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*Security through Diversity*  
**Private Pension Fund Development Assistance, Phase II**  
**Final Report**  
**United States Agency for International Development**

***Security through Diversity***  
**Private Pension Fund Development Assistance, Phase II**  
**Final Report**

Per Task Order 08 issued under contract EPE-I-005-1-00-5043-00, the project had the following objectives

- ❑ Help create and adopt comprehensive, implementable legislation to establish private, capital-based pension funds in Poland
- ❑ Broadening and improving the quality of public information and associated debate regarding pension reform issues
- ❑ Assist in development of new Superintendency of Pension Funds (UNFE)

The results of activities to realize these objectives are discussed below

<b>A GENERAL INFORMATION</b>
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**1 Project Identification**

Title	Republic of Poland, Private Pension Fund Development Assistance, Phase II
Contractor	PricewaterhouseCoopers LLP (formerly Price Waterhouse LLP)
Contract Number	
Contracting Officer	Anne Quinlan, USAID/OP/B/PCE
Regional Contracting Officer	Thomas Stephens
USAID Project Office	Warsaw, Poland

**2 Project Performance Dates**

Start Date	October 1, 1996
Completion date	September 30, 1998

**3 Project Management**

Project Manager	Marlyn Zelkowitz
Key Technical Advisors	Jim Kernan, Jamil Simon, Elaine Church, Rafael Rofman, Walter Schulthess, Emilio Sanchez, Gustavo Demarco

#### 4 Project Description

Governmental Goals Over the last eight years, USAID has helped Poland understand the benefits of transformation and reform. The goal of USAID's pension assistance is to help ensure each Pole a safe and adequate pension in old age. In a world of changing demographics and financial uncertainty, this is a complex public policy goal.

The Government of Poland (GoP) is implementing pension reform which will create a multi-pillar pension system consisting of public and private pensions. This new system is named *Security through Diversity*, indicating the intention to create secure pensions through diversification of risk. The first pillar of public pensions will continue to be paid by the reformed government-run system. The second pillar of mandatory funded pensions will be privately managed and stringently regulated by the Government. Voluntary third pillar savings through private pension funds, life insurance policies, or other products also will provide retirement income. The Superintendency of Pension Funds (UNFE) will supervise the second and third pillars of the new system.

Working in a Changing Environment This project has been successful in helping GoP implement reform by responding in a flexible manner. The original scope of work was refined to meet the clients' needs in five task order modifications, and was extended from 12 to 24 months. In addition, the key GoP counterpart, the Plenipotentiary for Social Security Reform, changed three times. We worked primarily with the Office of the Government Plenipotentiary for Social Security Reform, but our scope was also expanded to assist the Superintendency of Pension Funds (UNFE) with start-up activities. The project also experienced national parliamentary elections, a change in government and a corresponding change in most political counterparts.

At the termination of this contract, the Government of Poland had passed much of the key legislation and convinced key policy makers and parliamentarians from two successive governments about the need for and the direction of the reform. This project assisted in the creation of a critical mass of support to push the reform ahead. With the assistance of USAID, PricewaterhouseCoopers LLP and Profile sp z o o (the public education subcontractor, based in Warsaw), Poland has created the critical mass to develop a pension system based on international best practices, but also tailored to the needs of the Poland's environment.

### **B COOPERATION WITH KEY GOP INSTITUTIONS**

Assistance to the Office of the Plenipotentiary for Social Security Reform (OP) In Phase II of the project, PricewaterhouseCoopers supported the Office of the Government Plenipotentiary for Social Security Reform in its development of a multi-pillar pension system consisting of public and private pensions. PwC provided technical assistance on draft legislation and public education on behalf of the Government of Poland. We commented on the proposed private pension laws. The public education effort started with strategy creation.

The team assisted in the implementation of the public education strategy. The primary goal was to build support for a favorable vote on draft pension legislation in Parliament. This effort included market research, such as surveys and focus groups, preparation of brochures, organizing press conferences, preparation of Parliamentary political information kits, supporting seminars on pension reform, and arranging study tours to see the benefits of private pension systems elsewhere.

In January, March, September, and December of 1997 and July of 1998, study tours to Chile and Argentina took place for representatives of the Government of Poland, Parliament, private sector, and the media. Similar study tour took place in Hungary in January 1998. PwC led a series of five seminars on transfer of contributions, asset management, pension fund supervision, and annuities. We also provided technical assistance for television programs and serials discussing pension reform.

Assistance to the Superintendency for Pension Funds (UNFE) In this area, we assisted UNFE in the development of procedures to register and license pillar 2 pension funds. We drew on best practices from Mexico, Argentina, Chile and Peru. PwC organized a study tour in August 1998 to Chile and Argentina for UNFE staff. We ran training courses for UNFE staff and assisted in institution building, and helped develop procedures for Pillar II pension fund company and pension fund licensing.

**C LESSONS LEARNED  
HOW POLAND WAS ABLE TO PASS  
COMPREHENSIVE PENSION REFORM -- DEVELOPING PROJECTS TO  
SUPPORT POLICY REFORM**

This was a project to support policy reform, rather than actually design policy. This distinction is deliberate. US experience in pension reform is limited. Thus, the purpose of the project was not to transfer knowledge about the US experience. Rather, the project sought to provide policy-makers and key decision-makers in government broad access to information on policy design elements and experiences in countries considered to represent "best practice" in these types of efforts. The project also fostered educated public discourse on the meaning of these foreign reform efforts to Poland and provided officials with the basic tools required to debate and analyze options.

Below is a discussion of some of the observed lessons learned from Poland's experience that other pension reform efforts should consider. These lessons are tightly linked and are self-reinforcing.<sup>1</sup>

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<sup>1</sup>Further discussion of such lessons is provided by the current and former Directors of the Government Office of the Plenipotentiary for Social Security Reform, Dr. Marek Gora and Dr. Michał Rutkowski in *Security Through Diversity*, 1998.

- The Importance of Leadership This reform benefited from strong political support and shielding from the three individuals who served as Plenipotentiary Andrzej Bączkowski, Jerzy Hausner and Ewa Lewicka. It is important to note that these three individuals come from different political backgrounds, but were nevertheless able to agree on and support the themes of the reform. The political skill and maturity of these three individuals did much to move pension reform from being policy talk between ministries, to become a concrete and innovative pension reform program. Significant credit for envisioning the policy direction of the reform, as well as managing the day-to-day reform effort, must also be attributed to the two directors of OP, Michał Rutkowski (October 1996 to September 1997) and Marek Góra (October 1997 to present).
- Be Inclusive and Politically Savvy In regards to political issues, the OP took pains to ensure that all responsible political segments were included in events (such as study tours) and informed about developments. However, it is important to note that OP leadership did not hesitate to rebut or correct public criticisms based on misinterpretations or misunderstandings. Thus, in a fairly short time span, pension reform in Poland jumped the gap from discussion to implementation. The OP was able to bridge this gap by relying on the credibility of its economic arguments, its strong leadership, and by cultivating an inclusive and deliberate work ethic. The OP included responsible and interested parties in the process and set deliberate goals and performance targets.

For instance, trade unions and employers were consulted via the Tripartite Commission from the beginning of the process. Later, in part due to the virtue of this co-operation, Ewa Lewicka from the Solidarity Trade Union would become the Plenipotentiary to oversee much the reform's implementation.

It should be noted that the structure of the OP, the institution charged with shepherding the reform process, seemed particularly well suited to lead the way to consensus. The OP is largely a virtual team of Polish economic experts, government officials and technocrats that drew members from various GoP ministries and agencies, as well as domestic think tanks and consultancies. Because OP membership was derived from a wide cross section, it had credible access to various responsible political camps and was able to survive, with the team and the proposed policy intact through the changing of government.

- The Importance of Investing in Public Education From the very beginning of the process, the OP recognized the value and the importance of developing a good working relationship with the media. OP deliberately cultivated relationships with key journalists in the national and local media environments with the goal of educating them about the complicated issues but simple messages of pension reform policy. To otherwise help deliver the proper messages, OP used public opinion polls, focus groups, individual interviews and press research, brochures, television and radio.

During this Task Order, public education was targeted at key-political decision-makers. This strategy was particularly successful helping to convince key political decision-makers about the need for pension reform and the direction the OP had chosen. This deliberate and targeted public education strategy allowed OP to leverage its relatively small numbers to reach the maximum audience on a regular and as needed basis.

- Remaining Flexible and Opportunistic The OP had deliberate legislative and public education goals, but it also flexible to ways to achieve these goals. The OP faced the unpredictable environment inherent in developing economies and major public policy reform. Because of its flexibility and “can do” spirit, the OP did not hesitate to try to work around or turn sudden events to its favor.

#### **D LESSONS LEARNED** **USAID/PwC IMPLEMENTATION SUPPORT**

Based on the experience in Poland, future USAID activities to support pension or other financial sector reform can draw upon the following lessons learned:

- A Clear Focus on Supporting Rather than Dictating Policy Reform The type of pension reform undertaken by Poland, Argentina, Mexico and Chile is a new and developing area, and many of the solutions are yet to be tested. However, preliminary indications in several countries are encouraging. As noted in the section above, the project did not focus on dictating policy prescriptions, but rather on facilitating educated discourse on policy alternatives and creating consensus and momentum for reform. The project did this by providing expert advice in specific narrow areas, and through a series of public education and training activities.
- Support Supervision Development Soon after the major elements of the policy framework were in place, this project correctly turned its attention to addressing the institution-building needs of the regulator. The lack of a strong and balanced supervisor that operates in a transparent manner prohibits markets from functioning efficiently and effectively. The business of supervision is similar across the financial sector. Transparency in operations, flexibility in adapting to the growing market, cooperation with other financial sector supervisors and between the supervisor and industry, even-handed treatment of all industry participants, and protection of the individual investor’s rights are key areas on which that every supervisor should focus.

USAID has a positive reputation in Poland on supervision matters, as it has played a key role in helping to build the securities and banking regulators. Therefore, it made great sense for USAID to use its comparative advantage and knowledge to work with the various GoP client groups in this project to focus attention on the importance of proper supervision development.

In terms of supporting the development of the regulatory institution, it is critical to be able to mobilize the right types of expertise quickly and remain in tune with this client's requirements, as needs emerge in the nascent organization. A new supervisory agency will find itself trying to define the working reality of its mandate. Legislation lays out the policy direction, and it therefore by its nature is usually high level and may be seen as vague when it comes time for implementation. A supervisory agency will need expert advice to move from theory to practice—to determine quickly the proper interpretation of legislation for day-to-day activities.

In this regard, encouraging the new agency to establish linkages with other financial sector regulatory institutions in the country and abroad can be critical. Drawing on other regulatory experiences in the country can help the new supervisory body avoid the “reinventing the wheel” syndrome.

- Stress Public Education The main target of public education should be those who will vote for the reform. The main thrust of USAID funding and PwC activities was precisely on this area. Public education under this project targeted key decision-makers. Although information in various forms was also made available to the general public, the key target remained those who would vote for the reform.

Following final legislative approval, the public education campaign has moved forward with confidence to communicate the finalized form of the reform and the necessary actions required of the public.

- Develop Comprehensive Study Tour Procedures Study tours play an important part in educating key decision-makers about the possibilities for reform. PwC has seen significant progress in the reform effort due in part to these study tours. For instance, by the end of one particular study tour to South America, a leading member of the Polish left wing was so convinced of the value of the reform, that he stood up to argue with host country union representatives (who were essentially against the implemented changes because of lost privileges).

The effectiveness of the study tours ultimately depends on a number of critical factors:

1. ***Obtaining the right participant mix*** PwC did not always obtain the optimum participation on study tours. For example, in one case, PwC experienced difficulty in obtaining the participation of someone from the National Clearing House (KIR) on one of the study tours due to miscommunication. Study tour participation should be confirmed with the appropriate client agency a minimum of two weeks before departure. Study tour participation was in some cases finalized the day before departure.

The secret to securing the right type of participants is in large part **communication**. It is important to have as full a program of events and countries developed to send out with the invitations to participate in the

program This helps build interest, helps ensure that the right people are coming and helps to communicate to the host organizations and countries what the program is all about Given the fact the target audience in this case were legislators and politicians, multiple changes of plan were inevitable (see point 2 below) But having a general meeting plan, and announcing the details of the trip well in advance, along with deadlines for applications and so on, is key to keeping the basic activity on track

- 2 ***Flexibility and back up plans*** It was often difficult for the Office of the Plenipotentiary and the appropriate political parties to determine who should participate in study tours until the last moment Politicians are at the mercy of political events and unpredictable commission schedules Those planning the study tours should anticipate changes in schedule, and ask each participating institution, whenever possible to have an alternate participant identified
- 3 ***Keep your "hosts" fresh*** A study tour represents a significant commitment from the host institutions' perspective They must set aside time from what is often already a grueling schedule to meet with your group Being able to rotate among a group of countries and institutions is key to obtaining the time commitments required from the host country organizations For example, the majority of the PwC tours ended up in Chile and Argentina (in part at the clients' request) Chilean and Argentine organizations involved in the pension system have come under strain from a multitude of visits from countries wishing to view their reform efforts first hand Study tours from around the world to these countries have overwhelmed institutional capabilities to host guests Thus, on PwC's July 1998 study tour, both Chilean and Argentine Superintendencies for Pension Funds expressed dismay at the request to host yet another group Days before the departure of the final study tour, both agencies called to cancel previously scheduled appointments Only prolonged discussions with the Supervisory Agencies convinced them to offer some limited access Because only limited access was given and some of the meetings were cancelled, this final study tour was not as productive as had been expected

For future study tours on pension reform, PwC strongly recommends traveling to alternative countries where participants can learn they key lessons of private pension reform Mexico, Peru, Australia and the United States offer opportunities to learn about similar lessons

Another method to keep hosts fresh, is to appropriately thank hosts for their valuable time and express appreciation appropriately

Developing Materials Politically sensitive details that are likely to change should be excluded from public education materials whenever possible. In one case under this project, a brochure was printed with key retirement age information. During printing, this age was changed. After consultation with USAID, it was decided to distribute the brochure, despite the presence of incorrect information. The benefits of distributing the brochure outweighed the loss of the technical assistance and resources that had gone into the brochure's production.

Additionally, in reform efforts where foreign participation may be viewed unfavorably, public education materials should avoid the appearance of foreign sponsorship. It was important in this effort that Poles perceived this to be a Polish reform, not an American Reform. Due to this concern, no reference to USAID was made in GoP publications describing the reform. The appropriate waiver was acquired from USAID to deal with this issue.

- Develop a Flexible Task Order As can be expected elsewhere, the political and legislative process had significant impact upon this project. This project was originally scheduled for 12 months. However, due to delays in the legislative calendar and elections to parliament, five task order modifications and 24 months were required to meet client needs. These developments required flexibility to restructure the scope of work and level of effort to provide continued in-country service to GoP and USAID. Additionally, these developments require working closely with the client to gauge how legislative issues and delays impact the development of public education initiatives.

The activity of coordination and organization of the task order itself assisted the GoP plan its own activities. The political, policy and legislative obstacles reformers face can often be overwhelming. USAID's presentation, as well as that of other donors/lenders, of a limited, but flexible Task Order helped focus GoP counterpart management on next steps and key points of procedure.

- Use Appropriate Mix of US and Third Country Talent Pension reform is an area where many other countries have a comparative advantage in terms of knowledge and experience. US sponsored efforts should not preclude the use of these other countries' experience. It is more important that project staff have the right functional experience, and less important what country they come from. The proper mix for pension reform may include using the experience of reform from Latin America on policy design and implementation, and US experience in such areas as financial market regulation, pension fund management, and information technology system design.

Furthermore, pension reform and pension supervision is to a great degree an operationally specific area. Candidates for USAID projects should have operational experience from the proper country, not just be an economist or lawyer who just worked in the proper environment. In addition, where politically acceptable and appropriate, donors should encourage host governments to nominate personnel with

operational experience from similar industries/regulators (insurance, banking, investment fund management) The lesson to learn from this is that the donor needs to build credibility with the counterpart, and the counterpart needs to build the credibility of the reform It is easier to build such credibility if you have the right people

- Support Cooperation between Donors/Lenders International donors and lenders have a key role in the development of financial markets Under this Task Order, it has been observed that the various advisors have been able to complement each other's efforts While not an exhaustive list, the GoP received assistance from the World Bank, the Government of Sweden, United Nations Development Programs concurrent to the support from USAID In particular, the World Bank and USAID were careful about informing one another about developments and planned next steps As noted above, his type of coordination can help focus the attention and efforts of the host counterparts

## E CONCLUSION

PricewaterhouseCoopers has been involved with the pension reform effort in Poland on USAID projects since 1995

In Phase I of the project, a multi-disciplinary Price Waterhouse team comprised of regulatory specialists and practitioners reviewed Polish financial sector products as well as the legal and regulatory framework to assess constraints and opportunities for private pension fund development

By examining pension systems development and restructuring in Hungary the Price Waterhouse consultants were able to use pertinent and comparable data as well as "lessons to be learned" in the development of private pension funds for Poland Based on the team's findings, Price Waterhouse prepared recommendations on the future legal and regulatory framework for private pension funds in Poland

In Phase II of the project, we supported the Government of Poland in the process of developing a multi-pillar pension system PwC provided technical assistance on issue of public education, training and institution building to help the Government of Poland create this new pension system

The project relied on both training and technical assistance, drawing on the expertise of practitioners in countries that have already undertaken such a reform This combination of activities was carefully planned to support Poland's reform efforts already underway The project thus helped create and adopt comprehensive, implementable legislation to establish private, capital-based pension funds in Poland