG 3.8, SDG 5.4, SDG 8.5 and SDG 10.4. SDG target 1.3 states that the policy and decision makers of a country should take into consideration the construction of comprehensive social protection systems based on the principle of universality, as part of the strategy to address and reduce poverty. The ILO called for combining contributory public pensions with non-contributory pension schemes with a view to providing social protection to all citizens (ILO, 2018). Providing income security in old age is also associated with attaining SDG 5 and SDG 10. Social protection floors such as universal pension schemes are an effective way to ensure that the benefits of development are shared fairly and equitably and that income security is ensured in old age, which in turn could help attain these goals (HelpAge International, 2016).

With the global commitment of the SDGs to achieve universal social protection and end poverty in all its forms by 2030, it is now well recognised that “universalism” should be central to any national development agenda. Many developing countries around the world have taken significant steps to extend pension coverage to their citizens. Universal pensions have been established in countries such as Argentina, Belarus, the Plurinational State of Bolivia, Botswana, Cabo Verde, China, Georgia, Kyrgyzstan, Lesotho, Maldives, Mauritius, Mongolia, Namibia, Seychelles, South Africa, Swaziland, Timor-Leste, Trinidad and Tobago, Ukraine, Uruguay,

Uzbekistan and Zanzibar (United Republic of Tanzania). A number of developing countries are approaching universality. Some of these are Azerbaijan, Armenia, Brazil, Chile, Kazakhstan and Thailand (ILO, 2017).

2.2 Human Rights and Other International Obligations

The UN General Assembly Resolution 24/20 (Agenda Item 3), adopted by the Human Rights Council (2013), which has signed on to, Bangladesh, “calls upon states to promote and ensure the full realisation of all human rights and fundamental freedoms for older persons and encourage states to conduct their age-related policies through inclusive and participatory consultations with relevant stakeholders and social development partners in the interest of developing effective policies, creating national policy ownership and consensus-building.” Social security is a basic human right recognised by the Universal Declaration of Human Rights (1948) and the International Covenant on Economic, Social and cultural Rights adopted by the UN in 1966. The constitution of Bangladesh in Part II, Article 15(d) mentions the rights of elderly people and articulates the notion of social security for the elderly people by emphasising the right of citizens:

“To public assistance in cases of undeserved want arising from unemployment, illness, disablement or any issues in old age.”

In the international context, UPS is perceived as a means of securing fundamental right through social transfers to the old age population. Providing social insurance in the form of universal pension scheme is also consistent with the Vienna International Plan of Action on Ageing (1982), the United Nations Principles for Older Persons (1991) and the social pension support commitments made by the Bangladesh government in view of the Madrid International Plan of Action on Ageing (MIPAA) 2002 adopted by Second World Assembly on Ageing. Indeed, the Madrid Plan called for halving the number of older people living in extreme poverty by 2015.

2.3 Welfare Argument

A key argument favouring a UPS is that it is geared to protecting the elderly population from the risk of falling into poverty. A large part of the elderly

population has to, at some point rely on income support from either the family or the government. Thus, the social benefits provided directly to the elderly can improve their status in the household, since the elderly will be seen as contributing to household income (Leite and Guven, 2016). It could provide security to low income informal sector workers which could replenish contributory savings (HelpAge International, 2017). UPS could provide regular predictable government-financed cash transfers to older people regardless of their previous working history (HelpAge International, 2016). The South African minimum pension scheme has reduced the number of South Africans living on less than USD 1 a day by 5 percentage points according to Case and Deaton (1998). Burns et al. (2005) analysed the distribution of household income with and without pension income and confirm this result. Using USD 1 per person per day as the poverty line, Jensen (2004) estimated that the minimum pension reduces the poverty rate of pensioner households by 26 percentage points.

2.4 Economic Benefits

A number of economic benefits is expected to accrue from investment in universal social pension across national economies (Kidd and Tran, 2018). Universal social pensions are an investment in less poor, healthier and a more cohesive societies all of which have important economic as well as social benefits.

Economic growth

Implementation of UPS generates economic growth. Expenditure on universal social pension should be viewed as an investment rather than an unproductive spending. Research in northern Namibia, for example, showed that one quarter to one half of pension income was invested in productive enterprises, while evidence from South Africa suggests that social transfers including pensions facilitate access to and create employment (HelpAge International, 2006). Investment in old age pension can generate greater demand and stimulate economic growth. High-income countries generate 7.2 per cent of gross domestic product (GDP), on an average, from spending in their old age pension schemes, which is a significant driver of higher consumption and economic growth (OECD, 2013). Holzmann (1997) found a positive relationship

between pension reform-induced financial market development and improvement in total factor productivity (TFP) in Chile. Schmidt-Hebbel (1998) reached similar conclusion to the effect that pension reform in Chile contributed to 0.1–0.4 per cent of the 1.5 per cent increase in the TFP growth rate, and to 0.4–1.5 per cent of the total 13 per cent rise in private investment. However, it is important that these are well-designed and aligned with the tax-financed system. For example, as was the case with Chile, having a state tax-financed pension, which is poverty targeted, can create disincentives for employees in contributing to social insurance and private contributory pensions since, by doing so, they may find that they lose out on the state pension. Indeed, in Chile, the poverty-targeting of the state tax-financed pension impeded the expansion of the formal economy and, therefore, the growth of pension funds (Kidd and Tran, 2018).

Investment in infrastructure

In many countries, contributory pension funds—both state social insurance and private schemes—are major sources of investment in business and infrastructure. Contributory pension schemes can build significant funds which can be used for generating economic growth (Inderst, 2009). According to OECD (2017) calculations, in the global economy the accumulation of assets by pension fund is increasing in a rapid pace from USD 21.3 trillion in 2004 to USD 39.3 trillion in 2015. Simply stating, about, USD 786 billion would have been made available for infrastructure investments with an allocation of 2 per cent of pension fund assets.

Investment in the financial market

Pension fund assets can be invested in financial market instruments such as treasury bills, commercial paper, deposit money banks, repurchase agreements, and short-lived mortgage and asset-backed securities. Liang and Bing (2010) conducted an empirical analysis using time-series data for the United Kingdom from 1970 to 2008 and revealed that pension fund growth has a positive effect on the deepening of financial market development. However, Hu (2012), using macro-economic and financial data of 10 Asia-Pacific least and middle developing economies, found

that pension had a negative effect on the relative size of deposit money banks as well as falling interest revenues. This indeed reflects a strong competition from institutional investors as regards alternative choices for investment (Davis and Steil, 2001).

2.5 National Priorities

Seventh five year plan

The 7FYP outlined a comprehensive pension system for the country's elderly population. The plan pointed out that the OAA will be given to the senior citizens of age 60 years and above and only the poor and the vulnerable population will be eligible for the allowance. Government employees' retirement pension was to continue without any change. The plan also proposed that possibility of establishing a National Social Insurance Scheme (NSIS) was to be explored and this was, to be managed by the Insurance Development and Regulatory Authority (IDRA) under the provisions of Insurance Act 2010, based on the principle of joint contributory payment by employers and employees. The report also proposes a Private Voluntary Pension (PVP) for all the elderly population irrespective of occupation or formality of employment. The OAA and the government employees' retirement pension (GERP) will be funded by the budget. The NSIS and the PVP would be funded through employer and employee contributions.

National social security strategy

The NSSS prepared by the government also recognises the merits of a "universal" approach to old age pension. The NSSS perceives universality as driver to expand the safety net portfolio that would address population groups with special needs such as the old age people. The safety net portfolio as an important government intervention tool was introduced in the 1990s when electoral democracy had a new beginning (GED, 2015).

Budgetary commitment

The introduction of UPS in Bangladesh was outlined in the national budget for FY2018-19. A brief narration was given regarding the

requirement of UPS in Bangladesh due to low coverage of pension benefit for old age population. The scheme envisaged the introduction of UPS for all working population engaged in private sector, both formal and non-formal. The budget also pointed out that under the proposed arrangement, an employee will contribute a specific amount to the pension fund having registered his/her name in the government administered pension scheme. Where applicable, the concerned authority will also deposit a specific amount into the employee's pension account. Following its earlier commitment, in the case of ultra-poor workers, the government was to deposit a specific amount into the pension fund. The fund thus constituted would be invested and the income generated therefrom was to be accumulated in the pension fund. However, budget FY2018-19 also recognises the challenges of fundamental structural reforms, protracted time and significant cost that are involved in view of introducing the scheme in Bangladesh.

The budget speech for FY2019-20 articulates the reform of the pension schemes in the following ways. First, the pension payment through electronic fund transfer (EFT) via mobile and bank accounts. This has already been introduced in Bangladesh, resulting in a significant reduction in hassle in time for the pensioners in receiving their pension. The budget also proposes to bring all the pensioners under the EFT system by the next fiscal year. Second, the budget for FY2019-20 proposes to bring all government employees under a group insurance scheme policy. The existing system will be reformed and converted into an integrated insurance system with the assistance of Jiban Bima Corporation (JBC). Third, pension reform was to be carried out with a view to introducing a UPS in Bangladesh. The budget indicated that a "Universal Pension Authority" would be constituted soon for gradual introduction of the UPS for everyone including all employed in formal and informal sectors of the economy.

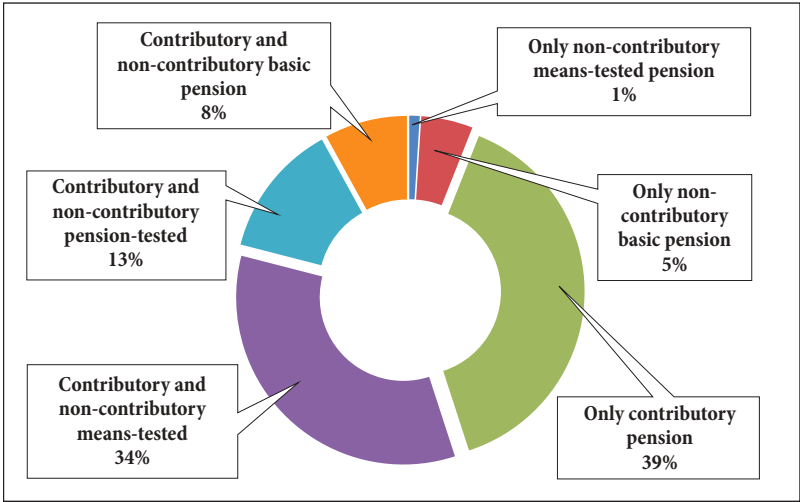
Election manifesto

Referring to the 7FYP, the election manifesto 2018 of the ruling government also mentioned that the introduction of the national social insurance and private voluntary pension was under consideration. Evidently, this was an idea whose time has come.

ANALYTICAL FRAMEWORK: AN OVERVIEW OF PENSION MODELS

Universal pension schemes have been implemented already in several countries, either in the form of a non-contributory social pension or through a contributory social pension. Some countries have introduced UPS through a combination of contributory and non-contributory schemes. According to a World Bank report (1994), low- and middle-income countries are also following the trend of establishing UPS as social security programmes with relatively low pensions which are easy to administer. International experiences gleaned from existing literature on UPS have been discussed below.

Figure 2: Share of countries providing old-age pension schemes, by type of schemes



Source: ILO (2017).

It is found that, a total 186 out of 192 countries (for which information is available) provide at least one pension scheme to their elderly citizens in the form of periodic cash benefit (ILO, 2017). A variety of combinations of different types of contributory and non-contributory schemes is being followed in implementing these schemes. A majority of countries has adopted either only contributory pension scheme (72 countries) or a mix of contributory and non-contributory means-tested pension schemes (64 countries) (Figure 2).

3.1 World Bank Multi-pillar Pension Model

In 1994, the World Bank came out with the recommendation of introducing the modern pension scheme through a three-pillar system. According to the World Bank three pillar pension model, countries are able to ensure that their pension systems are adequate, affordable, robust and sustainable. The first pillar in the pension model consists of a publicly managed pension scheme which is adapted by countries to alleviate national poverty. The second pillar comprises a privately managed pension scheme that is implemented by countries for income replacement. The third pillar has a voluntary pension scheme component which would help to fund retirement and also to bridge the retirement income gaps for all citizens. The second pillar requires mandatory contribution from the employers and the employees for financing of the pension scheme. The contributions were to eventually flow to the owner of the pension fund management. Funds would be invested in a competitive market to generate high returns on investment (World Bank, 1994).

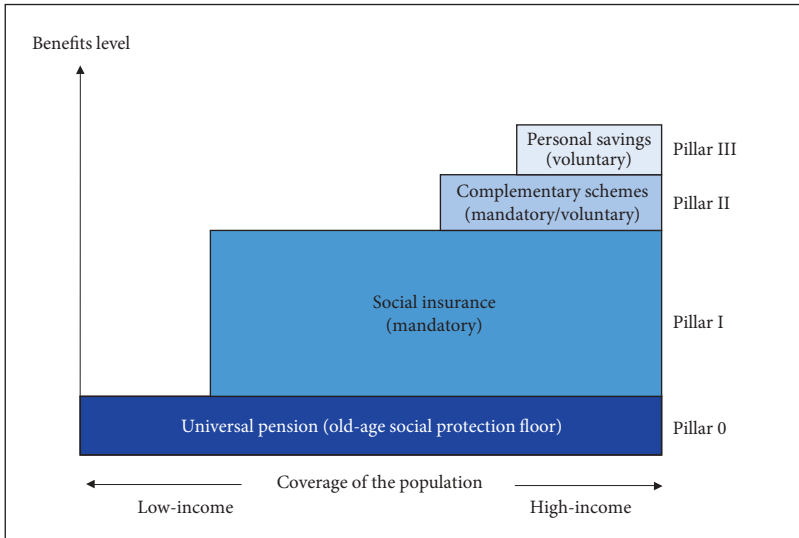
Later on, the World Bank multi-pillar pension model became part of a five-pillar model. A non-contributory “zero pillars” a mandatory “first pillar” which links contribution to earnings to replace some part of lifetime pre-retirement income, a mandatory “second pillar” which is funded by mandatory defined contribution (DC) scheme provided through individual savings account, a funded voluntary “third pillars” and a non-financial “fourth pillar.” Here the fourth pillar is a pension scheme that provides access to non-financial forms of informal support such as family support, other social programmes such as health care and housing, other individual financial and non-financial assets including

home ownership, and reverse mortgages where available (Holzmann, Hinz and Dorfman, 2008).

3.2 Country Experiences based on ILO Multi-pillar Pension Model

The ILO Multi-Pillar pension model can serve as a good reference point for Bangladesh in the context of introducing a UPS in the country. The model accommodates international best practices and is consistent with the ILO principles of social security which include the following: universality, social solidarity, adequacy and predictability of the benefits, responsibility of the state, non-discrimination, financial and economic sustainability, transparent management, and stakeholder involvement. The pillars in the ILO pension model embody a combination of different social protection instruments where each pillar plays one or multiple functions to meet the objectives of a national pension system (Figure 3).

Figure 3: ILO multi-pillar pension model



Source: Adapted from ILO (2018).

Pillar 0 (Social protection floor)

This pillar refers to a non-contributory pension scheme which is generally financed through government budgetary allocations. Regardless of the

design of the pillar, to achieve the principle of universality, the pillar is expected to guarantee a minimum income security to all the elderly people in a country. This pillar is usually implemented by countries with higher levels of informal employment and high incidence of poverty, and also where the extension of contributory pension coverage is likely to involve a protracted process of implementation. At least 60 per cent of countries have adopted this pillar through introduction of basic, means-tested or pension-tested schemes. Examples include “Renta Dignidad” in Bolivia, “Superannuation Benefit” in New Zealand, “State-guaranteed Minimum Pension” in Chile, “State Old Age Pension” in Botswana, “Old Age Basic Pension” (OABP) in Maldives, and “Mukhyamantri Vridhjan Pension Yojna” in India (FIAP, 2011; Sun, 2016).

Pillar I (Social insurance pillar)

Pillar I is a contributory pension scheme which is mandatory and follows a defined benefit (DB) method. It is usually introduced for the employed population in the country and financed through contribution from employers and employees. Its aim is to deliver higher levels of pension benefits to the older population to help them maintain a reasonable standard of living after retirement. This pillar is adapted by countries to include people working in the informal sector such as self-employed workers and workers in non-standard forms of employment. Developing countries generally tend to prefer DB scheme since it provides a minimum flat rate benefit to all participants, which increases with the years of contribution. Latin American and Sub-Saharan African countries including Costa Rica, Lesotho, and Timor-Leste implemented this pillar by using the DB method (ILO, 2016; Demirgüç-Kunt and Schwarz, 1995; Ministério da Solidariedade Social, 2017).

Pillar I may be introduced by using DC method in which both employers and employees contribute on a regular basis. DC pension plans provide a specified contribution rate on the basis of which the participants of the retirement plan receive a certain amount as pension benefit at the time of their retirement. This pension plan is mostly followed in upper middle-income and high-income countries. Examples include Denmark, France, Germany, Hungary, Maldives, Norway, Poland, and Switzerland (OECD, 2005, Sun, 2016).

Pillar II (Complementary schemes)

This pillar represents a complementary contributory pension scheme, which can be either mandatory or voluntary. Also, it can either be a DB or a DC pension scheme, which is generally financed by employers' contribution and is privately managed. Some countries follow this pillar in order to raise the pension benefits from Pillar 0 and Pillar I. Also, countries which tend to face problems in administering Pillar I are increasingly turning towards private pension plans. In countries such as Czech Republic and Latvia, the second pillar represents a relatively limited mandatory DC scheme which is fully funded and privately managed. In other countries some occupational pension schemes are operated by the employers and these allow voluntary entry. Canada is an example. Australia and Switzerland, on the other hand, are examples of mandatory entry. Such schemes are provided directly by employers or through private pension companies (Gillion et al., 2000).

Pillar III (Voluntary personal savings)

This pillar is also a complementary one that represents voluntary private pension schemes for those with financial capacity to make additional personal savings. It is generally managed by private pension administrators under full market competition and government regulation. Countries like Latvia have voluntary supplementary schemes whereby individuals and employers can make contributions to a private pension fund. The United States of America and the United Kingdom also maintain group voluntary pension schemes with a maximum contribution rate of 18 per cent and 17.5 per cent respectively (Gillion et al., 2000).



THE BANGLADESH CONTEXT

Though Bangladesh does not have any separate law or act for social security, constitutional provisions and other relevant rules and circulars, coupled with consistently growing allocation in the national budget every year, provide the legal basis for social protection in the country (GED, 2015). Currently, there are two government managed and tax-financed pension programmes: (i) the OAA Programme for the elderly and poor; and (ii) Government Employees' Retirement Pension (GERP) scheme for the civil servants.

4.1 OAA

Government initiative to provide old-age income security was limited in Bangladesh to public sector employees until the 1990s. Later on, with the increase of older population and following the trend of global concerns for senior citizens, GoB started to deal with issues of older people in the country in a more systematic manner. As a result, the government introduced the OAA programme in April 1998 with a monthly allocation of Tk. 100. This scheme provides monthly allowance to elderly poor. At present the monthly allowance for each individual is BDT 500. It is a means-tested monthly cash payment and the main goal is to mitigate vulnerabilities and income insecurity of the elderly citizens of the country.

The scheme has been implemented by the Ministry of Social Welfare (MoSW) in Bangladesh. MoSW was also responsible for the coordination and consolidation of OAA scheme. The pension benefits under OAA scheme is transferred through the Finance Division in Bangladesh (Cabinet Division and General Economics Division, n.d.). The programme was created and promoted by the government and it is financed from the government's revenue budget.

4.2 GERP

The pension system in the region constituting Bangladesh was first introduced in 1924 for the retired employees of the public sector. Later in 1994, GoB simplified rules and regulations governing pension policy. Government service staffs are eligible to receive a monthly emolument after retirement which is meant to provide income security to them and their family members, throughout the remaining period of life. The scheme is provided on the basis of length of qualifying service contributed by the employee and amount of emoluments last drawn. The person is eligible for the pension scheme only when he/she has at least ten years of qualifying service. The government has fixed a minimum age of 18 years to enter a public service and a retirement age of 57 years following the implementation of the retirement act from 22nd November 1973 (Sultana, 2013). Later, the Public Servants (Retirement) Act (December 26, 2011) raised the maximum retirement age to 59 years (Sultana, 2013). The pension system has enabled public sector retired persons and their dependents an opportunity to lead a life with at least some medium of income security.

The government service pension is a social insurance scheme. The scheme is implemented by the finance division, which is also vested with the responsibility of coordination and consolidation of the scheme. Transfer of benefits and other activities associated with this social security scheme is administered by the Ministry of Public Administration (MoPA). In the national budget FY2019-20, the allocation for GERP accounts for 0.8 per cent of the GDP in Bangladesh (MoF, 2019). Currently, annually 0.6 million people are covered under the GERP.

4.3 Available Mechanisms in the Private Sector

Provident fund (PF) scheme is also available for limited number of people in Bangladesh working in the private sector of the country. Private sector PFs are administered mostly by the employers themselves as trustees under the Trusts Act, 1882. There are a few private sector organisations in Bangladesh which have introduced contributory provident fund (CPF) schemes in recent times. Some of the autonomous organisations such as NGOs, private limited companies also have provident fund

schemes. However, an independent trustee is missing in the system. The employers handle the funds and there is no separate trustee entity which has the authority to deal with financial management issues including strategic allocation of funds. Organisations that maintain PF for their employees deploy the accumulated funds according to their own investment strategies. Tax deductions and incentives are subject to approval by the National Board of Revenue (NBR) under the Income Tax Ordinance, 1995. However, private sector schemes are not active participants in the capital market due to restrictions that limit investment only to government and government-approved securities (Alam, 2012). The gratuity schemes in Bangladesh are similar to the DB schemes and gratuity is defined as the amount that has been last drawn as a basic or gross salary. In general, gratuity schemes are not applicable to the employers of an industrial or commercial establishment which has less than 20 employees. Since there is no legal requirement to fund the gratuity schemes, these remain unfunded in most cases.

4.4 Saving Patterns for Future

Savings is in general a mechanism for keeping money aside as a source of income security for future use. Savings can be undertaken both by individuals and institutions. Individuals save money during their working years and draw their savings at the time of retirement. In view of global cognizance, savings pattern could be of three types: voluntary savings, compulsory savings, and contractual savings. Various forms of savings are there: insurance plan, loan scheme deposit and time deposit. Savings can also take place through pension and provident funds which are forms of compulsory savings. Other forms of savings such as holding money, bank deposits and other physical and financial assets exemplify the types of voluntary savings (Chowdhury, 1987).

In Bangladesh, there are many categories of financial institutions which mobilise money deposits through both formal and informal institutional formats. Financial institutions were set up with different objectives, guided by different sets of rules and regulations. They also need to report to different regulators concerning practices and performance. The activities of private savings in Bangladesh are performed by different commercial banks, post offices and other financial institutions. Insurance

companies and co-operative societies are more popular among low income populations since their products and delivery mechanisms are designed in line with practices of NGO-MFIs. Savings patterns of people in Bangladesh are discussed below.

Banks

Financial institutions and intermediaries' banks and relevant entities in Bangladesh are engaged in collecting deposits from people through various deposit instruments. They include state owned commercial banks (SCBS), private commercial banks (PCBS), foreign commercial banks (FCBS), development financial institutions (DFIS) and leasing companies. Currently, there are 59 scheduled banks which are regulated by the Bangladesh Bank under the Bank Company Act, 1991. Scheduled banks fall into four categories: SCBs, DFIs, PCBs and FCBs. Commercial banks and finance companies generally provide a myriad of products and services to cater to the needs of their customers. Among the scheduled banks, PCBs held the highest share (66 per cent as of 2018) in terms of deposits (Bangladesh Bank, 2019a). Based on a study by IFC and MicroSave (2011), of some 14 different saving products offered by banks, fixed deposits constituted the highest share (43 per cent), followed by basic savings (23 per cent), short term deposits (12 per cent) and pension deposits (8 per cent). The weighted average interest rate on deposits in case of all scheduled banks increased marginally from 5.3 per cent in January 2019 to 5.7 per cent in January 2020 (Bangladesh Bank, 2019b).

Non-banking financial institutions (NBFIs)

The non-banking financial institutions (NBFIs) in Bangladesh constitute a rapidly growing segment of the country's financial system, which provide financial services e.g. banking, but these do not have any banking license. Though NBFIs are allowed to take deposits directly from the public as well as from institutions, they have restriction concerning collection of public deposits for less than one year as per central bank regulation (Ahmed and Chowdhury, 2007).

They play a significant role in determining the interest rate at which the customers will be motivated to save their money. The weighted average interest rate on deposits of NBFIs increased from 9.8 per cent in September 2018 to 10.6 per cent in September 2019, but then fell again to 10.5 per cent in January 2020 (Bangladesh Bank, 2019b).

Postal department

The post offices play an important role in Bangladesh in terms of providing financial services to the people. Bangladesh Post offers remittance services, savings accounts, and life insurance schemes. Although post office is an independent government entity, it does not have any savings product of its own (Kachingwe and Berthaud, 2013). NBR is responsible for declining what services are to be provided and the Directorate of National Savings (DNS), which is a part of the Internal Resources Division (IRD), determines how the funds are to be used (IFC and MicroSave, 2011). Since May 2015, the interest rates on three-year post office savings certificates, five-year family savings certificate and five-year pensioner savings certificate have come down to 11.3 percent, 11.5 per cent and 11.8 per cent respectively from about 13.2 per cent previously. The post offices also offer ordinary savings account for low-income and poor people where people can save a minimum of Tk. 10 per day and withdraw money twice a week. This scheme provides an annual interest of 7.5 per cent before taxes.

DNS

National savings certificate is a savings tool that has a fixed maturity period and a specified interest rate. It is purely a government savings tool for the general public that is taken by the banks as non-income generating assets. The savings tool bears all necessary information with applicable interest rate, amount that is deposited and the maturity date. The national savings certificate in Bangladesh comprises different types of savings schemes that are operated by DNS of Bangladesh. It is supervised by the IRD under the MoF of GoB. Interest rates for national savings certificate range between 11.0 and 11.8 per cent in contrast to 0.5 to 11.4 per cent in the case of fixed deposits of commercial banks.

Insurance companies

Insurance penetration in Bangladesh is particularly low despite the fact that people are exposed to a variety of risks. According to the 7FYP, the vast majority of people in Bangladesh remain untapped by the insurance market. Only four in 1,000 people in Bangladesh have life insurance policies of some type, implying that the vast majority of population remain uncovered (World Bank, 2017). Total assets, even after robust growth over the past five years, was equivalent to only 3 per cent of GDP, while the penetration ratio (measured as the ratio of gross written premium to GDP) was only 0.9 per cent in 2014 (World Bank, 2017). Insurance sector in Bangladesh is made up of a large number of companies. Among the 77 insurance companies operating in Bangladesh as of December 2015, only Shadharan Bima Corporation (SBC) and JBC are state-owned corporations. They have a better distribution network compared to the others. Majority of companies are private insurance companies, of which 30 offer life insurance and 45 offer non-life insurance policies.



WHAT COULD BE AN IDEAL IMPLEMENTATION TRAJECTORY

5.1 Evolution of Universal Pension Schemes: Learning from Country Experiences

The framework for a UPS consists of three different pillars. These are Institution, Legislation and Financing. Globally, countries which have already established UPS, or are in the process of establishing a UPS, have followed these three pillars to introduce the new pension policy. Among the different trajectories followed by countries to implement the UPS, there are two very common routes which have been followed by majority of countries. These are discussed below.

From legislative reforms to institutional set up to financing

Under this framework, at first a separate law is enacted to provide the legal framework for the new policy. The law sets the rules and regulations of the pension scheme along with the eligibility criteria. Gradually, following enactment of the legal framework, the institutional body is set up for monitoring and administering the pension scheme. The administrative responsibility includes registration of the pension beneficiary or participants, collection of contribution amount in the case of contributory pension scheme and transfer of the pension benefit amount to the beneficiary account. All these responsibilities can be conducted by a single or multiple institutions. As soon as the institutional arrangement is set up, the government decides which financing mechanism to follow. If the pension scheme is non-contributory, then it is generally financed from government coffers; if the scheme is a

contributory one, then the pension benefit is determined either by DB or DC method. Delivery mechanism of the pension benefit is decided in line with selection of financing mechanism.

This process of introducing UPS is followed by many countries. For example, in Bolivia non-contributory pension “Renta Dignidad” was introduced in 2007 by Act No. 3791. Following this the administrative body was set up by the Ministry of Economy and Public Finance (MoEPF). After successful legal reforms and establishment of institutional arrangement, decision was taken as regards the financing mechanism. Georgia is another country which followed a similar trajectory for introducing the UPS. In 2005, Georgia enacted the Law on State Pension following which institutional responsibility was bestowed on Georgia Social Service Agency (GSSA). Gradually, the government allocated financial resources in the fiscal budget to implement this social security programme (ILO, n.d.a). Pursuing similar modality Kosovo established its non-contributory old age pension in 2002 with introduction of Regulation 2001/35. The responsibility and management of the pension scheme was then given to Pension Administration Department at the Ministry of Labor and Social Welfare (MoLSW). It then decided the pension benefit amount. Eventually, the funding was made from government revenues on a PAYG basis (Loxha, 2012). Similarly, in Maldives, the Pension Act 2009 established a two-pillar system with OABP and Maldives Retirement Pension Scheme (MRPS). Maldives Pension Administration Office (MPAO) was established in 2009 under the new pension law. The amount required to finance OABP was generated from government tax revenues and MRPS was funded by DC method (Sun, 2016). Mongolia, enacted the Law on Social Insurance in 1995 to finance the DB pension scheme in the country and the Law on Individual Pension Insurance Contribution Accounts in 1999 to finance the notional defined contribution (NDC) pension scheme. The Ministry of Population Development and Social Protection (MoPDSP) was bestowed with the responsibility of managing both the schemes. The pension benefit amount and contribution rate were fixed by the administration. Developed countries such as Norway also followed this path in introducing and implementing its national pension policy. National Insurance Scheme in Norway was first introduced in accordance with the Norwegian National Insurance Act. The task of pension benefit calculation and transfer of benefits was managed by the

Norwegian Labour and Welfare Administration (NAV). The pension scheme was funded following the PAYG-DB method (Wilmington plc, n.d.a; Andresen, 2006)

From institutional set up to legislative reforms to financing

Under this trajectory, at first an administrative body makes an announcement regarding the introduction of UPS in the country. It then initiates the process of registering the people who are eligible for the pension scheme. A separate law is then enacted by the administrative body to establish the legal aspects of the pension scheme. The management body decides the pension benefit amount and the estimated cost involved in transferring the pension benefit to the registered people. The institution also makes a decision regarding the financing mechanism.

LDCs such as Lesotho followed the aforesaid evolutionary trajectory to establish the UPS. The introduction of the scheme was first announced in the government budget in 2004. The government of Lesotho was to be responsible to administer the policy. Later on, registration and payment task was vested with the public administration body. The government in Lesotho then established the Old Age Pension Act 2005 and decided to finance the scheme through general taxation, which, to a large extent, comes from revenues accruing from the Southern African Customs Union (ILO, 2016; Pelham, 2007). Nepal is another LDC which implemented a non-contributory old age allowance in the country during the 1995-1996 period. The policy was administered by the Ministry of Federal Affairs and Local Development. Subsequently, the government established a separate Law for the legal administration of the pension policy in the country. The transfers are fully financed from the government's own budget (HelpAge International, 2009). There are also a few developed countries such as Finland, where a committee is in place with representatives of labour organisations, politicians and pension policy experts. A new law, the National Pension Act, was introduced to implement the policy. The Act was announced in the parliament in 1956, which introduced Pillar 0 in the country. The scheme was financed through government tax revenues. Later on, the pension administration committee introduced a contributory Earnings-related Pension Scheme (ERPS) backed by a separate law. At the initial phase, it was decided that the ERPS was to be financed by the DB method. Later on, it was decided

to finance the scheme through the DC method with help of indexation (see Box A). In Sweden, the National Social Insurance Board (NSIB) was responsible for the management of their previously in place DB system pension scheme. However, it proved to be financially unsuccessful. As a result, the responsible entity, the NSIB, decided to transform the DB system to NDC scheme. A new law on NDC scheme was passed in the Swedish Parliament in 1994. Contribution rate for financing the pension scheme was decided subsequently by the committee (Palmer, 2002).

Box 1: A two-pillar pension system of Finland

The pension system in Finland is representative of a two-pillar pension model:

a. National Pension Public Plan: This is a non-contributory means-tested pension, which is intended to secure a minimum income for retirees whose earnings-related pension is small. The eligibility criterion is based on residence test, where an individual qualifies for the scheme if s/he has lived in Finland for at least three years after reaching the age of 16. The scheme provides a flat rate benefit of up to 20 per cent of the average wage in Finland.

b. Earnings-related Pension Scheme (ERPS): This is a contributory mandatory occupational pension scheme which is earned by an employee at his/her retirement age on the basis of his/her paid work and entrepreneurial activities. Under this scheme, the responsibility of an employer is to take out a retirement pension insurance policy for all their employees and pay the insurance premiums. In the case of self-employed or entrepreneurship business, the entrepreneur himself/herself will be responsible for collection and payment of respective insurance premiums.

Evolution of the Finnish pension system

Pillar 0

The first old-age and disability insurance in Finland was legislated by the National Pension Act in 1937. The Act came into effect in 1939; however, eventually the first disability pensions were paid in 1942, and the first old-age pensions in 1949. At that time, the national pension was based

(Box 1 contd.)

(Box 1 contd.)

on individual insurance contributions collected in savings accounts. The national pension would offer earnings-related security, albeit partially. In 1954, a committee was formed to consider a rise in the pension amount. Later on, the rules and regulations of the national pension system were revised by the parliament, with the introduction of a new law, the National Pension Act, 1956, which took effect in 1957. The law ensured that all people of 65 years and above, or with disability, were to be paid an equal pension benefit (Hannikainen and Vauhkonen, 2012). The new National Pension Act was based on universalism. The national pension scheme in Finland transformed into an income-tested benefit in 1996 when the government decided to make the basic amount of national pension subject to income-testing.

Pillar I

Majority of the private sector employees were deprived of the old-age security under the new national pension scheme; this led to the emergence of the ERPS. The ERPS was launched following reform of the national pension scheme. Representatives of labour organisations, politicians and pension policy experts were members of the committee which was set up to design the scheme. The committee introduced a separate law for introducing the ERPS, along with a law for temporary employment pensioners. Both the Acts (Employees Pensions Act and the Temporary Employees Pensions Act) took effect in July 1962. The Federation of the Finnish Pension Institutions Earnings-related Pension Scheme (FFPI) was established in 1964 to improve coordination between the different pension providers. The administration of mandatory pension scheme was decentralised to include various pension providers such as insurance companies, company pension funds and industry-wide pension funds which were independently acting as private sector financial institutions (Wilmington plc, n.d.b).

The Local Government Employees Pensions Act came into effect from July 1964 only for the coverage of public sector workers, while the new State Employees Pensions Act and the Evangelical-Lutheran Church Pensions Act took effect at the beginning of 1967. ERPS was strengthened further when the Farmers Pension Act came into force in 1970, which included rural people in the ERPS. Later, self-employed persons were also included through the Self-employed Persons Pension Act. Thus, the ERPS started to

(Box 1 contd.)

(Box 1 contd.)

cover almost the entire population. All pension Acts related to employees were merged together into a new pension act, Employees Pensions Act (TyEL), at the beginning of 2007.

Financing framework

The national pension scheme and the ERPS were financed through pay-as-you-go (PAYG), since 1957. The employers alone used to pay the contribution amount till 1992. However, beginning from 1993, the employees also started to contribute. The level of contributions by both employers and employees was raised during the period between 1970 and 1995, when the contribution amount was used as a means of economic counter-cyclical policy (Hannikainen and Vauhkonen, 2012). For ERPS, the new Pension Indexation method, “fifty-fifty index,” was introduced in 1977. According to this method, pension accrued during the work history and pension in payment after retirement was set to be automatically revalued in line with an index. As per the method, half of the pension was determined on the basis of changes in the general wage level, while the other half was determined on the basis of changes in consumer prices. Previously, the index was fully linked to wages. The contribution rate for ERPS was unequally split between the employers and the employees. Employees between the ages of 18 and 52 contributed 4.1 per cent and people of 53 years and above contributed 5.2 per cent. The remaining share was borne by the employer. The pensions were calculated on the basis of earnings from the entire working career, along with a higher pension accrual rate during the final years of the career: 1.5 per cent between the ages of 18 and 52, 1.9 per cent between the ages of 53 and 62, and 4.5 per cent between the ages of 63 and 67.

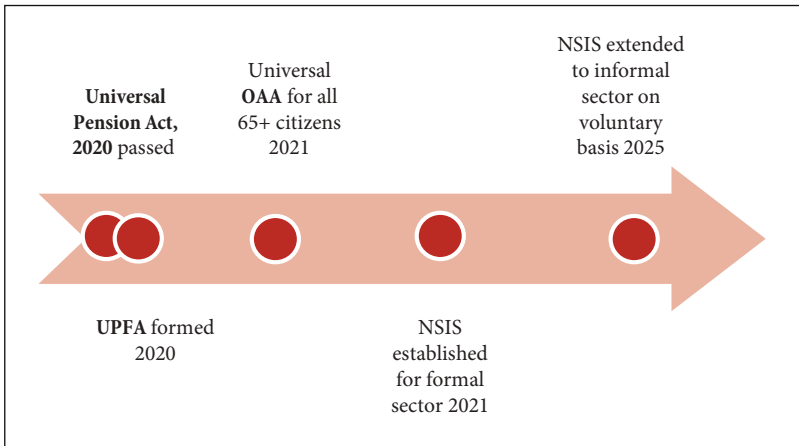
In Finland, the overwhelming majority of mandatory pension schemes are financed by group insurance contracts. As in all Scandinavian countries, approximately 85 per cent of all occupational pension assets are held by a handful of mostly local insurance companies (Wilmington plc, n.d.b). ERPS funds helped make the credit markets more diversified. Assets generated from ERPS were also used to build apartments, and finance important infrastructure projects. During the recession in the early 1990s, an increasingly larger share of insurance companies opted for investing in low-risk Finnish government bonds.

5.2 Proposed Implementation Trajectory of UPS in Bangladesh

The ILO multi-pillar pension model could serve as a suitable framework for a UPS in Bangladesh. Among the South Asian countries, Maldives could serve as a good reference point for Bangladesh as it has successfully implemented the two pillars of the ILO pension model along with universality in pillar 0. Maldives has a non-contributory pension scheme “OABP” and a contributory scheme “MRPS” for the employed population (Sun, 2016). Alongside the MRPS of Maldives, the ERPS of Finland could serve as a reference point for introducing the contributory scheme in Bangladesh, particularly concerning the shift from DB to DC schemes. Insights with regard to legal and institutional aspects can also be drawn from India, which has an established pension system.

Among the two broad trajectories followed by countries discussed above, Bangladesh could follow the first one. As a first step, a Universal Pension Act will need to be enacted which would create the scope for forming a Universal Pension Fund Authority (UPFA) in Bangladesh (Figure 4). Both the Act and the Authority may come into effect from 2020. A universal non-contributory OAA, in line with Pillar 0, may be implemented by the government for all the elderly people above 65 years of age in the country, excluding the holders of government pension,

Figure 4: Proposed actions and timeline for Bangladesh



Source: Authors' elaboration.

from 2021, one year after enactment of the Act. The non-contributory pension will be a basic flat rate pension which could be fixed on the basis of national poverty line and provided on the basis of age and residence. This could guarantee a minimum income for all the elderly people in Bangladesh. The OABP of Maldives and “Mukhyamantri Vridhjan Pension Yojna” in Bihar of India are good reference points in this regard. After successful implementation of Pillar 0, a contributory national social insurance scheme (NSIS) following Pillar I could be introduced for the employed population in Bangladesh. Pillar I pension model could be established using PAYG-DB at the earlier phase while gradually shifting towards DC scheme based on the principle that employers and employees will jointly contribute from 2021. In phase one, Pillar I will cover only the formal sector labour force, which was to be subsequently extended to the informal sector, including the self-employed, in phase two. The pension benefits would be paid from government coffers and/or according to the amount accumulated from the contribution.

LEGISLATIVE FRAMEWORK

Legislation is the act or process of making or enacting laws in order to establish a new policy in the country. Legislation refers to the actual law enacted by a legislative body at the national, state, or local level. The legislative reforms of a UPS can be made through enacting a single law or multiple-laws depending on the schemes chosen, administrative structure and geo-political situation as well as the level of socio-economic development of a country. Thus, it is not a static process and is subject to revisions, changes and amendments, particularly during internal or external shocks or in view of changes in the political regime.

6.1 International Experiences and Lessons

Different countries enacted different laws to introduce various stages of the pension policy of the ILO multi-pillar pension model. In some countries, the constitution has a single law for different stages of ILO pension model; on the other hand, some others have enacted multiple laws to introduce respective UPSs.

Pillar 0 with a single law

Pillar 0 is the non-contributory pension scheme which is generally financed by the government budget. Many countries in the world have introduced Pillar 0 already, through enacting a single law to cover all old age people under the scheme. Countries such as Lesotho introduced Old Age Pension Act in 2005 (ILO, 2016) and Georgia enacted Law on State Pensions in December 2005 (ILO, n.d.a).

Pillar 0 and Pillar I with a single law

Pillar 0 and Pillar I of ILO multi-pillar pension model can be introduced at the same time in a country with a single law to achieve universal coverage of the pension scheme. It requires a separate law to be enacted in the constitution of the country to establish both the schemes legally for entitlement of eligible people. Maldives is one such country which enacted a single law for introducing both Pillar 0 and Pillar I. Maldives passed the Maldives Pension Act 2009 to establish a two-pillar pension system in the country. The two-pillar system comprised a non-contributory Pillar 0 and a contributory Pillar I following DC method (Sun, 2016).

Pillar I with two separate laws

Pillar I of ILO pension model is a contributory pension scheme that can be financed by both DB and DC method. Two separate laws are usually enacted to establish these schemes: The Law on Social Insurance for DB scheme and the Law on Personal Accounts or Law on Compulsory Pension for the DC scheme. This mechanism is followed by some countries which implemented both types of contributory pension schemes. Examples are the Azerbaijan's Law on Social Insurance 1997 and the Law on Personal Accounts in the State Social Insurance System 2001 (ILO, n.d.b), and Denmark's Law on Employees' Pension Fund 2007 and Supplementary Labour Market Pension 2009.

Pillar 0 and Pillar I with two separate laws

Pillar 0 and Pillar I of ILO multi-pillar pension model can be introduced through enacting two separate laws. Under this legal framework, at first a non-contributory Pillar 0 is introduced by a single Law on Basic Old Age Allowance or a Law on State Pension. Later on, to cover the informal employed persons under the scheme, a contributory pension under Pillar I is introduced by a Law on Social Insurance. Countries which have followed this mechanism, for instance, include Bolivia, which passed the Law on Individual Accounts in 1996 under Pillar I and Act no.3791 (non-contributory) under Pillar 0 in 2007 (ILO, n.d.c). Similarly, Canada introduced the Old Age Security Act 1952 for Pillar 0 and later on, the Law on Social Insurance 1965 for Pillar I.

Pillar 0 and Pillar I with multiple laws

Both Pillar 0 and Pillar I of ILO pension model can be established with multiple laws. The constitution of a country sets the background for introducing separate laws for each pension scheme. Additional laws can also be introduced to increase the coverage under different pension schemes. This legislative framework is already followed in some countries such as Finland, where the National Pension Act 1956 was introduced for the non-contributory Pillar 0. Later in 1964, Employees' Pension Act came into effect for introducing Pillar I. Eventually, to raise the coverage of beneficiaries under Pillar I, Farmers Pension Act, Self-employed Persons Pension Act, and Pension Act for Performing Artists and certain group of employees were subsequently introduced (Hannikainen and Vauhkonen, 2012). Brazil also has similar framework in place where Federal Constitution Art. 203 Law No 8.742 was enacted for Pillar 0 while Federal Constitution Art 40 Law No 8.112 and Federal Constitution Art. 201 Laws No 8.212 and No 8.213 were enacted for the contributory pension schemes under Pillar I (ILO, n.d.d).

6.2 The Needed Legal and Policy Reforms in Bangladesh

The OAA was introduced in Bangladesh in 1998 for the elderly people in line with Article 15(d) of the Constitution of Bangladesh. The law regarding the provident fund, however, is an old one. The Provident Funds Act (PFA), 1925 is the one that guides the government employees' provident fund system. The current legislative framework in Bangladesh includes the General Provident Fund (GPF) Rules of 1979, the CPF Rules of 1979, the Government & Autonomous Bodies Employees Benevolent Fund & Group Insurance Rules of 1982, the Financial Institution Act of 1993, the Companies Act of 1994, and the Insurance Development and Regulatory Authority (IDRA) Act of 2010. However, PFA 1925 does not cover the private sector employees' provident funds and its membership is limited to government public servants. There are few private sector organisations in Bangladesh which have recently initiated contributory provident fund system. These organisations deploy the accumulated funds according to their own investment strategies. Tax deductions and incentives are subject to the approval by the NBR under the Income Tax Ordinance, 1995.

Private trusts in Bangladesh are guided mainly by the Trusts Act 1882 (Siddiqui, 1993). Under the Act, the provident fund is administered by the government and certain other employers who act as trustees. However, there is a possibility of conflict of interest between employers and employees inherent in such a system. The government and employers could fail to properly manage the funds and the participants of the scheme could lose their money. In addition, the Trusts Act, 1882 fails to consider capital market activities due to absence of dedicated set of regulations and necessary infrastructure. Trusts Act (Amended), 2000, enacted at a later stage, permits both public and private sector pension funds to be invested in capital market-up to 25 per cent of the total funds could be invested in listed securities.

The current Civil Service Pension Plan which is being implemented, requires reforms to be made for new pension plans to be affordable. A single pension act incorporating the acts related to provident fund and pensions in Bangladesh could help establish a two-pillar model of pension in the country like the one in operation in Maldives. The Maldives Pension Act (2009) has put in place a two-pillar pension system including a non-contributory pension scheme “OABP” and a contributory scheme “MRPS” based on the DC method. Unlike the PFA, the proposed Act covers both government and private sector employees. The administration or the trustee board of the pension scheme would be legally bound by the Pension Act. The eligible population would have an obligation under the Pension Act to register their names in the pension scheme. Knowledge about the scheme was to be disseminated among people in rural areas such as farmers and others when it would be introduced by the government, backed by all the legal aspects involved. The civil society organisations (CSOs) and community based organisations (CBOs) could play an important role in disseminating the knowledge. The employed people in the formal sector would be bound to participate as per the Pension Act. The informal sector would also be encouraged under the Act to participate on a voluntary basis. Regulatory framework would protect the contributions made by the citizens of the country during times of political change and financial upheaval. It will also have to incorporate the revised Trust Act 1882 to ensure efficient utilisation of pension funds and their investment. This is because the investment of pension funds and active investment in the capital market have been restricted, to a certain limit, by the Trust Act 1882.



INSTITUTIONAL MECHANISM

The administration of UPS is structured in different ways in different countries. In general, schemes under the ILO multi-pillar pension model have a governing body or a board which comprised a group of persons (or in some cases a single person) responsible for the operation and oversight of the pension policy. The governing board is the ultimate decision-maker, having overall responsibility for taking strategic decisions. Decisions include making proposals on how to reform the pension system, appointing a new pension agency to maintain the allocation of pension benefits among the beneficiaries and raising the coverage rate of social security programme in the country (Stewart and Yermo, 2008).

7.1 Types of Institutional Mechanism

The institutions for a UPS can be set up either publicly or privately; it could also be a mix of both. It may have a single or dual board structure and may delegate certain functions to professionals. In many middle-income and developing countries, the social security programmes are fully managed and monitored by the ministries and a number of public institutions. The governance of private pension plans involves the managerial control of the private organisations, deciding on how they are regulated, including the accountability of management, and how they are supervised (Stewart and Yermo, 2008).

UPS can be monitored by a blend of both public and private administration. Often, a part of the funds is managed by local insurance agencies and the rest is kept with state owned banks. Government may influence the public-private mix through contracting out, mandating

provision for employer provided benefit and providing preferential tax treatment for occupational pensions (Gillion et al., 2000).

7.2 International Experiences and Lessons

Schemes managed by a single public institution

The Pillar 0 pension scheme can be administered by a single public institution. Countries which followed this set up include Lesotho, where the non-contributory old age pension is regulated by the Ministry of Labour and Employment (MoLE), which was later changed due to the creation of a new institution by the government. Currently, Ministry of Social Development (MoSD) is responsible for the supervision of old age pension in Lesotho (ILO, 2016). Similarly, in Georgia, the state pension is managed by the Georgia Social Services Agency, which is located under the Ministry of Labor, Health and Social Affairs (MoLHSA) (ILO, n.d.a).

In Denmark, Pillar I is a mandatory publicly administered pension scheme by the Ministry of Social Affairs and Integration (MoSAI) (Schlosser and Daugaard, 2011). Both Pillar 0 and Pillar I can be regulated by a single public institution. This framework has been followed in countries like Maldives where both OABP and MRPS are managed by MPAO which was established by the government (Sun, 2016).

Schemes managed by multiple public institutions

Pillar 0 can be administered by multiple public institutions. There can be a single Ministry which will regulate the entire pension policy. Under this Ministry, several public institutions will operate to administer different sections of the pension policy. Countries which followed this institutional mechanism include Botswana, where old age pension is administered by the Ministry of Local Government and Rural Development (MoLGRD). Under this Ministry, the Department of Social Protection operates and transfers the pension benefits to the Post Office accounts. There are also Pension Officers under MoLGRD who attend to queries of the elderly and refer them to the Headquarters or Botswana Post Office for necessary action (ILO, n.d.e). This institutional framework is also followed by countries such as Nepal and Timor-Leste

where in Timor- Leste the Ministry of Social Solidarity (MoSS) along with the Ministry of Finance and national banks monitors and regulates the pension scheme.

Pillar I can also be established using multiple public institutions. A separate administrative body is set up to regulate collection of contribution, investment of pension funds as well as transfer of the pension benefit to the recipients. These responsibilities can be distributed among different public institutions. The framework is already followed in some countries such as Norway where the Ministry of Labour and Social Affairs (MoLSA) provide general supervision of the pension scheme. NAV administers the programme nationally and the contributions are collected publicly by the national tax offices (Andersen, 2006). Zambia also followed this framework where their contributory pension system is monitored by multiple public institutions. The Ministry of Labor and Social Security (MoLSS) is responsible for supervision of the scheme. Under its supervision the National Provident Fund and Workmen's Compensation Fund collect contributions from the working population (Queisser, Bailey and Woodall, 1997). Similarly, in Ukraine, the Ministry of Social Policy (MoSP) takes the responsibility of policy making and provides general coordination for administering the country's Pillar I scheme. The State Pension Fund autonomously manages and administers the pension scheme (ILO, n.d.f). In countries such as Poland, the Ministry of Family, Labor, and Social Policy (MoFLSP) supervises Pillar I. Collection of contribution and administration of social insurance and NDC programmes are undertaken by the Social Insurance Institution (Social Security Administration, 2018a).

Both Pillar 0 and Pillar I can be administered by multiple public institutions. In Mongolia, MoPDSP implements a non-contributory Pillar 0. The Ministry of Social Welfare and Labor (MoSWL) is responsible for formulating the pension policies while the State Social Insurance General Office (SSIGO) under MoSWL is responsible for implementing and managing Pillar I schemes including collection of premiums and payment of benefits (ILO, n.d.g). In Brazil, National Institute of Social Security (INSS), a central government institution, is responsible for managing the pension benefits and its transfer to the beneficiaries of Pillar 0 pension scheme. There are two types of contributory schemes

under Pillar I in Brazil; these are managed under the supervision of central, state and local administrations and INSS (ILO, n.d.d). In Spain, Pillar 0 pension is regulated by Ministry of Employment and Social Affairs (MoESA) and managed privately by Institute of Elderly and Social Services (IESS). General Treasury of Social Security administers the revenue and registers employers and insured persons, and collects contributions for Pillar I (Social Security Administration, 2018a).

Schemes managed by both public and private institutions

Schemes can be managed by both public and private institutions where the non-contributory Pillar 0 is mostly administered by the public institutions operating under the government of the country. Pillar I, a contributory social insurance pillar, can be managed by private institutions like banks, insurance companies or any other financial institution. A trustee body (publicly or privately managed) will have the overall responsibility of delivering the pension benefits to the eligible people. Banks and insurance companies have key roles like record keeping, administration and investment management. Countries which already followed such framework include Bolivia, where the Pillar 0 “Renta Dignidad” is administered by Ministry of Economy and Public Finance (MoEPF) with cooperation from the military and the national banking system in the delivery of benefits. The contributory schemes are managed by two private pension fund administrators (ILO, n.d.c). Similarly, in Namibia, Pillar 0 pension is administered by the Ministry of Poverty Eradication and Social Welfare (MoPESW) and Pillar I pension is managed by private agencies such as payment agents, banks and Namibian Postal Services (ILO, n.d.h). In the United Kingdom, pension schemes are publicly designed and regulated by the Department of Work and Pensions. The occupational pensions are managed privately by the Pensions Regulator and the individual pension plans are also managed privately by the Financial Services Authority (OECD, 2008). The social pension in Honduras is supervised by Secretariat of Labor and Social Security. The financial supervision is also done publicly by National Commission on Banking and Insurance. The contributory pension is managed privately by social security institutes and they also collect contributions. The mandatory individual account programme is administered privately by pension fund administrators (Social Security Administration, 2018b).

7.3 Proposed Institutional Framework for Bangladesh

Finance Division under the Ministry of Finance (MoF) is the only public institution in Bangladesh which manages both GERP and OAA. The government is the designated trustee for purposes of financial matters relating to public sector employees and entrusted to manage pension and provident funds. The MoF is responsible for allocating a certain amount of money for GERP and OAA in all fiscal budgets. The government can take a decision to use the fund without the consent of public sector employees for meeting the needs of budgetary deficit and/or needs of development projects. However, it is important to distinguish between the responsibilities of the government as an administrative authority and as a “trustee” entrusted to deal with pension benefits and manage the funds. In recent times, some private sector organisations have introduced their own provident funds and gratuity schemes but no separate trustee board has been appointed for administration of such schemes. The employees are unable to reap competitive benefits since no legal accountability is in place to administer their pension funds. In order to cover the non-government employees under social security programme, through a UPS, will require a separate institutional authority to run the scheme (Alam, 2012).

A separate Pension Office which would operate on an autonomous basis could be established under the MoF to facilitate the operation of the UPFA and to manage the overall process following the legislation of the Universal Pension Act. As discussed above, the UPS framework in Bangladesh could consist of both a non-contributory social protection pillar and a contributory social insurance pillar. The Pension Office could be divided into various groups with overall administrative responsibilities distributed among these groups. For example, a group could take the responsibility of registering eligible people under both the pension schemes. The registration of Pillar 0 beneficiaries should be carried out in each upazila so that all the people were able to receive basic pension benefits. A committee of 15 members can be set up with the Upazila Nirbahi Officer as the chair and the Upazila Chairman as its adviser. The main responsibility of the committee would be to finalise the list of beneficiaries, ensure the delivery of non-contributory pension to the recipient’s bank account and monitor the overall implementation

of the pension programme at the upazila level. The committee should encourage membership from CSO and CBO representatives and ensure that there is no duplication in beneficiary selection. It will have the power to take measures to address problem that could arise in implementing its tasks. The committee would be under the supervision of the Pension Office. The beneficiaries under Pillar 0 would collect their pension benefits on a monthly basis similar to the current OAA. Another group of members would be responsible for collecting the amount of contribution from different organisations, paid for by both employers and employees of those organisations. They would eventually transfer the contribution amount to pension accounts of the participants. An institutional mechanism similar to this has been followed by Maldives for implementing its two-pillar system. The Pension Office will also be responsible for creating public awareness and educating the participants.

Auditors can play a key role in ensuring compliance with attendant regulations, particularly for voluntary organisations that are registered with MoSW or joint stock companies. These have a large number of staff but do not have any pension scheme or security system. Since registration of institutions is required to be renewed on a regular basis, during the renewal process, if the audit report reveals that pension is not being provided, institutions can be questioned. This tool is expected to improve compliance in the quasi-formal areas such as in CSOs and CBOs.

The state of governance of the current provident fund system of Bangladesh, available with both public and private sectors, is rather poor. Due to the various inadequacies of the trust law, the institutional arrangement also remains weak in the country. Investment of pension funds has certain limitations due to lack of proper institutional framework and administration policy. Consequently, Bangladesh requires to develop an insurance/pension structure for effective administration of the proposed UPS. The capital market should also be reformed to make proper use of the pension fund, and this in turn will generate higher returns on investment for pension fund members. In 1997, the Asian Development Bank (ADB) had observed that the pension, provident and insurance industries in Bangladesh are poorly regulated and underdeveloped. ADB suggested that Bangladesh adopt international principles for proper institutional framework and governance of these

sectors. However, the new institutional framework and investment rules have not been established as yet. A trustee board is required to be set up which would be independent of the government and would uphold the interests of members of the UPS (Alam, 2012).

When the government of Bangladesh will enact a separate trust law for the introduction of the proposed UPS, a trustee board would then have to be set up to operate the UPS. UPFA would act as a “trustee” to ensure the proper utilisation of pension funds. Trustees should be capable of both managing possible risks and maximising the returns on investment. The trustee board will function guided by the legal aspects of the UPS. The institution of UPS administration should include public sector administrators and private funds managers who are capable of properly administering trust funds and are professionals in investment management. The trustee should ensure that the rules and regulations foreseen by the enacted UPS law are being complied with, and good corporate governance practices in administering the contributory pension scheme is being followed. The pension fund managers should have proper investment guidelines at their disposal and should be accountable accordingly. It may be noted here that, in India all the investment and pension regulation guidelines are designed by the Pension Fund Regulator and Development Authority (PFRDA). A body similar to the PFRDA can be established in Bangladesh to administer the trust fund, with the required human resources.

The Government of Bangladesh can think of including insurance companies for the administration and management of pension funds since insurance companies have knowledge about financial market. This is also because the contributory pension in the first pillar of ILO model works as a social insurance scheme. It is also necessary to examine and comprehensively structure the relevant income and taxation benefits for the pension fund and the individual contributors in order to ensure that full benefits accruing from the funds and investment associated with the new pension fund is reaped. The cumulative fund collected from government and private sector contributions could be converted into NSIS with the assistance of an insurance company such as the Jiban Bima Corporation. The concerned entity would oversee investment of the pension funds in a variety of financial instruments such government

bonds, treasury bills, corporate stocks, and derivatives, dictated by good returns and adequate risk management. In the case of India, the Life Insurance Corporation (LIC) of India has been operating as a professional manager that manages retirement funds collected from various retirement plans in India. LIC invests 95 per cent of pension funds in government securities and bonds and 5 per cent in equities (see Annex 1).

FINANCING FRAMEWORK

8.1 Types of Financing Mechanism

The financing of Universal Pension Scheme can be categorised into two parts. One part is non-contributory pension scheme and the other is contributory pension scheme. Non-contributory pension scheme is provided under Pillar 0 of the ILO multi pillar pension model, which is basically financed by government through budgetary allocation.

Non-contributory pension scheme

Non-contributory pension programmes perform a variety of functions. They reduce poverty among the elderly and their households, enable investment in human and physical capital within beneficiary households, strengthen intergenerational solidarity and transfers, insure poorer rural communities against the adverse effects of agricultural policies, and incentivise local economy activities (Barrientos, 2003). The final pension payout is based on age and residence (born resident) irrespective of income or participation in the labour force or retirement of service or participation in the capital market. Thus, this type of programme also helps reduce income inequality.

Non-contributory pension is provided in three different forms (Mackellar, 2009):

- i) **Basic flat rate pension:** It is determined by the number of years worked and provided on the basis of age, residence and citizenship.
- ii) **Means-tested pension scheme:** This scheme pays higher benefits to the poor retirees.

- iii) **Minimum pension scheme:** It links the benefit with earnings and contribution during work life but prevents pensions from falling below a certain level.

Contributory pension scheme

Pillar I in the ILO multi-pillar pension model is a social insurance pillar, which follows the typical design of social security pension systems, DB and is mandatory. It is financed through employer and worker contributions. Its objective is to provide higher levels of pension benefits in order to maintain reasonable standard of living after retirement. The employers and employees contribute a part of their current monthly average salary with a commitment to receive higher amount as pension benefits compared to their contribution following retirement. Contributory schemes can be generally calculated in two ways:

- (i) **DB scheme:** In DB schemes, the benefit formula determines the level of pension benefit individuals will receive and links the benefit received with years of contribution. It provides a minimum flat rate benefit which is not tied to individual earnings. Three parameters are used to calculate DB formulas: length of contribution period used to calculate pension reference earnings, benefit replacement rate or accrual rate and penalty or reward depending on early and late retirement. DB formulas are usually used in developing countries with social insurance schemes.
- (ii) **DC scheme:** Under this scheme, each worker has an individual account for contributions and the capital accumulated is converted into a pension stream at retirement (Mackellar, 2009).

In the case of DB schemes, there is a risk of lower contribution by the employee over the period they will be paying into the scheme, which may result in lower levels of benefits than what was promised upon their retirement. Participants may hide their actual earnings which could lead to underpayment of social security contributions. DCs remove such risk of a pension-contribution shortfall by fixing the contributions rather than prefixing the promised benefits.

Based on a detailed review of methodologies applied globally, an attempt is made in this section to propose a suitable UPS for Bangladesh which the GoB could introduce in the near term. Certain assumptions are made in doing so. An attempt has also been made to estimate the fiscal financial envelope needed and the individual costs involved in introducing the scheme in Bangladesh.

8.2 Methods of Cost Estimation and Financing of Universal Pension Scheme

Universal pension with Pillar 0

A UPS can be introduced with Pillar 0 of ILO multi-pillar pension model to begin with. This Pillar is established through a non-contributory pension scheme. The benefit level can be based on means-test and national and international poverty lines. The cost can be estimated in the following manner:

$$\text{Cost of pension} = \text{Benefit per retiree} \times \text{Number of covered population}$$

This cost is mostly expressed as a percentage of GDP (Peter, 2011). Countries which have already adopted non-contributory pension scheme include Bolivia, Botswana, Brazil, Chile, Denmark, Finland, Kosovo, Maldives, and New Zealand (FIAP, 2011).

Universal pension with Pillar I using point system method

Pillar I introduces a contributory pension scheme according to ILO multi-pillar pension model. A point system method can be used to calculate the cost of a contributory pension scheme. In this method, the calculation of benefit is based on the points that workers earn, depending on their individual earnings for each year of contribution. The formula used for this calculation is the following:

$$OP = APPV \times T \times CPPV$$

Where,

OP = old age pension benefit (monthly)

APPV = Average pension point value which is the lifetime average of pensioner's wages (in each year of the career) relative to average wage in the economy for that year

T = Number of years of the working career

CPPV = Current pension point value which is a value in terms of money for one APP

This method has been followed by some countries such as Croatia, Germany, Norway, and Slovakia (EU, 2017; OECD, 2005).

Universal pension with Pillar I using PAYG method

PAYG is a method of financing a contributory pension scheme where the workers' current contributions pay for pensioners' current benefits. This pension plan is a specific type of pension scheme where the benefits are directly tied to the contributions or taxes paid by individual participants. Under the PAYG method, the calculation of cost estimation requires a replacement rate which is considered as some percentage of average wage in the country. In balanced PAYG method, the total amount of contribution will be equal to the total cost of the pension scheme. The pension benefit per retiree can be estimated as below:

$$\text{Benefit per retiree} = \text{Replacement rate} \times \text{Average wage in the economy}$$

The replacement rate is taken on the basis of three different percentage shares; i) 20 per cent, ii) 15 per cent, and iii) 10 per cent. When replacement rate is considered at 20 per cent, it denotes that the average pension given is 20 per cent of the average earnings of an individual.

In a contributory retirement plan following the PAYG, the employee pays a part of his or her regular base salary into the pension plan. Under this contributory method of pension, the employer promises to pay in the future an amount that is based on pay rate and the average salary of the workers in the country. In this pension plan, the employer and the employee both contribute to the programme. Contribution percentages are set by the terms outlined within the pension plan.

The formula used to calculate the amount of contribution is the following:

$$\begin{aligned}
 & \textit{The amount of contribution (annually)} \\
 &= \textit{Contribution made by each individual} \times \textit{Total employed population} \\
 & \quad \textit{Contribution by each individual (monthly)} \\
 & \quad = \textit{Average wage in economy (monthly)} \times \textit{Contribution rate} \\
 & \quad \textit{Contribution rate} = \textit{Replacement rate} \times \textit{System dependency ratio} \\
 \textit{System dependency ratio} &= \frac{\textit{Number of covered population}}{\textit{Number of contributors (employed population)}}
 \end{aligned}$$

This method is followed by Costa Rica (Demirgüç-Kunt and Schwarz, 1995). There are other countries which have also adopted Pillar I through the PAYG method, such as Kosovo and Mongolia which have used final salary of the beneficiary before retirement and number of years of employment, instead of the average wage to estimate pension benefit (ILO, 2016). France also has followed the PAYG method. In the case of France, a maximum time period is set for the contribution of each individual on the basis of birth year and the actual time period of contribution for each individual. Both average wage and replacement rate are considered in the calculation of the pension benefits (CLEISS, n.d).

Universal pension with Pillar I using Indexation method

Indexation method is largely used to calculate the cost of a DC pension scheme. DC schemes are usually financed by workers' contributions and are privately managed. An indexation method is used to calculate the pension benefit of each individual. The formula used is as follows:

$$\begin{aligned}
 \textit{Basic pension} &= (\textit{Indexation of average monthly wage of local workers} \\
 & \quad + \textit{Insured person's average monthly contribution wage}) \times \frac{1}{2} \times n \times 1\%
 \end{aligned}$$

Here, n is the minimum contribution period. Pension benefits are adjusted in line with an index of consumer prices, although in some cases the adjustments also take account of changes in average earnings.

Some countries, such as Finland, Hungary, Poland and the Slovak Republic, have adopted indexation method through a mix of price and wage inflation, as pioneered by Switzerland (OECD, 2005). Countries such as Azerbaijan, China, Czech Republic, Honduras, and Spain use this method to estimate the cost of their Pillar I scheme (Juan, 2005; Verulava, 2015). Canada has adopted the price indexation method, and the ceiling has been set at 96 per cent of average earnings (Pigotte and Sane, 2009).

8.3 Proposed Financing Framework

In this section, a financing framework for the proposed UPS for Bangladesh has been presented. It may be noted in this connection that the results in this section marginally vary from the earlier policy note (Rahman, Khan and Sabbih, 2019) due to few changes in the assumptions, inclusion or exclusion factor, and use of two additional reference years.

While proposing the financing framework for Bangladesh, three criteria of an effective financing plan, and trade-offs among those, have been considered. These include adequacy, affordability and sustainability. Firstly, the pension scheme to be put in place must be perceived to be providing adequate benefits. Secondly, in the particular financial context, of Bangladesh, the scheme must be fiscally viable. Contributions of the private sector must be affordable both on the part of workers and the employers. Thirdly, the scheme has to be sustainable in the long run.

Pillar 0

The population data for projection has been collected from the United Nations Department of Economic and Social Affairs (UNDESA). In UNDESA population projections, the methodology adopted is informed by a probabilistic approach concerning projections made of certain components. These concern total fertility and life expectancy at birth by sex. This approach is used to determine the median trajectory of these components and also to provide statistical bounds of uncertainty (prediction intervals). The method takes into account the past experience of Bangladesh and also reflects the uncertainty

about future changes based on the past experience of other countries under similar conditions. Data were collected from censuses, surveys, vital and population registers, analytical reports and other sources for undertaking population projections.

The Government of Bangladesh may consider introducing Pillar 0 non-contributory pension scheme to cover all the elderly people under the UPS. The formula that has been used for cost estimation is the benefit provided per retiree multiplied by the number of old age people to be covered. GERP beneficiaries have been excluded while estimating the cost. For example, in 2017, the number of elderly people (65+) was 7.9 million, while the number of GERP beneficiaries was 0.6 million (BBS, 2018). Thus, the total number of eligible beneficiaries to receive non-contributory UPS was 7.3 million. However, at the current trend growth of OAA coverage (see Box 2) GoB will achieve universality by 2035, excluding GERP beneficiaries.

Box 2: Assumptions (Pillar 0)

FY2017 has been considered the base year. The projections for FY2020, 2025, 2030, 2035 and 2040 were made on the basis of the following five assumptions:

- The compound annual growth rate of government retired pensioners is envisaged to be 5 per cent (see Annex 2).
- The compound annual growth rate of OAA beneficiaries is envisaged to be 10 per cent (see Annex 2).
- Average growth rate of nominal GDP in Bangladesh is taken to be 13 per cent (see Annex 2).
- The compound annual growth rate of revenue collection is envisaged to be 15 per cent (see Annex 2).
- The monthly benefit rates for OAA (Tk. 500), national lower poverty line, NLPL (Tk. 1,853) and national upper poverty line, NUPL (Tk. 2,264) were adjusted for FY2020, 2025, 2030, 2035 and 2040, considering an annual inflation rate of 5 per cent.

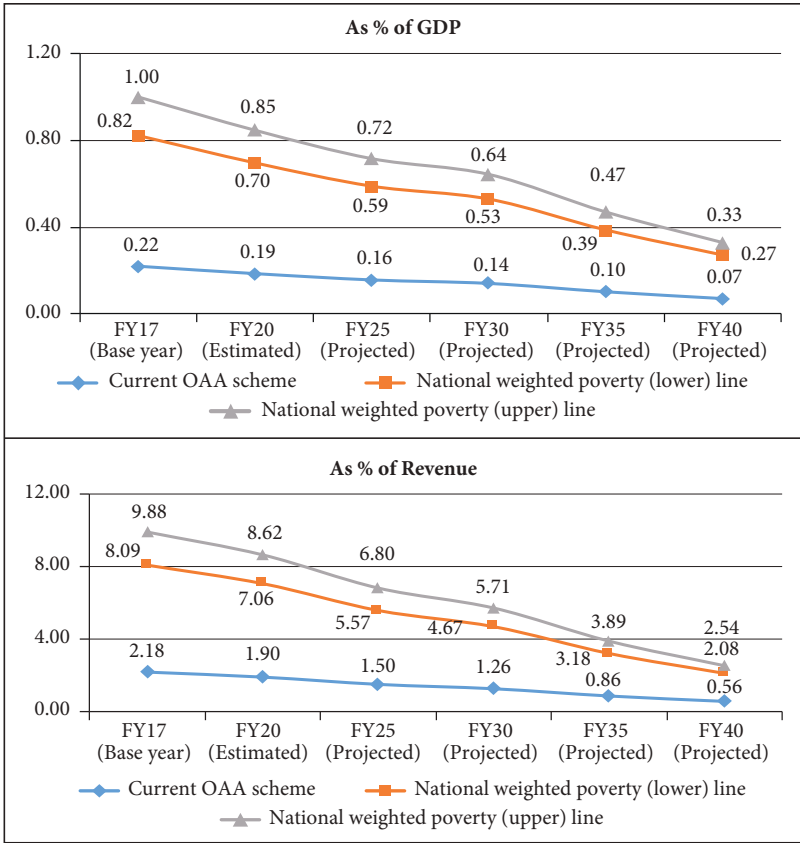
The benefits per retiree under the non-contributory UPS can be set under different conditions. For example, a useful strategy would be to fix the level of pension benefit at national weighted poverty lines. The data which was used for purposes of estimation has been generated

from household surveys, labour force surveys, national accounts data and different budget and social safety net programme documents of MoF. Civil servants and GERP beneficiaries have been excluded from the calculations since they already benefit from the existing pension system with the entitlement being higher than what is envisaged under the proposed Pillar 0.

Non-contributory OAA in Bangladesh is directly and fully financed by the government revenue. As was noted, Pillar 0 can be established by extending the OAA (either with current basic minimum or considering the national poverty lines) to all the elderly people (65+) in the country except government employees. Currently, the OAA of Tk. 500 is being paid on a monthly basis, which covers only 39.9 per cent of old age people (65+). The expenditure for this is equivalent to 0.1 per cent of the country's GDP and 0.9 per cent of the total revenue. Our estimates suggest that at the current level of benefit, the financial resource envelope required will be equivalent to about 0.1-0.2 per cent of the GDP and 0.6-1.9 per cent of the total revenue annually, by FY2040, to achieve universality (Figure 5). However, a benefit of Tk. 500, even after adjusting with the inflation rate, will not be adequate in addressing the poverty and vulnerability of Bangladesh's elderly citizens. A benefit of Tk. 1,853 per month in FY2017 (equivalent to the lower poverty line) would cost 0.3-0.7 per cent of the GDP and 2.1-7.1 per cent revenue annually. The corresponding cost would increase to 0.3-0.9 per cent of the GDP and 2.5-8.8 per cent of revenue annually if a benefit of Tk. 2,264 (equivalent to upper poverty line) is to be provided by FY2040.

GoB currently allocates 0.9 per cent GDP annually for OAA and GERP together; of this GERP alone accounts for 0.8 per cent of GDP. It would require an additional average allocation equivalent to 0.1, 0.4 and 0.5 per cent of GDP annually to cover all the elderly citizens (65+), excluding GERP for benefits of Tk. 500, Tk. 1,853 and Tk. 2,264 respectively by 2040. The corresponding figures would be equivalent to 0.1, 0.7 and 0.8 per cent of GDP annually if GoB Plans to cover all the elderly citizens aged 60 years and above. Meanwhile, if the current trend continues, GoB would not require any additional allocation after FY2030 for covering OAA at Tk. 500 rate (see Annex 2).

Figure 5: Cost requirements for universal OAA



Source: Authors' estimation based on MoF and BBS data.

However, if the main objective of this is to help the elderly citizens who are below the national poverty line with a view to raising them above the poverty line, then there are also other ways. For example, setting the benefits as means-tested using poverty gap estimates. Poverty gap is the difference between the average incomes of the people who are below the poverty line and the actual poverty line. Suppose, the poverty line is 2,300 taka and the average income of the people below the poverty line is 1,800 taka, then the poverty gap is 500 taka. Now, if an attempt is made to reach 500 taka to the people who are below the poverty line, then these people will be brought above the poverty line. There is no need to pay the entire poverty line income to bring them above the poverty

line; just meeting the gaps would suffice to bring them above the poverty line. While the calculation is easy, but the empirical implementation is difficult because elderly citizens who are poor will need to be identified and their income measured. It would require significant administrative cost. This will also not be consistent with the principle of universalism. Allocation of an additional 0.4-0.5 per cent of GDP, given the aforesaid challenge, should not be deemed to be a major concern for the GoB from affordability perspective. Also, if the government succeeds in achieving this universal coverage with the proposed rates, it will have positive implications for a number of other safety net programmes such as allowance for widows and financially insolvent physically challenged people, who then will be included under the UPS and thus excluded from benefits under the respective safety net programmes.

Pillar I

Pillar I can be established by using the PAYG-DB scheme. The pension plan will work as a social insurance scheme where the pension benefit amount is fixed a priori and on the basis of the amount current workers contribute for current pensioners' benefits. The expectation is that future generation will pay for the retirement benefits of current payees. Under this method, the estimation of costs takes into consideration a replacement rate, dependency ratio and contribution rate. Replacement rate is considered the percentage of national monthly average wage that is paid as pension benefit. Dependency ratio refers to the ratio of total number of eligible retirees and total number of contributors (employed population). Indeed, a low dependency ratio indicates that more people who are economically active are contributing for eligible retirees; this would mean lower contribution rate and less burden for the current workers. The reverse will be the case if the dependency ratio is high. For example, in FY2017, at the replacement rates of 15 per cent and 20 per cent respectively, if all the private sector workers (58.5 million) would contribute for all the eligible old age population (7.3 million), the dependency ratio would then stand at 12 per cent. The corresponding required contribution rates would be 1.9 per cent and 2.5 per cent of monthly average wage of Tk. 13,258. In contrast, at the replacement rates of 15 percent and 20 per cent respectively, if only the formal private sector workers (6.8 million) would participate in the scheme and contribute for

Box 3: Assumptions (Pillar I)

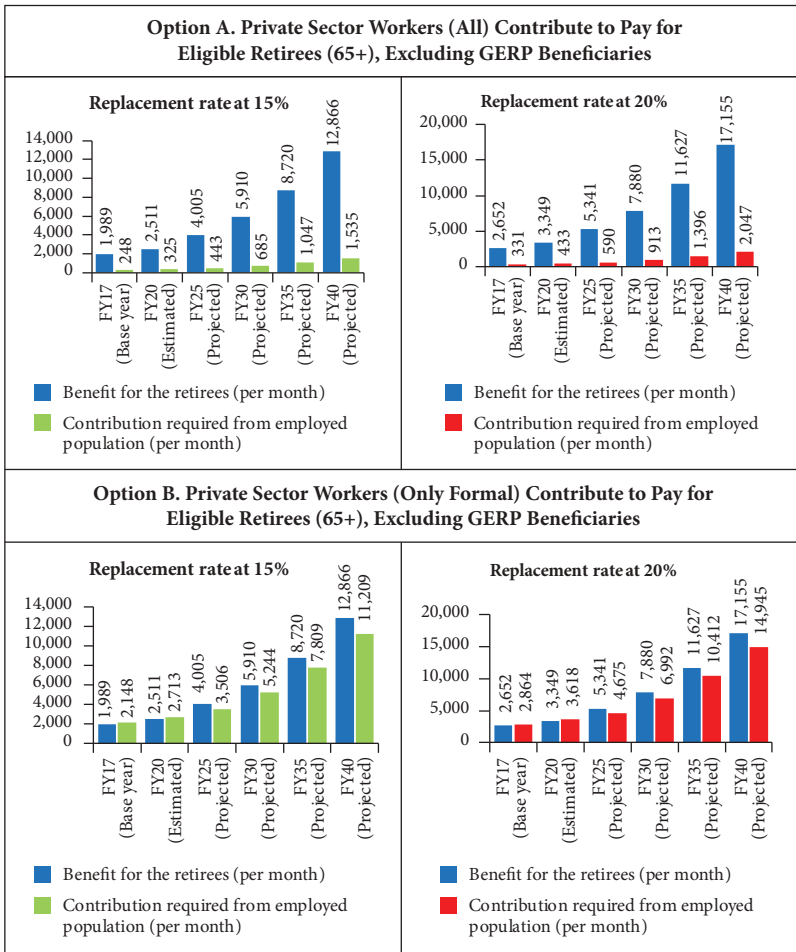
- FY2017 has been considered as the base year. The projections for FY2020, 2025, 2030, 2035 and 2040 are made on the basis of the following six assumptions:
- The compound annual growth rate of government retired pensioners is envisaged to be 5 per cent (see Annex 2).
- The compound annual growth rate of OAA beneficiaries is envisaged to be 10 per cent (see Annex 2).
- Number of government employees is considered to be fixed at 2.3 million per year.
- Formal sector share in total employment is considered to be fixed at 15 per cent (see Annex 3).
- The compound annual growth rate of average wage is taken to be 8 per cent (see Annex 3).
- The compound annual growth rate of total employed population in Bangladesh is considered to be 4 percent (see Annex 3).

the same number of eligible retirees in FY2017, the dependency ratio would stand at 108 per cent and the corresponding required contribution rate would be a very high 16.2 per cent and 21.6 per cent respectively of monthly average wage of Tk. 13,258.

DB scheme

PAYG estimation suggests that if following the DB method, the government decides to provide fixed pension benefits of Tk. 2,511 (replacement rate is 15 per cent) and Tk. 3,349 (replacement rate is 20 per cent) to all eligible pensioners (65+), excluding GERP beneficiaries, in FY2020, it would require a monthly contribution of Tk. 325 and Tk. 433 respectively from all the private sector workers in the particular fiscal year (Figure 6, Option A). However, if only the formal private sector workers participate in the scheme on a mandatory basis, the corresponding contribution requirement would increase by a factor of nine to Tk. 2,713 and Tk. 3,618 per month respectively to finance the same level of pension benefits for the eligible retirees by FY2020 (Figure 6, Option B). Given the situation of high informality in the economy, Option B would not be feasible to implement from the affordability point of view. Thus, at the earlier stage of DB scheme, GoB may opt for

Figure 6: Pillar I financing options under PAYG-DB scheme



Source: Authors’ estimation based on MoF and BBS data.

Option C which envisages co-financing by both GoB and formal private sector. Under this Option, GoB may require formal private sector’s contribution at rates as if all the private sector workers are participating, such as Tk. 325 and Tk. 433 respectively per month in FY2020 and match the resource gap (originating from non-participation of informal sector employees) through its own coffer. Our estimation suggests that at the replace rate of 10, 15 and 20 per cent it would require an additional average allocation equivalent to 0.4, 0.7 and 0.9 per cent respectively per

annum from GoB under Option C (see Annex 2). The corresponding figures would be equivalent to 0.7, 1.2 and 1.6 per cent of GDP annually if GoB plans to cover all eligible pensioners aged 60 years and above. Although this entails a liability for the government, which is almost similar to financing Pillar 0, it would ensure much higher benefits for the elderly citizens once they retire. Furthermore, the partnership between the government and the private sector would also inculcate a sense of ownership among the contributors. However, GoB will need to introduce this rather with due caution so that it does not end up encouraging informality. The GoB will also have to ascertain whether the formal sector will agree to go with and comply with such a system.

GoB may face difficulty in allocating the financial resources to provide poverty line level benefits to all old age people with 65+ under Pillar 0, or meet the resource gap under Option C of Pillar I. Therefore, it can encourage informal sector employees including self-employed persons to participate in this scheme on a voluntary basis. They may perhaps be persuaded to agree with the proposal, since a monthly OAA of Tk. 500 –Tk. 2,264 while may be an agreeable sum for the unemployed, may not be adequate for ensuring a decent life for the informal sector employees after they retire.

There are several retirement plans and pension policies operated by insurance companies in Bangladesh. However, common citizens are not aware of these pension policies and retirement plans. If GoB opts for a PAYG-DB scheme for the employed people in the country, by putting in place the necessary legal and institutional arrangements, then population groups such as farmers, service providers and others including private sector workers and self-employed persons could have an option to avail of the scheme as a security in old age. This pension scheme to be operated by the government will be a better option with higher return compared to retirement plans of insurance companies. In view of this, people may be incentivised to contribute from their salary for achieving a risk-free return in the form of pension benefit at their retirement age. It may be noted that the monthly promised benefits (under Option A and C) after retirement are much higher than, for example, Lifeline Retirement Plan of MetLife insurance (Tk. 2,000 per month) and JBC pension policy (fixed at Tk. 5,000 per month) with similar kind of contribution requirement (around Tk. 700 per month) (Table 1).

Table 1: Comparison of PAYG-DB financing with other savings options in Bangladesh

Schemes	Contribution Period (Years)	Monthly Installments (Tk.)	Monthly Benefit after Retirement (Tk.)	Rate of Return (%)
Pillar I – Financed by the Private Sector Employees				
<i>Contributes from 2020 to 2039 and retires at 2040</i>				
Replace rate at 10%	20	417	8,577	16.33
Replace rate at 15%	20	625	12,866	16.33
Replace rate at 20%	20	833	17,155	16.33
Insurance Companies				
Lifeline retirement plan of Metlife insurance	20	746	2,000	5.05
Jiban Bima pension policy	20	768	5,000	9.82

Source: Authors' estimation.

The pension benefit under Lifeline Retirement Plan is fixed according to the policy chosen by the recipient. The amount will not change with any change in income level of the recipient. Also there is only a limited scope of investing in the premium amounts to generate returns which can then be added to the retirement policy at the maturity date. On the contrary, the pension benefit fixed beforehand under the DB scheme can be adjusted with growth in the level of average wages or individual wages through indexation method. This may significantly raise the benefit amount. However, GoB (the guarantor) could be vulnerable to contribution failure during shocks with the resultant increase in the implicit debt burden. To avoid such risks the GoB may build an effective partnership through adapting the proposed DB scheme with those insurance companies which offer the best rates in the market. It would provide GoB some cushion during times of economic shocks. The life insurance companies already run individual pension schemes. Arrangements can be made so that insurance companies can keep a certain percentage of the amount that the government is providing as social security. Also, group insurance schemes could be successful in bringing down the amount of premium.

A similar method is being followed by Finland in their ERPS where they cover employed people of private sector as well as self-employed persons and farmers under PAYG method. In this method, the total sum of pension contributions collected annually equals the sum needed for the future payment of the pension in that year. Under this fully funded mechanism, each generation saves the fund needed for its own pension. Under such circumstances, the returns on fund savings can be used to finance some of the pension expenses. This will eventually reduce the contribution amount of the employed people (Hannikainen and Vauhkonen, 2012). In Finland people start contributing from age 18 years (if engaged in employment) till their retirement age. Similarly, GoB can set the contribution period on the basis of which they will be paying their contribution amount on an installment basis.

DC scheme

However, there is a significant risk associated with having a DB plan due to the possibility of the pension not being funded properly and returns from investment not being generated as expected. The contributors to the pension benefit could pay a lesser amount (Muriuki, 2012). Hence, the question regarding financial sustainability is significant. The alternative to this is that if ultimately a pension plan is to be financially sustainable in the longer term, then it has to be fully funded, which the DC scheme is all about. This means one contributes on a regular basis and if the employer is from the private sector then he or she will contribute, and after retirement the amount of pension one receives will depend on the amount of contribution, where the money is invested and how much is received as returns. Hence, the scheme is self-financed. Based on experiences of countries that have similar economic and labour market situations, the GoB, by following the DC method, could require a mandatory contribution of 20 per cent of employee's pensionable wage (basic salary declared in the employment contract), requiring a minimum of 10 per cent each from the employee and the employer. Each employer will open a Retirement Pension Account (RPA) for employees and will collect and make contribution on employees' behalf. Although the contribution rate needs not be constant over the course of a career, contributions from both parties will be tax-deductible. The contribution rate can be adjusted annually in line with changes in the level of

salary of the employees using an indexation method. There will be a minimum contribution period of 10 years throughout the participant's employment period. Therefore, DC pension plans will operate as effective long-term savings accounts (Oxera Consulting Ltd, 2008). Members will be eligible for early pension withdrawal if the balance in their RPA is sufficient to provide them lifetime monthly payment that is at least twice the amount of Pillar 0 pension amount prevailing at the time of retirement. The monthly pension payment will be calculated by dividing the balance in the member's RPA at the time he/she reaches 65 years, considering life expectancy of 72 years (at present). Thus, pension benefit will be calculated for a total of 84 months. In cases where the calculated monthly payout is less than the Pillar 0 pension benefits (e.g. Tk. 2,145, equivalent to inflation-adjusted NLPL in FY2020), the least minimum amount (e.g. Tk. 4,290 in FY2020) will be paid on a monthly basis until the RPA balance is exhausted. Similar financing framework using DC method is followed in Maldives in case of financing the MRPS. Both employers and employees together contribute 14 per cent of the employee's salary with a minimum rate of 7 per cent for the employers.

Intervening a DC pension scheme is indeed a very ambitious enterprise in the Bangladesh context and it cannot be done overnight. Hence, when moving from Pillar 0 to Pillar I, it will be prudent if the DB plan is followed that works on a PAYG basis (on a limited scale) at the earlier phase. The DC scheme could be the longer-term solution to having a universal pension strategy, but will need to be implemented through a gradual process.

8.4 Utilisation of the Pension Funds

A beneficiary of a DC scheme or a DB scheme that includes a DC element is entitled to make decisions regarding investment of their pension fund. For example, the beneficiaries will be able to split their pension savings between low-risk, medium-risk and high-risk investment options. While making investment choices the investor should not invest in high risk assets, particularly if they are planning to use the pension fund to take some cash or purchase an annuity at retirement. High risk investments such as equities could incur significant losses at some point in time when the investor can least afford it. A beneficiary of a contributory scheme

under the DC method uses different kinds of investment policies and bears all the investment risks. Some of the possible investment policies are discussed below.

Development of a portfolio insurance is a key strategy for investment which requires maintenance of a prudent asset portfolio. There are a number of ways through which an investor can have portfolio insurance. One method is to invest in low risk assets. The investor can also invest in T-bills and buy call options to develop a portfolio insurance (Bodie, 1988). Globally, majority of the pension funds are invested in stocks, a quarter in bonds and cash and a quarter invested in alternative options such as private equity, real estate, hedge funds and commodities. The two main asset classes where pension funds are invested are bonds and equities. Bonds and equities generally have a long-term investment perspective in line with the duration of their liabilities. The fund which is generated from the contributory pension scheme can be used by the investors to invest in bond and shares by acquiring a substantial position in the bond market. There are some countries which also invest in medium-term nominal bonds to a larger extent. A prevailing trend is in recent decades has been when the investors of public pension funds transfer their investment from low risk to fixed income investments such as government and high-grade corporate bonds. This transfer is undertaken to boost investment return and to diversify investment portfolios (The Pew Charitable Trusts, 2017). A company can fully fund its pension plan and invest the entire amount in the bond market in order to maximise the firm's value to its shareholders (Bodie, 1988).

There will be a reduction in cost if the investor shifts towards long-term assets and there will be an increase in availability of equity and long-term debt financing to companies. This should raise productive capital formation. Companies with small equity bases may be able to gain important competitive advantages in terms of growth potential from issuance of equity. This will reduce the risks of financial distress in case of an economic downturn. A robust bond and equity market could be a plus point (Holzmann, 1997). In the Northern European countries, pension funds are usually invested in domestic real estate. In Canada as well, its pension funds are invested in real estate and fixed income securities (PwC, 2016).



KEY CHALLENGES THAT NEED TO BE ADDRESSED

9.1 Enhancing Revenue Mobilisation

Bangladesh has one of the lowest tax-GDP ratios among the South Asian countries and in the world. Over the last ten years, this ratio has been hovering around 10 per cent. Indeed, this remains a key concern in introducing a UPS and in attaining the universality in Pillar 0 in Bangladesh. Other things remaining the same, an additional 2-3 per cent GDP equivalent of tax will have to be mobilised to establish Pillar 0 UPS. However, with no visible improvement in the revenue collection situation, introduction of UPS will be a fiscally challenging aspiration. Introducing UPS, without raising more revenue, could result in lower allocation for other competing expenditures. To be true, the government has taken a number of reform initiatives, including the implementation of VAT and SD Act 2012, launching of the VAT online project, and bringing more people under the tax net. According to the Action Plan for the period of 2018-2023, by implementing the public finance management reform strategy for the period 2016-2021, the government envisages to raise the tax-GDP ratio to 14 per cent by 2023. If this target is reached, it will provide fiscal cushions for introducing a modicum of UPS in Bangladesh. However, the tax-GDP ratio of 14 per cent projected in the 7FYP for FY2020 is actually far off the mark as far as actual tax mobilisation was concerned. Many of the planned reforms are yet to be implemented; in view of this, introducing the proposed UPS in Bangladesh will be a challenging task. GoB will have to pursue a multi-pronged strategy if the aspiration of the UPS is to be realised on the ground.

9.2 Bringing the Private Sector on Board

Provident fund in Bangladesh was introduced only for government employees in 1982. Later, some private organisations also initiated their own provident fund programmes and gratuity systems. However, at present only a very few private sector employers have a system in place for mobilising contribution from the employees and providing pension benefit to their employees. On the other hand, without a mandatory and active participation of private sector employers, Pillar I will be difficult to operationalise in the Bangladesh context. Administration and regulation of contributory pension scheme for employed people will also require that private sector pension fund companies get involved in the market since they have the required expertise to offer professional services and ensure that expected returns on investment are generated.

9.3 Transforming Informal Sector to Formal Sector and Raising Awareness

Bangladesh's labour market is predominantly informal in nature. Majority of the employed population do not have any institutionalised pension plans operated their employers. Informal sector workers in Bangladesh are scattered across the country, which makes it difficult to reach them; this would also entail high administrative cost. In the case of contributory pension scheme, workers with low income will not be willing or able to contribute. Enforcement will be difficult. It will not be easy to take advantage of economies of scale.

Due to lack of job market stability particularly involving the informal segment of the labour markets, high turnover rate and migration rate are quite high among workers in Bangladesh. Hence, workers may not be interested in long-term pension scheme. In the case of contributory scheme, workers often consider that this is a trap to keep them stuck in the same job for extended periods. Thus, transparency and openness, and raising awareness about the advantages of UPS are very important preconditions for introducing a UPS in the Bangladesh context.

9.4 Ensuring Financial Inclusion

Nearly 50 per cent of the population in Bangladesh are still unbanked, while only 41 per cent have access to financial institutions (Demirgüç-

Kunt et al., 2018). Almost half of the elderly population in Bangladesh is out of coverage of the banking system, majority of people use banks only to receive transfer payments but not for “banking” in real terms. The central bank in Bangladesh has identified ten barriers to financial inclusion, including poor banking infrastructure, geographical coverage or high average distance from household to bank branches, etc. People are also not aware of the advantages of holding a bank account. On the other hand, without greater financial inclusion, it will be difficult to introduce the UPS in Bangladesh.

9.5 Establishing a Private Pension Market and Making it Functional

For the funding of the DB schemes and for graduation from the DB to the DC system, it is important to establish a private pension market. However, most Bangladeshi workers do not have the ability to contribute a fixed amount for a pension fund, assuming that such a fund is set up. Insurance penetration in Bangladesh is also very low. It is also important to note that private markets need to be regulated in an effective manner. IDRA Act 2010 states that the responsibility of pension market regulation has been given to IDRA. Thus, capacity of IDRA to manage the insurance funds will be a critically important issue. As of now, there is a regulatory capacity gap in Bangladesh. Introduction of UPS will require significant qualitative improvement in the work of all concerned authorities including the regulatory bodies. Since Pillar I is a social insurance pillar, it will call for a sound professionally run insurance industry and existence of adequate opportunities to invest the pension funds. Purchase of government bonds is safe but other options will also be needed including treasury bills, fixed deposits and corporate stocks.

9.6 Managing Pension Funds in a Professional Way

To make any UPS sustainable, the funds will need to be invested in income generating activities to get adequate returns to make the scheme a reasonably profitable venture. Thus, what is needed is an improved investment climate and creation of appropriate opportunities that would make the scheme a viable business model. Due to restrictions which limit the level of investment in government and government approved securities, neither the public nor private sector schemes in Bangladesh

are active participants in the capital market. Indeed, a well-functioning capital market could play an important role; however, this is not the case in view of Bangladesh's current reality.

Furthermore, the governance of the pension fund will call for addressing a number of concerns: these relate to transparency and accountability, design, implementation and operational strategy, delivery of quality services to the beneficiaries, keeping overhead administrative and fund management costs within acceptable limits, robust supervision and appropriate monitoring and oversight mechanism to deal with leakages and wastage. The pension fund in Bangladesh is currently regulated and monitored by the government; however, it remains unfunded and unrecognised as a common trust fund (Alam, 2012). Key informant interviews (KIIs) indicate that there is a general trust deficit among workers since in most of the cases the workers have to go through a protracted process including filing of cases in the labour courts to avail of the legitimate provident fund benefits. Hence, they feel disinterested to contribute to a PF. There is also a lack of transparency regarding the principal-agent problem. Further, there are a few insurance companies which deny the workers their entire benefit if they fail to contribute to the fund even for once. Asset management companies in Bangladesh are rare, making it difficult to manage public or private funds. There are also no regulations in place guiding the work of institutional investors which could help manage the fund for investment in an accountable manner with good governance. In OECD countries, pension funds are generally deposited in banks and the funds benefit from growth of asset base and enhanced income through offer of asset management services. Currently, the banking sector of Bangladesh, beset with many problems as it is, is not adequately prepared to provide the secure service needed for operationalisation of the UPS. Thus, there is a need for a qualified authority to oversee the investment decisions of pension fund assets and proper management of liquidity reserves to facilitate smooth transfer of incomes to beneficiaries after retirement. Fundamental reforms will need to be undertaken before the UPS can be introduced in full measure. However, a UPS can be launched under the prevailing circumstances to be expanded in depth and breath, in a gradual and phased manner.



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ANNEXES

Annex 1. A multi-pillar pension system of India

The pension system in India is based on different types of pension schemes: the Civil Service Pension Scheme (CSPS), the Employees' Provident Fund Organisation (EPFO) schemes, superannuation plans of the corporate sector, schemes for public enterprises, voluntary tax advantaged schemes, social assistance schemes and micro-pension schemes.

Pillar 0

National Old Age Pension Scheme (NOAPS): The Indira Gandhi NOAPS was introduced in 1995 for people of 65 years and above, and for those who belonged below the poverty line. NOAPS is a non-contributory means-tested pension scheme. The pension benefit amount was Rs. 200, allocated on behalf of the central government plus an amount contributed from the state government, which varied according to the discretion of the state government. The coverage was limited, ranging between 10 and 15 per cent of the elderly people. The eligibility age was reduced to 60 years in 2011, and the monthly benefit was raised to Rs. 500 for people above 80 years (Sanyal and Singh, 2013). Bihar is the first state in India to launch a basic non-contributory pension scheme, known as the “Mukhyamantri Vridhjan Pension Yojna”, which is to be provided to each citizen above the age of 60 years living in Bihar. The scheme will give eligibility for a monthly benefit of Rs. 400 to people of 60 years and above and a monthly pension of Rs. 500 to people older than 80 years. People who are not getting any other pension, either from the state of Bihar or the central government, will be eligible for this pension scheme. The new scheme has been made effective from 1 April 2019.

(Annex 1 contd.)

*(Annex 1 contd.)****Pillar I***

Civil Service Pension Scheme (CSPS): Civil servant pension is a traditional DB pension scheme, which is funded by PAYG method for the employees of the central government. Periodically, pension payments are revised to reflect the growth in wages and consumer price index. Under this scheme, the employees were mandated to pay a certain per cent from their salary to a Government Provident Fund (GPF) scheme. They receive a lump sum gratuity benefit based on the period of service and the salary level. Over the years, several reforms in CSPS have taken place with changes in the parameters of the existing pension scheme, such as the benefit computation formula, eligibility criteria, indexation method, and so on. The CSPS is regulated under the supervision of both central and state governments.

Employees' Provident Fund Organisation (EPFO) Schemes: The employee provident fund came into effect with the introduction of the Employees' Provident Fund Ordinance in November 1951. It was replaced by the Employees' Provident Funds Act, 1952 to provide for the institution of provident funds for employees in factories and other establishments. The Act is currently referred as the Employees' Provident Fund and Miscellaneous Provision Act, 1957. Both the Act and the schemes are administered by a tripartite board known as the Central Board of Trustees, Employees' Provident Fund with representatives of both central and state governments' employers and employees. Minister of State for Labour and Employment, Government of India, is the chairperson of the trustee board. The trustee board is assisted by the EPFO. The board manages three types of old-age social security for employed people engaged in organised sector in India. These include: (i) Employees' Provident Fund Scheme (EPFS), introduced in 1952, which was a mandatory saving scheme for old age; (ii) Employees' Deposit Linked Insurance Scheme (EDLIS), introduced in 1976, which provides insurance benefits to beneficiaries of members who died in harness (while in active service); and (iii) Employees' Pension Scheme (EPS), introduced in 1995, which provides pension benefit to members, widows, widowers, physically disabled members, children, orphans, nominees and dependent parents. Formal sector workers with monthly earnings of Rs. 6,500 and organisations with less than 20 eligible members are covered under EPFO schemes in India. The overall contribution rate under EPFO is 12.5 per cent for

(Annex 1 contd.)

(Annex 1 contd.)

employers, 12 per cent for employees and 1.2 per cent for the government (Asher, 2008). As a practice, the pension funds generated from EPFO schemes are invested in government and public sector fixed investments.

National Pension Scheme (NPS): NPS was launched in 2004 with the objective of providing retirement income to all the citizens. The initiative for NPS was taken by the Government of India mainly to move from DB-based pension schemes to DC-type pension schemes. NPS also led to the establishment of a Pension Fund Regulatory and Development Authority (PFRDA) in October 2003. A PFRDA bill was introduced in the Parliament in 2005 to develop and regulate the pension market in India. It manages the investment of the pension funds generated from all retirement plans in India, except for the EPFO funds. The PFRDA consists of a Central Recordkeeping Agency (CRA) and three fund managers to manage accumulated balances in the NPS pension accounts, while the states can appoint their own CRA and fund managers. Under the NPS, each member holds individual pension accounts and members are allowed to choose their own fund managers for proper utilisation of the pension fund. The income of the fund is taxable. Initially, NPS was introduced for the new central government employees who had entered their service since 1 January 2004. In 2009, NPS started to operate a voluntary scheme for the informal sector workers to extend coverage to all the citizens of India. In order to encourage people from the informal sector to participate in the NPS system, the Government of India has started a co-contributory scheme, “Swavalamban Scheme” in the union budget of FY2010-11. Under this scheme, the government contributes Rs. 1,000 to each NPS subscriber who contributes a minimum of Rs. 1,000 and maximum of Rs. 12,000 per year.

Pillar II

Occupational Pension Schemes or Superannuation Plans: There are certain retirement plans in the corporate sector which provide additional post-retirement income to employees on a regular basis. These schemes are operated under the Income Tax Act and supervised by the tax authorities. They consist of both DB and DC pension schemes, and are managed by the organisation itself or by the LIC. Rs. 2,000 billion (USD 48 billion) has been estimated as the pension assets generated in the private sector, and the fund is mostly managed by insurance companies. LIC has been operating

(Annex 1 contd.)

(Annex 1 contd.)

as a professional manager to manage retirement funds mobilised from various retirement plans in India. Ninety-five per cent of pension funds are invested in government securities and bonds, and 5 per cent in equities.

Micro Pension Schemes: There are some micro pension schemes in India which are provided by the microfinance institutions. The pension benefits are provided to the members in exchange of low contributions and with low premiums. The total amount accumulated in the pension account depends on contributions and investment returns net of administrative, investment management and other expenses. The eligibility age under this scheme is usually 58–60 years, when the person can withdraw the amount as a lump sum or phased withdrawal of the amount or some combination of these methods are applicable.

Pillar III

Voluntary Tax-Advantaged Schemes : Voluntary tax-advantaged schemes were introduced by the Public Provident Fund (PPF) in 1968. The scheme follows DC savings option using personalised accounts. The scheme uses income tax rebates as incentives for customers for which it mainly attracts formal sector workers who pay income taxes. A minimum contribution period of 6–15 years is required in order to receive the benefit. A minimum contribution of Rs. 500 per annum and a maximum contribution of Rs. 100,000 per annum is needed. Participants are allowed to withdraw their money either on a monthly basis or at a single go.

Annex 2. Number of OAA and GERP beneficiaries, total revenue, total expenditure and GDP, FY2017-FY2040

Particulars	FY2017 (Budget)	FY2020 (Budget)	FY2025 (Projected)	FY2030 (Projected)	FY2035 (Projected)	FY2040 (Projected)
OAA beneficiaries (in million)	3.2	4.4	7.1	11.5	15.8	19.4
GERP beneficiaries (in million)	0.6	0.6	0.8	1.0	1.3	1.6
Total revenue (in crore BDT)	200,752	284,217	560,932	1,107,057	2,184,891	4,312,107
Total expenditure (in crore BDT)	261,503	406,748	838,400	1,728,133	3,562,071	7,342,233
GDP (in crore BDT)	1,975,815	2,885,872	5,317,032	9,796,287	18,049,024	33,254,156

Source : Authors' estimation based on MoF and BBS data.

Annex 3. Number of old age population, employed population and average monthly wages, 2017-2040

Particulars	2017 (Base)	2020 (Projected)	2025 (Projected)	2030 (Projected)	2035 (Projected)	2040 (Projected)
Old age population (65+) (in million)	7.9	8.6	10.3	13.3	17.1	21.0
Average wage/salary in per month (in BDT)	13,258	16,743	26,703	39,400	58,133	85,775
Total employed population (in million)	60.8	68.9	88.3	108.7	133.8	164.6
Employed population (formal)	9.1	10.3	13.2	16.2	19.9	24.5
Total employed population (private)	58.5	66.6	86.0	106.4	131.5	162.3
Employed population in private sector (formal)	6.8	8.0	10.9	13.9	17.6	22.2

Source: Authors' estimation based on UNDESA and BBS data.

Annex 4. Different financing options

Assumptions	Monthly Benefits (Tk.)						Non-contributory						Contributory						
	2017 (Base)		2020 (Est.)	2025 (Proj.)	2030 (Proj.)	2040 (Proj.)	GoB Yearly Cost (% of GDP)		2020 (Est.)	2025 (Proj.)	2030 (Proj.)	2035 (Proj.)	2040 (Proj.)	Monthly Contribution Requirement (Tk.) from Private Sector		2020 (Est.)	2025 (Proj.)	2030 (Proj.)	2035 (Proj.)
Current Allocation by GoB under Social Safety Net Budget																			
OAA (infl. adj.)	500	579	739	943	990	1,039	0.11	0.12	0.13	0.10	0.07	-	-	-	-	-	-	-	-
GERP	23,494	30,437	40,341	53,469	47,019	41,347	0.80	0.72	0.66	0.39	0.24	-	-	-	-	-	-	-	-
Total allocation for OAA and GERP (Annual)																			
Pillar 0 – Cost Requirement to Cover All Senior Citizens (65+), Excluding GERP Beneficiaries																			
OAA (infl. adj.)	500	579	739	943	990	1,039	0.19	0.16	0.14	0.10	0.07	-	-	-	-	-	-	-	-
NLPL (infl. adj.)	1,853	2,145	2,738	3,494	3,669	3,852	0.70	0.59	0.53	0.39	0.27	-	-	-	-	-	-	-	-
NUPL (infl. adj.)	2,264	2,621	3,345	4,269	4,483	4,707	0.85	0.72	0.64	0.47	0.33	-	-	-	-	-	-	-	-
Additional Yearly Requirement to Cover All Senior Citizens (65+), Excluding GERP Beneficiaries																			
OAA (infl. adj.)							0.08	0.04	0.01	0.00	0.00	-	-	-	-	-	-	-	-
NLPL (infl. adj.)							0.59	0.47	0.40	0.28	0.20	-	-	-	-	-	-	-	-
NUPL (infl. adj.)							0.74	0.60	0.51	0.37	0.26	-	-	-	-	-	-	-	-

(Annex 4 contd.)

(Annex 4 cont'd.)

Assumptions	Monthly Benefits (Tk.)							Non-contributory					Contributory				
	Monthly Benefits (Tk.)							GoB Yearly Cost (% of GDP)					Monthly Contribution Requirement (Tk.) from Private Sector				
	2017 (Base)	2020 (Est.)	2025 (Proj.)	2030 (Proj.)	2035 (Proj.)	2040 (Proj.)	2020 (Est.)	2025 (Proj.)	2030 (Proj.)	2035 (Proj.)	2040 (Proj.)	2020 (Est.)	2025 (Proj.)	2030 (Proj.)	2035 (Proj.)	2040 (Proj.)	
Pillar I (PAYG - DB)																	
Private Sector Workers (All) Contribute to Pay for Eligible Retirees (65+), Excluding GERP Beneficiaries																	
Replace rate at 10%	1,326	1,674	2,670	3,940	5,813	8,577	-	-	-	-	-	216	295	457	698	1,023	
Replace rate at 15%	1,989	2,511	4,005	5,910	8,720	12,866	-	-	-	-	-	325	443	685	1,047	1,535	
Replace rate at 20%	2,652	3,349	5,341	7,880	11,627	17,155	-	-	-	-	-	433	590	913	1,396	2,047	
Both GoB and Private Sector Workers (Only Formal) Contribute to Pay for Eligible Retirees (65+), Excluding GERP Beneficiaries																	
Replace rate at 10%	1,326	1,674	2,670	3,940	5,813	8,577	0.53	0.50	0.52	0.53	0.52	216	295	457	698	1,023	
Replace rate at 15%	1,989	2,511	4,005	5,910	8,720	12,866	0.79	0.75	0.78	0.79	0.78	325	443	685	1,047	1,535	
Replace rate at 20%	2,652	3,349	5,341	7,880	11,627	17,155	1.05	1.00	1.03	1.06	1.03	433	590	913	1,396	2,047	
Additional Yearly Requirement to Contribute to Pay for Eligible Retirees (65+), Excluding GERP Beneficiaries																	
Replace rate at 10%							0.42	0.38	0.38	0.42	0.44	-	-	-	-	-	-
Replace rate at 15%							0.68	0.63	0.64	0.69	0.70	-	-	-	-	-	-
Replace rate at 20%							0.95	0.88	0.90	0.95	0.96	-	-	-	-	-	-

Source: Authors' estimation based on MoF and BBS data.

A universal pension scheme (UPS) is an important step towards achieving at least five targets of the Sustainable Development Goals which are associated with social protection. A comprehensive social protection system also aligns well with aspirations of Bangladesh which has embarked on its middle income country journey in 2015 and is slated to graduate out of the LDC group in 2024. The government of Bangladesh is committed to introduce a universal pension system for all the elderly citizens of the country; this has been articulated in various policy documents of the government. Taking the ILO multi-pillar UPS model as a reference point, and drawing on international best practices and country experiences, the study has carried out an analysis of possible fiscal implications of introducing UPS in Bangladesh, under different scenarios, including under contributory and non-contributory systems. Estimates indicate that this will require an additional allocation equivalent to about 0.1 to 1.0 per cent of GDP annually, over the next twenty years. The study also outlines the needed legal reforms and institutional framework in this connection. It is hoped that the study will raise awareness about the concerned issues among key stakeholders, and benefit policymakers who will have an indepth understanding about the challenges of introducing a UPS in Bangladesh.

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