

The background of the book cover is a photograph of an elderly woman from behind, wearing a bright green patterned sari and a black crop top. She is standing on a concrete step in front of a blue-painted wall and a wooden door. The wall has a textured, peeling paint effect. The woman is looking down, and her right foot is visible, wearing a simple silver anklet.

# SAVING THE NEXT BILLION FROM OLD AGE POVERTY

*global lessons for local action*

EDITORS

DARUL SETH KHANNA

WILLIAM PRICE

GAUTAM BHARDWAJ



# 4

## PENSION AND POPULATION ON RAZOR'S EDGE IN **BANGLADESH**

DR KAVIM V BHATNAGAR  
SENIOR INTERNATIONAL CONSULTANT

MUHAMMAD MUSLIM CHOWDHURY  
ADDITIONAL SECRETARY, FINANCE DEPARTMENT,  
GOVERNMENT OF BANGLADESH



## BACKDROP TO POVERTY AND OLD AGE POVERTY

The Government of Bangladesh (GoB) is strongly committed to reducing poverty, improving human development and reducing inequality. The “Vision 2021” policy and associated “Perspective Plan of Bangladesh (2010-2021)” envisage Bangladesh as a middle-income country, free from poverty, with healthy and equitable growth. Household Income and Expenditure Surveys (HIES)<sup>1</sup> show that coverage of programmes targeting poor and vulnerable households has increased and has helped lower poverty levels. The rate of poverty has reduced by half over the last few years – from 48.9% in 2000 to 24.8% in 2015 while the rate of extreme poverty has fallen sharply from 34.3% to 12.9 percent.

### NATIONAL SOCIAL SECURITY STRATEGY

Bangladesh approved the National Social Security Strategy (NSSS) in 2015, with a vision to “build an inclusive Social Security System for all deserving Bangladeshis that effectively tackles and prevents poverty and inequality and contributes to broader human development, employment and economic growth”. The GoB bears a constitutional obligation to ensure citizens’ rights to social security. It seeks to streamline and strengthen existing social protection programmes in order to achieve better value for money and to broaden the scope of social protection from the existing narrow safety net concept to include employment policies and social insurance while addressing the emerging needs of a middle-income Bangladesh in 2021 and beyond.

Over the long-term, the policy goal is to move towards a social security system that is available to all citizens who are in need of support, and provide them a guaranteed minimum income along with a comprehensive safety net against shocks and crises that may push them into poverty. The NSSS is designed with this long-term vision in mind. Therefore, GoB will have to take appropriate steps towards achieving this vision, while being aware that substantial change will take time. The government will focus on building the foundations of a progressive and inclusive system. The goal for the NSSS is to “reform the national Social Security System by ensuring more efficient and effective use of resources, strengthened delivery systems and progress towards a more inclusive form of Social Security that effectively tackles lifecycle risks, prioritising the poorest and most vulnerable members of society.”

### SOCIAL SAFETY NETS (SSN)

Though there is no specific definition, or differentiation between social protection (SP/SPS) and / or social security, the Bangladesh Ministry of Finance (MoF) has identified and listed 145 Social Safety Net (SSN) programs that are being implemented by more than 30 ministries and agencies. Bangladesh’s current social security system is both complex

<sup>1</sup> HIES provides data for estimating poverty and other socio-economic characteristics since 1973-74. The uniqueness of the HIES is its collection of year-round data in order to eliminate seasonal variations in income, expenditure, and consumption. In determining the poverty line, the Cost of Basic Needs (CBN) approach is used

and expensive. There is no formal mechanism for sharing information and data on beneficiaries among the implementing ministries. Importantly, the 145 social safety net programmes cost USD 6.78 billion (BDT 542 Billion) or 2.44% of GDP.<sup>2</sup> This includes the cost of pension payments to retired civil servants. While the civil service pension scheme has only 0.6 million beneficiaries, it consumes more than 41% of the overall budget for social safety nets. However, reflecting Government's commitment to social security, budgetary allocations have grown both in absolute terms and as a share of GDP. The allocation for SSN increased from 1.3% of GDP in 1998 to 2.3% in FY 2011. Since then, it has stabilized at around 2.0% of GDP and is currently 2.44% of GDP for FY 2018. Although this level of funding is modest by international standards, when measured against the government's budget situation, this represents a substantial commitment, accounting for 13.54% of total government spending.

## ADDRESSING POVERTY AND VULNERABILITY

The Bangladesh social safety nets programme addresses poverty and vulnerability from a broad perspective and covers education, health, nutrition, employment, and disaster response. Vulnerable groups, particularly the elderly, women, children, and disabled persons, are given priority in the delivery of safety net support. The programmes provide benefits in the form of food, cash transfers, or a combination, and are administered through the government's administrative bodies and elected local government officials. Given Bangladesh's history of famines and catastrophic natural disasters, food based transfers have traditionally been the main form of income support to the poor. Well designed and implemented SSNs not only reduce poverty and vulnerability, they also improve the welfare of women. In the face of global food and energy price shocks in the past decade, Bangladesh was able to scale up coverage of several ongoing SSNs. These programs, which started in the 1960s, historically have been the Government's main response to reducing poverty and vulnerability and have been serving combined objectives: a safety net function to help smooth consumption during lean seasons and a community infrastructure function.

## CHALLENGES AND ISSUES

While there are multiple challenges and issues in implementing the SSN programs, most emanate from inaccurate targeting due to the lack of a poverty database and mapping between schemes and areas, non-existence of a robust centralized recordkeeping mechanism, and leakages in delivery, including fragmented payment systems. Because of the proliferation of a large number of programmes, the budget for most programmes is small and the average benefit per programme per individual is low.

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<sup>2</sup> SSN Programmes Budget 2017 – 18

## TARGETING AND INCLUSION ERRORS

One of the most common challenges faced by Bangladesh pertains to the selection of beneficiaries due to missing data of beneficiaries on one hand and lack of poverty mapping on the other. Despite an increase in coverage, targeting needs considerable improvement. For example, of the 24.5% households who reported benefitting from at least one of the 30 SSPs during the Household Income and Expenditure Survey 2010, 82% of the beneficiaries belonged to the poor and vulnerable group while some 18% of the beneficiaries were non-poor.

## FOOD TRANSFER AND INCLUSION ERRORS

Most of the SSNs are focused on addressing consumption and income interruption risks faced by the rural poor. There is a dominance of food-transfer and rural employment programmes both in terms of beneficiary participation as well as funding owing to the nation's focus on eliminating hunger and reducing rural poverty. Presently, the employment market is dominated by informal employment and is largely excluded from formal social security programs. Recent household income and expenditure surveys suggest that although SSN coverage of the poor has improved over time with extensive Government interventions, it nevertheless remains low and that a large section of the poor are unable to access SSN benefits.

## TARGETING EFFICIENCY

Share of total program spending benefitting the poor (targeting efficiency) dropped from 52.6% to 35.3% within the previous five-year period. Average transfer adequacy (i.e. generosity) on average is also low, and has worsened over the years: the share of real value of transfers of the total consumption levels of poor households has almost halved, falling from 22% to 11 percent.

## DELIVERY SYSTEM

Social safety net programs mainly deliver cash, food and assets under different schemes.

## PAYMENT SYSTEM

Direct cash benefit transfers cannot be effectively undertaken in the absence of appropriate payment systems. Analysis of the existing payment systems in Bangladesh reveals that all the prevalent methods of delivery suffer from challenges on the demand-side as well as on the supply-side, and are generally characterized by weak information systems and lack of adequate accountability structures. Inadequate monitoring along with unsatisfactory beneficiary identification mechanisms may also usher duplicate and fraudulent payments. Some SP programmes are way too costly for beneficiaries in terms of their travel expenses leading to a high opportunity cost. As the current system stands, beneficiaries usually have no right to choose the mode of payment most suitable to them.

The Government of Bangladesh has recently embarked upon reforming its payment system as well as Information system by linking the MISs of the line ministries to that of

Finance Division. It would use the MIS central platform at the FD to validate beneficiary data with that of NIDs and check for leakages by eliminating double dipping and duplicates. It would also allow direct transfer of funds into the individual accounts of the beneficiaries to be held through a payment service provider of their choice. This would be accomplished using the Bangladesh Electronic Fund Transfer Network (BEFTN) of the Central Bank.

### NON-CASH DELIVERIES

The delivery system suffers from the lack of a centralized beneficiary database, use of different channels for delivering benefits to the same beneficiary, an inefficient public distribution system and lack of a transparent and direct payment mechanism. It is being widely acknowledged that direct cash transfers to SP beneficiaries may be a far more efficient instrument than indirect subsidies.

### MONITORING AND EVALUATION (M&E) AND MANAGEMENT INFORMATION SYSTEM (MIS)

A major shortcoming of the present social protection programmes is the absence of an effective M&E and MIS. There is no formal mechanism for regularly reviewing the aggregate, national performance of the overall social protection regime or the disaggregated performance of individual programmes. Some limited efforts aimed at studying the impact of programmes supported by development partners have been done in recent years. The findings of these one-off exercises illustrate the critical importance of institutionalizing a well-designed formal M&E and MIS for SP programmes.

## STRENGTHENING PROGRAM DELIVERY

A strategic review of programmes shows that some 65% of the SSP are seeking to address life-cycle related risks. Yet, there are significant gaps. The SSN coverage of children aged 0-4 years is very small. Furthermore, only a small proportion of people with disabilities and elderly persons receive some form of benefit. Coverage is highest among children of school going ages but the transfers they receive are low in value, a problem that affects almost all of Bangladesh's SSS.

### LIFECYCLE PROGRAMS

The approach to delivering social benefits will also need to broaden from the concept of a safety net to a more inclusive concept of a social security strategy that is aligned to the life cycle and incorporates formal employment policies as well as social insurance schemes. This will fit more cogently with the needs of a modern urban-based economy, and the demand for this is already seen from the risks faced by the Readymade Garments (RMG) sector. The government wishes to strengthen the transformation towards a lifecycle system by consolidating programmes in a small number of priority schemes. The aim is

to identify which high priority schemes make the system more inclusive by incorporating a higher proportion of poor and vulnerable people within it. This will be achieved by gradually increasing coverage of priority schemes and ensuring that selection processes prioritise the inclusion of poor and vulnerable families.

The NSSS states that the benefits will be non-discriminatory and will be available to all poor and vulnerable people who satisfy the income criteria and other selection criteria relating to life-cycle or disability described below, irrespective of religion, ethnicity, profession, and location. The five core life cycle programmes suggested by NSSS include:

1. **Programmes for Children:** Child grant, immunization, childcare, and nutrition (up to age four), school stipend for primary and secondary, disability benefit, school meal, etc.
2. **Working Age:** Education and training programmes, workfare programmes, conversion of food into cash transfers, unemployment, sickness, maternity, and accident insurance
3. **Comprehensive Pension System for Elderly:** Old Age Allowance, Civil Service Pension, National Social Insurance Scheme (NSIS) with employee employer co-contribution for pension and other contingencies, Private Voluntary Pensions (PVP)<sup>3</sup> open to all citizens irrespective of occupation and formal/informal employment.
4. **Programs for People with Disabilities:** A disability benefit for children with disabilities and a disability benefit for the working age population with disabilities.
5. **Special Programmes for the Freedom Fighters:** The schemes to support the freedom fighters and their families will continue under the consolidated Freedom Fighters' Benefit Programme.

## INDEXED BENEFITS

To prevent the value of transfers from falling, all cash transfers provided through the above life cycle based core schemes will be indexed to inflation. The above programmes will be available to those poor and vulnerable people who meet the other requirements of each specific programme.

## PROXY MEANS TEST

Income eligibility will be determined on the basis of a Proxy Means Test (PMT) that is being developed by the Statistics and Informatics Division (SID). As mentioned above, in recent years there has been a rapid expansion in the number of small schemes. Much of this has been led by development partners, which are usually well intentioned as new approaches have been piloted and specific challenges addressed. However, with the formulation of core programmes of the NSSS, it is important that these schemes are adding value in terms of innovative ideas with prospects for scaling up and joining up.

## STRENGTHENING THE PAYMENT SYSTEM

An effective payment solution in the context of Bangladesh is one that will empower

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<sup>3</sup> The Old Age Allowance and the Government Service Pension will be funded by the Budget. The NSIS and the PVP would be funded through employer and employee contributions.

the beneficiaries to be able to make informed choices, be cost-effective and transparent, and have robust MISs and system-driven budget management and accounting. It is highly recommended that a central hub be established within the Controller General of Accounts (CGA), which could be the principal component of the solution. This hub could provide a coordination mechanism between the Finance Division (FD), the CGA and line ministries (LMs) for social protection payments. This could also ensure that MIS are adequately designed and developed within all the concerned LMs for efficiently effecting the social protection payments. MIS at the LMs, and at the FD should be totally compatible with each other and have capabilities to 'talk' with each other in real-time. The National Identity Card (NID) system of Bangladesh can provide unique identifiers for the beneficiaries. All the bank and post office accounts of beneficiaries can be linked with their NID, which can also be part of the 'know your customer' (KYC) scheme for opening of bank/post office accounts for beneficiaries. The payment system may include channels such as mobile banking, mobile and postal transfers, etc. as per the convenience of the beneficiary.

## VULNERABILITIES OF AGEING

Bangladesh is one of those 100 + developing nations where the population is extremely young (mean age in 20s or 30s) but is ageing rapidly with the proportion of senior citizens doubling over the next two to three decades. One of the contributing factors to this is also a higher longevity and greater life expectancy of 60 years. Life expectancy at birth in Bangladesh has increased from 55.1 in 1988 to 64.9 in 2002. Similarly, life expectancy at 60 has also shot up to almost two decades. More people are surviving to old age and they tend to live longer. Over the next four-decade global expectancy at age 60 is expected to increase from 19.6 years in 2005 -2010 to 22.4 years in 2045 – 2050 (a 14% gain). It is also a country where the coverage of social security in general and pensions in particular is highly restricted and inadequate with pension being limited to civil servants only.

### VULNERABILITIES PECULIAR TO BANGLADESH

The government understands that notwithstanding the past impressive progress with poverty reduction, there is a substantial population that remains exposed to poverty due to various vulnerabilities. This includes the population that remains under the poverty line and those that are just above the poverty line but could easily fall below this line because of certain vulnerabilities. These may range from natural or man-made disasters to vulnerabilities of old age poverty. Evidence<sup>4</sup> shows that the poor and vulnerable group cannot cope with all the downside risks and shocks with their own resources. HIES suggests that poverty rates increase with ageing (32.5% at aged 80+). In the absence of an effective old age pension system – many older people in Bangladesh continue to work,

<sup>4</sup> National Social Security Strategy of Bangladesh, General Economics Division, Planning Commission Government of the People's Republic of Bangladesh.



but often with insecure and vulnerable livelihoods. Rapid urbanisation and the growth of population in urban areas is mostly due to rural-urban migration with mostly young adults migrating, leaving the aged behind.

### VULNERABLE WOMEN GROUP

With frequent breaks in their working age due to child birth and rearing, coupled with a higher life expectancy at the retirement age of 60 but little or no savings, exposes their vulnerability to old age income insecurity. By the time, they realize that they ought to have saved for their old ages it might be too late. The majority (68%) of older women are widowed compared to only about 7% of men. Widowed women have no security, are more dependent on family and face worse socio-economic conditions compared to men. Similarly, single women, especially adolescent girls and those with children, are among the most vulnerable category of the population. There is a need to focus on providing support to vulnerable women – in particular single parents – to provide them with a minimum income guarantee while also enhancing their ability to engage in the labour market.

### RAPID URBANIZATION

Over the past few decades, Bangladesh has experienced demographic transformations, major amongst them being a rapid population growth in urban areas and lower fertility with higher longevity. With the increase of urban population, particularly in the larger urban areas, Bangladesh has also gone through the consequences of demographic transition affecting the age structure while also dealing with more aged people in rural areas. The population above the age of 60 recently crossed the 10 million mark. Increased life expectancy caused by improvements in living conditions, health care, education, and technology as well as the changing demographic structure of the country is resulting in an increase in proportion of elderly people.

### DISMEMBERMENT OF JOINT FAMILY STRUCTURE:

The traditional joint family system prevailing in the country shielded the elderly within the family structure. However, modernization of society with the break-up of the joint family system, urban and out-country migration of youth, and economic degradation in the society are creating problems for the aged and hence elderly care has become a major concern for the society. The ageing issues are yet to be fully understood and receive policy level attention by the government and civil society including academicians. Majority of Bangladesh's ageing working poor are also highly vulnerable to old age poverty since they are not only excluded from access to formal pension provisions, but are also unable to access any regulated insurance and retirement motivational savings product at an affordable transaction cost.

### MIGRANT WORKERS

Every year, around half a million Bangladeshis leave the country to work abroad. Bangladesh's economy to an extent, depends on the remittances. While problems faced by Bangladeshi migrants vary from high fees for migration to discrimination, exploitation, and abuse while overseas, there are major issues they face when either they return or retire

from work. This is a major challenge that this cohort shall be facing in future at the time of returning to their homeland with little or no savings for rehabilitation and retirement.

It is suggested that the government should seriously consider a return, rehabilitation, and retirement scheme for the migrant workers who travel abroad during their working lives. A portion of their remittances may be earmarked for crediting their individual account that could be used in the short or medium term to provide a return, rehabilitation, and settlement for them. Similarly, another portion of their remittances should essentially get parked into a retirement fund that the government should be creating for them by means of an individual retirement account. This account may be topped up by the employer or the government in the form of co-contributions so that there is constant encouragement and incentive for these workers to save for their old age.

## LARGE EXCLUSION

Bangladesh has a 6.8 million workforce in the formal sector while more than 47 million in the informal sector. Most of the formal sector workers and all the informal sector workers are excluded from any formal mandatory provident or pension fund provisions that could enable them to save for their old age. Therefore, on average, these workers will need to accumulate enough savings during their years in the workforce to support themselves for nearly two decades post retirement. However, their fragile labour market attachments and low intermittent incomes, coupled with the absence of a low cost and easily accessible insurance and savings scheme puts retirement planning out of reach for most of these workers.

## DEMOGRAPHICALLY AGEING

It would not be specious to state that the *prima facie* evidence of Bangladesh's census suggests that the country might be heading for an old age poverty crisis over next few decades. The population is still young (93% below aged 60 years) and yet ageing rapidly. The phenomenon that has been observed across Bangladesh is that the while the proportion of Children's (Aged 0 – 14 years) population has declined by over 16% (37.3% in 2000 and 31.3% in 2010), the proportion of youth (Aged 15 – 64 years) have grown by 9% (58.7% in 2001 and 64.1% in 2010). But to beat it all, the proportion of senior citizens (Aged 65 +) has exploded by more than 15% (4% in 2000 and 4.6% in 2010). Inclusion of the population aged 60 and above in the population is 6.74%. According to one estimate of a 32% decadal growth in senior citizens, Bangladesh is likely to have 31,208,778 senior citizens by 2050, which is more than three times what it is today.

## ADVERSE INDICES AND RATIOS

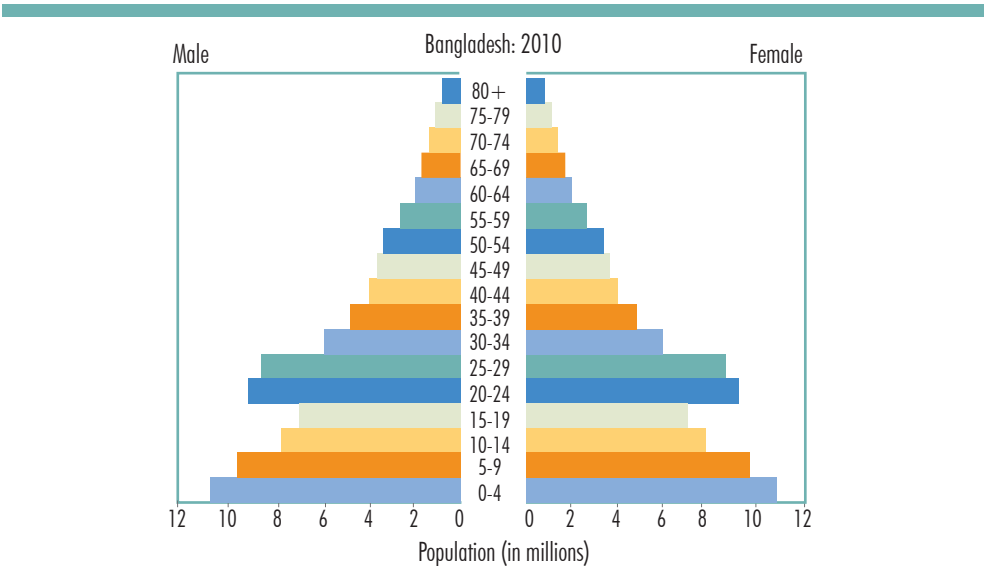
While the Aging index<sup>5</sup> for Bangladesh was 12.8 in 2000 it marginally rose to 16.7 (World 38.7) in 2007 and is likely to reach 32.4 by 2025 and 79.3 (World 107.4) in 2050 (UN, 2007). The Potential Support Ratio<sup>6</sup> is likely to decrease from 18.6 in 2000 to 12.9 in 2025 and 6.2 in 2050. On the contrary the labour force participation has also decreased from 50.9 % in 1990 to 46.6 % in 2000 and it will further decrease to 42.9 % in 2010.

<sup>5</sup> Number of persons 60 years and above per hundred persons under age 15

<sup>6</sup> Indicates the number of persons, aged 15 to 64 per every person aged 65 or older

Bangladesh depicts a fairly young population in the year 2010 with a normal pyramidal distribution of ages. More than 90% of its population was below 60 years age as depicted in Figure 4.1.

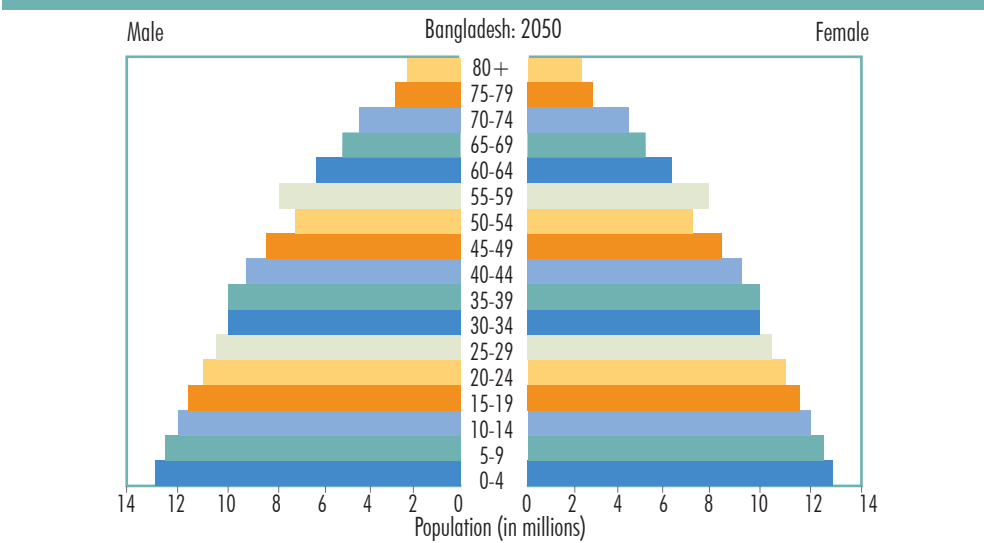
Figure 4.1  
**Population Pyramid – Bangladesh 2010**



Source: U.S. Census Bureau, International Data Base

Fattening Top by year 2050 would swell the population of senior citizens to a whopping 31 million by 2050. And, as mentioned earlier, if more than 90% of them do not have any pension and they survive for two more decades, it might be heading for a demographic crises.

Figure 4.2  
**Population Pyramid – Bangladesh 2050**



Source: U.S. Census Bureau, International Data Base

## CURRENT SUPPORT AND SUSTAINABILITY

Following efforts have been made by the government to fight old age poverty.

### OLD AGE ALLOWANCE (OAA)

The OAA is one of the country's oldest SSN programmes, having been set up in 1998 to combat poverty and destitution among the aged, and now reaches around 3.15 million beneficiaries receiving BDT 500 (USD 6.41) per month.<sup>7</sup> The eligibility for OAA is based on the minimum age of 62 for women and 65 for men. However, the scheme does not cover the entire eligible old aged population because of the limitation of the government's financial capacity. In spite of this continual expansion, the OAA reaches just over a third (37%) of the population that is eligible in terms of age.<sup>8</sup>

Therefore, priority has been set among eligible old aged persons who are more or most vulnerable than others and includes criteria such as — Impoverished, landless and evacuee/ displaced persons. Similarly, those who are widows, divorced, widower, childless, separated from family are given priority as well.

### HUSBAND DESERTED DESTITUTE WOMEN AND WIDOW ALLOWANCE (HDDWWA)

To address the particular vulnerabilities of widows and women who have been abandoned by their husbands, the program covers over 1.15 million beneficiaries who are also paid BDT 500 (USD 4.00) per month.

While both the schemes have largely benefitted the elderly in the country it also comes with certain challenges both, from the perspective of the design and implementation as well as demand perspective of the beneficiary recipients. The proportion of elderly in Bangladesh is growing rapidly, while the coverage of the scheme is unable to cope with the numbers and does not provide a universal coverage suffering from issues of exclusion as well as inclusion errors. While the eligibility criteria is well defined the selection of beneficiaries is highly biased, subjective, non-participatory, and discriminatory.

### QUESTIONABLE SUSTAINABILITY

Future governments, however, may be unable to escape the fiscal burden of the elderly as low income workers might expect some financial support from the government in their old age. As per the last census nearly 7.5 million people would be eligible for OAA benefits. Assuming the pre-identified decadal growth rate of 32% for senior citizens, this number would soon multiply to 9.8 million by 2020, 13 million by 2030, and so on. At the

<sup>7</sup> The budgetary allocation for OAA in the year 2016 – 17 is BDT 18.9 billion (USD 242 million)

<sup>8</sup> BBS Census report from 2011 (summing all women 62+ and men 65+), with projections from 2011 based on a 3.98% annual growth rate for the elderly population as provided by the report.



current rate of BDT 500 pm and at current prices, this would amount to approximately BDT 70 billion a year. Thus, the scheme might also turn out to be fiscally unsustainable in the long term and may not serve the purpose of the senior citizens as the amount of pension might not allow them to make both the ends meet.

### COMPELLED TO WORK IN OLD AGE

Nearly four-fifths of Bangladesh's working poor may be compelled to work well into their old age as they would be unable to accumulate enough savings to support themselves. Not surprisingly, most working poor have given no thought to their retirement income needs, including those over 40 years for whom old age income security should be a front of mind issue. Part of the explanation is that most of these workers expect their children to support them when they are no longer able to work. However, given the probability of their children also being in the low-income workforce coupled with migration and dismemberment of the joint family structure this strategy is tenuous at best.

## RECOMMENDED STRATEGY OF GOVERNMENT

### ADDRESSING PRIORITIES

The government may have to address certain priority areas that may range from improving social security systems to deepening the financial markets on one hand and strengthening financial inclusion on the other.

### IMPROVING SOCIAL SECURITY SYSTEM

Against the backdrop of the review of past the SSS experience, the priority challenges that will need to be addressed over the next few years are:

1. A shift from the current discretionary system to a targeted universal approach to avoid leakages and under-coverage.
2. Expanding coverage of core schemes for the extreme/ hard-core poor and most vulnerable people of society, focusing on mother and child, adolescent and youth, working age, the elderly, and people with disabilities. A basic objective for the next few years would be to support the elimination of hard-core/extreme poverty as much as possible.
3. Ensuring that the most vulnerable women are provided with income security and greater opportunities to engage in the labour market.
4. Initiating a social insurance system that enables people to invest in their own social security providing protection against the risks of old age, disability, unemployment, and maternity.
5. Expanding coverage to the residents of urban areas and to the socially excluded people.

6. Ensuring that the SSS supports an effective disaster response system.
7. Strengthening the delivery systems for priority transfers by establishing advanced MISs and professional staff and improving the payment system.
8. Expanding awareness of the social security programmes for the beneficiaries and motivating potential contributors.

## STRENGTHENING FINANCIAL MARKETS

Bangladesh's markets may be lacking the breadth and depth that may be required to satiate the appetite of a typical pension fund. However, efforts from the side of the government including the regulators and other stakeholders may help improve the situation in the medium and long term. Similarly, long term instruments may be required to provide for asset liability management (ALM). As of now, the financial market in Bangladesh comprises money markets – Taka Treasury Bond market, capital market, and the foreign exchange markets.

## ADDRESSING INSURANCE PENETRATION

The Insurance Development and Regulatory Authority (IDRA) has been established for the insurance sector and has been entrusted with functions and responsibilities that include development and regulation of the insurance industry in Bangladesh. Going beyond the formal insurance sector, the government may have to address an important agenda for the insurance sector that may include developing micro-insurance products (with certain special characteristics relating to coverage, premiums, delivery channels, terms, and benefits) which could be of value to the poor. The challenge would be to design micro-insurance services (e.g. micro life insurance, micro health insurance, crop insurance, livestock insurance, and micro enterprise insurance), which would be risk shifting devices offered by the insurance companies/institutions especially suited to the needs of low income households in rural and urban areas and which would be affordable.

## PROMOTING FINANCIAL INCLUSION

Bangladesh has made a broad social commitment for inclusive, equitable, and environmentally sustainable socioeconomic growth 'leaving no-one behind', as espoused in the new sustainable development goals. Bangladesh Bank, the country's central bank, is supporting the government's efforts with its own initiatives by promoting financial inclusion. Mobile financial services have become the key tool of financial inclusion initiatives. Bangladesh lies in a group of countries where only 17.6% - 38.6% adults are presently under the reach of the formal financial services. This is because the present banks and other formal financial modes consider the outcome and profitability in a way that, the rural and non-developed areas are always out of consideration. But these areas consist of the most populated parts of Bangladesh and hence financial inclusiveness may be a success in Bangladesh when people from these regions will be brought under formal financial services.

## FIGHTING LONGEVITY RISK

For a majority of these low-income workers, and equally for the government, a vital issue is the management of the longevity risk with the cessation of earnings in old age. The first step is the advocacy – to raise policy makers' awareness of the multiple issues related to ageing in the country. Professionals, politicians, NGOs, and the general public need to be aware of ageing problems. There are agencies that are advocating various policies for the betterment of the ageing population, policies on social networks, economic security, health, and housing for the ageing population will strengthen the demographic scenario of the country. A long-term policy option has to be considered to ensure affordable solutions of the future problems of the aged.

## LONG TERM TARGETED SAVINGS

Preliminary findings including informal discussions with civil societies and focused group discussions (FGDs) with few workers/ farmers in and around Dhaka suggest that a significant proportion of these working poor might be interested in saving for their old age and can afford an average annual savings of a few dollars. However, people might be willing to save for their old age if and only if both sides, supply as well as demand side, are strengthened and a safe, secured, and regulated environment is provided for them to save and promote confidence. It is also important that to achieve an above poverty pension, they might need supplementary top ups from the government along with a secure environment where their modest savings are channelled to customized long term savings products and earn high real returns at a low transaction cost. However, without pension literacy, support from agencies, including the government, and access to customized retirement savings products that deliver high real returns at low transaction costs, most of these working poor will fall below the poverty line in their old age.

## MOTIVATIONAL TOP UPS

Motivational top ups by the government and/ or development partners to kick start savings schemes amongst the younger population has worked well in neighbouring countries like India. And, similar co-contributions can be considered by the government in the initial years in order to kick start the scheme for poor and informal workers willing to save. The pension co-contributions from the government can provide the working poor with a powerful financial incentive to undertake disciplined voluntary retirement savings over multiple decades, and pension co-contributions can also supplement the modest savings of the working poor so that when they reach their retirement years, the value of their savings is sufficient to produce a pension to keep them above poverty.

### **Box 4.1**

#### **Rationale for Co-contribution Top Ups**

Protagonists of conditional cash transfers (CCTs) for pension savings argue in favour of co-contribution top ups to low income workers to provide them equity and fairness in subsidising the tax treatment.

- a. Affluent and salaried in Bangladeshis receive subsidies from the government in the form of tax breaks when saving for retirement under provident fund schemes. The tax subsidy could be as high as BDT 200,000 a year. On the other hand, a low-income worker who is not a tax payer receives none even if she wishes to save for old age through un/regulated instruments. Similar motives of savings by the poor cohort provides them with a zero incentive to save for old age. Even a 10% subsidy in nominal terms offered to the affluent could serve the purpose of CCTs for this cohort.
- b. In fact, in the longer run the cohort of poor workers is more likely to fall back upon the government in old age while the richer cohort would still manage to sail through. Moreover, there are multiple options available to the richer group for savings in medium, long, and retirement savings schemes, equities, etc. while the poor, notwithstanding the wonderful stories of financial inclusion, fail to save for old age despite wanting to do so.
- c. Another rationale favouring co-contributory pensions is to avert the zero pillar freebies. Under the Old Age Pension scheme, the government is willing to pay BDT 300 per month, which is a paltry sum, at the age of 65 plus when this amount would not even buy two square meals a day for the old and destitute. There is no reason why the same Government should not consider paying one third of this say, BDT 100 per month to the same poor men and women while they are in their working and earning age on a CCT basis.
- d. This would encourage them to save in a regulated environment and free the government of their unfunded pension burden in the old age. In case the government fails to do so, this cohort that is young today is bound to remain poor throughout their lives and would consequently have to depend on the government in their old age. This could be disastrous for society as this liability could never be actuarially fair and accounted for in the future, meaning thereby creating an unfunded liability that would grow by leaps and bounds as the cohort of 60 + would grow to 31 million by the middle of the current century.

*Source: Authors Own Opinions*

## POTENTIAL ROLE OF CIVIL SOCIETIES

Bangladesh has the distinction of having the largest development NGO in the world in terms of employees called Building Resources Across Communities (BRAC). Besides this, there are other NGOs and MFIs who have played an important role in providing access to money to the poor. Providing opportunities to the working poor to build up savings for retirement through thrift and self-help is an important public policy goal. In this context, NGOs, development partners and the government should be encouraged to consider a system of CCTs or co-contributions linked to retirement savings for the working poor. There is also a need for these agencies to impart financial and pension literacy.



## GOVERNMENT COMMITMENT

The GoB is committed to bring in pension reforms that may vary from civil services parametric reforms for existing employees to a systemic reform targeting the vast private pension and informal sector as part of its inclusive pension policy. The government is also considering pre-funding its pension liabilities. The commitment is also visible in the following steps taken by the government from time to time.

## STUDY TOUR AND EXPOSURE VISITS

The government is beginning to address reform of the SSNs of which pensions and related benefits are an integral part. To address the issues, the government has been considering a variety of options towards fighting the likely old age crises. One of the options that the government recently considered was on the lines of what India has done that has witnessed pension reforms with an emphasis on an inclusive pension system over the last two decades. The key officials of the FD had taken a study tour in India (March April 2016) with the objective to understand the policy, strategy, and implementation perspectives of social protection systems, and in particular, pension reform in India. The team also studied the regulatory framework and institutional arrangements that were aimed at experiential learning and applying the knowledge in designing a pension reform. The whole idea was that not only the pension system has to be pro-poor and inclusive in nature for the formal (employees) and informal sector but should also cover systemic issues related to civil services pension in Bangladesh.

### Box 4.2

#### India Study Tour on Inclusive Pensions

The Government of Bangladesh is strongly committed to fighting old age poverty and hence mitigating the risk of longevity by providing pension provision to the vast formal and informal sector. The systems and provisions in Bangladesh are very similar to that of India, which has had a decent beginning in providing contributory and co-contributory pension schemes to the vast informal sector poor workers. India has also taken a bold step in introducing systemic pension reforms by switching over from a Defined Benefit (DB) to a Defined Contribution (DC) scheme and has started funding its pension liabilities for civil servants for over a decade now. Both these models, civil servants pension pre-funding as well as co-contributory pensions for the informal sector workers, are highly relevant in the Bangladesh context and hence the knowledge transfer and experiential learning from ‘what worked’ and ‘what failed’ in the Indian pension reform context was of very high value in Bangladesh.

*Source: SPFMSP Project, Finance Division*

## COMMITTEE FOR PENSION REFORMS

The GoB has also formed a committee of senior officials in the FD to provide recommendations on pension reforms including providing suggestions on an inclusive

pension system. The committee is working in close coordination with the Finance Minister and has submitted various reports to the Finance Ministry for onward decisions.

### BUDGETARY ANNOUNCEMENT

While the India study tour was most timely and provided great learnings to the committee, the ministry acted swiftly after the tour and the next budget (FY 2016 – 17) witnessed the commitment of the government where the Finance Minister made a formal announcement for a what might turn out to be an inclusive pension system in Bangladesh.

#### **Box 4.3**

##### **Government's Commitment**

##### **The Budget Announcement FY 2016 – 17**

**Para 155.** Pension: Currently, only 5% of our working age population are employed in government services who enjoy pension benefits. Although, about 8% of the remaining 95% people employed in the private sector receive gratuity benefits, there is no pension or gratuity scheme for the rest.

**Para 156.** Our demographic structure is changing due to the declining population growth rate and increasing life expectancy rate. As a result, the number as well as ratio of elderly people in the total population is slowly increasing. On the other hand, due to urbanization, the number of nuclear families is also rising, which increases future risks of financial and social insecurity for the ageing population. It will be difficult for the government alone to manage this risk. In this context, introduction of an inclusive and robust pension scheme for all working class people, including the aged, is now a demand of the day.

**Para 157.** To this end, we are considering bringing fundamental changes to our existing pension system. We will reform the existing pension system and introduce a contributory pension scheme for all government employees who will join in future. We plan to introduce, in phases, under an integrated government-run framework, a comprehensive pension system for all, including the self-employed as well as those formally or informally employed in semi-government organizations and the private sector. DPS system has created an opportunity for establishing a pension system in the private sector; the new universal pension plan will centre around this concept. On one hand, this system will guarantee financial and social protection of the ageing population, and on the other hand, provide additional resources to meet the long term investment demand along with deepening the financial sector.

*Source: Budget Speech of the Finance Minister*

## E GOVERNANCE WITH EXTENSIVE USE OF NATIONAL ID

The NID is a compulsory document issued to every Bangladeshi citizen on attaining 18 years of age. This type of biometric identification has existed in Bangladesh since 2008 in a central biometric database, which is used by the Bangladesh Election Commission to oversee the electoral procedure in Bangladesh. Recently, mapping of the NID database has been achieved with that of the civil servants and pensioners' database (see section on Employee and Pensioners database). Similarly, the Bangladesh Bureau of Statistics (BBS) is in the process of generating poverty mapping that would be linked to the NID.

The government has recently introduced the smart NID card that will put an end to forgery as it has 25 international certifications and standards as security features. A smart card is a kind of integrated circuit card (ICC) also known as a "chip card," and is a pocket-sized card with embedded integrated circuits that can be loaded with data. The machine-readable card will have 32 types of basic information of a citizen embedded in its microchip that could be used for a variety of governance and administrative functions by the government including cash transfers such as G2P and could also be used for P2G purpose. The government assumes that the card holders will get 22 types of services, including banking, TIN, driving license, and passport.

### Box 4.4

#### Facilities under the Smart Card

Bangladesh Government is planning to include 22 facilities in one BD smart card: citizens 'right and benefits':

1. National Identity; 2. Driving License; 3. Passport; 4. Property / land buying and selling; 5. Open Bangladeshi bank accounts; 6. Bank loans support; 7. Government bhata or lift; 8. Support received; 9. BIN facility; 10. Share-BO account maintainers; 11. Business Trade License; 12. Vehicle registration; 13. Insurance schemes; 14. Marriage registration; 15. E-passports; 16. E-Governance; 17. Gas and electricity connections; 18. Mobile connect; 19. Health cards; 20. E-Cash; 21. Bank transactions; and 22. Student's admission facilities.

*Source: Election Commission Bangladesh, National Identity Registration Wing (<http://www.nidw.gov.bd/>)*

## ACCESS TO INFORMATION (A2I) – PRIME MINISTER'S OFFICE INITIATIVE

The key driver from the Prime Minister's office of the government's public service innovation agenda with the primary goal to ensure easy, affordable, and reliable access to quality public services for all citizens of Bangladesh is the a2i. It is an effort to form the world's first innovation lab nurturing a nationwide ecosystem to deliver service for all and enable millions to register for safe migration through digital centres. It has a strategy to establish both physical and online one-stop access points that scale innovative services and make them available to citizens easily, reliably, and in an affordable manner. It also

encourages and supports non-government actors, including small entrepreneurs, teachers, and the youth, to partner with government actors.

The 5,000+ digital centres and the national portal uniting 43,000+ government offices now deliver over 100 services – both public and private – to an average 4.5 million underserved citizens at a much lower TCV (the time, cost and number of visits it takes citizens to access services) than before. Services that previously required multiple trips to the district government office 20-30 km away are now available at the nearby digital centre within a walking distance of 3 km. On an average, time to receive services has come down by 85%, cost by 63% and the number of visits by 40 percent.

## CIVIL SERVICES PENSION

Governments across the developing world are countering the fiscal problem of non-availability of resources for developmental activities largely owing to a committed drain of payments into the recurring expenditure like salaries, pensions, and interests. While Bangladesh is still grappling with the challenges of expenditure management on salaries and pensions, it has made rapid progress in the recent past over the identification and creation of a database of employees and pensioners. Over the last decade, expenditure on salaries and pensions has emerged as the single largest expenditure head for government. In the absence of any updated information and data on the number, demography, and entitlements of government employees and pensioners, the government has so far been unable to accurately compute or project the salary and pension expenditures across the country. The lack of reliable data on employees and pensioners also limits the ability of the government to undertake sound fiscal planning, and estimate the impact of Pay Revisions.

## SYSTEM

Bangladesh has a civil services pension system that includes products and different processes that date back to pre-Independence days, with minor amendments and very limited reforms till date. The civil services pension is a DB forming an unfunded liability of the government and is paid on a PAYGO basis. The gross replacement rates are as high as 90% of the last drawn salary with benefits such as medical and festival allowances in addition. Till recently, the pensioners could commute as high as 100% of their pension, but the same has been recently reduced so that pensioners with higher longevity could live comfortably in their 80s and 90s. Recently, pension has also been provided with a fixed incremental rate so as to beat Inflation, though it is not linked to inflation or any other price index.

## PRODUCTS

While the product portfolio has more or less remained unchanged, there is a strong need to revisit the same in view of the demographic changes over the past five decades. The World Bank, under a short-term TA, has recently highlighted such issues and challenges that pensioners as well as the government are currently facing or might have to face in



near the future due to certain demographic and socioeconomic changes and recommended a rationalization of various retirement products that add value to pension and are mostly budget neutral. The government is currently working towards rationalization of its pension products and working out methods by means of which it could be made suitable to the contemporary conditions and future demographics.

## PROCESSES

It also diagnosed the archaic regulations that hamper the processing of pension cases of a number of pensioners, as a consequence of which there is a large cohort of former civil servants who have retired but have not been pensioned. It identified such issues and challenges and provided for the streamlining of certain processes and provided concrete recommendations to improve procedural aspects of pension processing, accounting, and payments besides the product portfolio itself. In fact, more than the pension products, it is the processes and implementation arrangements that pose a greater risk to the employees. Endorsement of family pension in the Pension Payment Order (PPO) are mostly missing as a result of which the family of the deceased has to run from pillar to post to get authorization for the pension. The pensions are processed manually and so is the payment system. There is no unified and/ or centralized database of pensioners and there are extremely cumbersome and outdated processes for getting pensions.

However, the GoB has taken these issues very seriously and as mentioned earlier, have also formed a committee to look into these issues to recommend the most efficient and effective ways and means by which pension could be released and paid to deserving pensioners. One of the issues that has been resolved to a large extent by the government is the creation of the database for employees and pensioners as a result of which an efficient central processing and payment system could be achieved in the future. This would also reduce the risk of ghost pensioners and leakages to the exchequer due to double dipping and errors in payment processes.

## DATABASE OF EMPLOYEES AND PENSIONERS

One of the great achievements of the GoB in recent times has been the building a robust and dynamic database of employees and pensioners. Efforts for this database had started in 2012 under the World Bank supported SPEMP Project and while a few hundred thousand employees had provided their information, it could not be updated on a real-time basis. It was also found that there was a lukewarm interest among government employees in filling up their own information as part of the database, even the GoB was not able to force them to provide the information.

It is an interesting lesson for other nations that are grappling with such issues towards creating a similar database. The announcement of the National Pay Scale Revision was a game changer in the employee database creation. The points below explain how this worked:

## PROCESSES ADOPTED FOR DATABASE CONSTRUCTION - EMPLOYEES

The National Pay Scale Revision was announced in 2015 with the reference date of revising the pay scales with effect from 1st July 2015. Accordingly, all employees were supposed to prepare their pay fixation, get the same verified and forwarded by the Drawing Disbursing Officer (DDO) for approval by the Accounts Officer (AO). This posed a great opportunity for the MoF that sensed the employees' need and desire for pay revision. The MoF announced a strategy that pay revision of employees shall be effected if, and only if, the employees provide all their demographic as well as pay related details on a web-based online system specially designed for the purpose of pay fixation. The system was also linked with the NID and thus the employees could feed in their NIDs and provide their existing details. Based on the inputs, the system would automatically fix the pay, to be verified by the competent authority. While accomplishing the task of making an employee database, this proved to be a milestone. Thus, while system driven IT was widely and mandatorily used for pay fixation, it resulted in the creation of the payroll database that is mapped to the National ID of each employee. It also promoted transparency and accountability in the system. Thus, it was a win-win situation for the system, the government, as well as the employees.

## PROCESSES ADOPTED FOR DATABASE CONSTRUCTION - PENSIONERS

Building Pensioners' database was not as convenient and easy as that of the employees', especially in view of the opportunity of clubbing the database with that of pay fixation. Moreover, neither an accurate nor an exhaustive set of desired fields and information were easily available at any single or even decentralized location for personnel who retired decades ago. The information and data about pensioners was usually available in manual form at the pay points of the pensioners that could be banks or the AOs from where they received their monthly pension. The pensioners' details were only available through the Disburser Half (D Half) of the Pension Payment Order (PPO). Though the PPOs were generated and issued at different accounts offices manually and bore no unique ID number, it primarily endorsed demographic and payment data. This was required to be captured to produce a robust and dynamic database essentially mapped to the NID.

Similar to the approach adopted in creating the Employee Database, MoF started building up the database for pensioners with effect from January, 2016. For pensioners, the process at the backend was similar to that of employees while at the front end, instead of the pensioners themselves performing the online entry, it would be the 'Payment Points' that were required to do so using a website, specially created for the purpose.

Pensioners receiving their monthly pension at payment points, were asked to get their NID endorsed. Again, as was the case with the employees with their pay fixation, pensioners were clearly informed that the pension fixation or the revision shall be effected only after they provide this information. Pensioners, to receive their revised pension from the month of February 2016, started approaching their pay points with these documents

and information. The pay points including the AOs and the bankers were asked to provide for online data entry in the system using the web based application as mentioned above.

For futuristic pensioners, if the employee databases are well built, it should be possible to seamlessly transfer the demographic data of an employee who is retiring to earn pension from employee database to pensioners' database.

## CONCLUSIONS AND WAY FORWARD

### PRIMA FACIE EVIDENCE

Prima facie evidence suggest that:

- While the population of the country is still young and can reap the demographic dividends, it is also showing the trends of rapid ageing.
- It is likely to double the population of its senior citizens in less than three decades from now.
- The coverage of social safety nets in general and social security and / or pension in particular is limited only to a few beneficiaries.
- A vast majority of working poor belong to the informal sector having no employee-employer relationship.
- Even those who are employed in the formal sector lack social security in terms of pension and insurance.
- While civil servants may have a bountiful pension that averages USD 3,614 per annum per pensioner, they are limited to more than half a million. The OAA to the poor and old is paid to as many as 3.15 million beneficiaries, but on the other hand the amount is merely USD 76.92 PA per beneficiary.
- While we don't recommend any parity between the two, we certainly conclude that the rapidly ageing population will not be able to sustain on the OAA from the Government.
- Thus, there may be a need for supplementary savings for additional income that may emanate from long term dedicated savings of the people.
- While Bangladesh may have a higher incidence of poverty in the region, there may be a large chunk of the working class in the formal and informal sector that may be willing to save for their old age, if an awareness and pension / financial literacy is imparted well.
- The network and outreach of the NGOs and Civil Societies could be extensively used for imparting
- Confidence Building Measures (CBM) in the form of a well-regulated safe and secured environment is the necessary prerequisite.

- Long term savings for old age can be channelized using the existing outreach mechanism such as NGOs, MFIs, Mobile Banking, and Mobile Money penetration, Postal Cash Cards, etc. besides regular banking channels.
- While the volumes of transaction in numbers would be high, the ticket size of the transactions would be low and hence a low-cost solution of P2G will have to be designed for committed savings on a regular basis.

## ADVANTAGE BANGLADESH

Should the GoB proceed in designing and implementing an inclusive pension system, there are some distinct advantages in Bangladesh that could be harnessed by the system without reinventing the wheel. This may include, but not limited to:

**Robust National ID** – Biometric identification has existed in Bangladesh since 2008 with all Bangladeshis above 18 years of age included in a central Biometric Database. A smart card is now being introduced with a kind of ICC. The Election Commission of Bangladesh is planning to include 22 different functions in one of its smart cards that could be used for G2P, P2G and in particular can facilitate opening up pension accounts using a single registry mechanism.

**Well established distribution Channel** – Since the origin of Bangladesh in 1971, it has seen some of the largest and top rated NGOs working here. The contribution of the civil societies and MFIs in the development of financial services and social protection in Bangladesh far outpaces any other nation. The NGOs / Civil Societies / MFIs can play an important role in not only creating awareness on savings for old age, but can also harness their model of collection of micro contributions from the potential members of the pension scheme spread across the rural and semi urban areas.

**Employed and Contractual Workers** –RMG is the leading sector of Bangladesh in terms of employment, production, and foreign exchange earnings. Bangladesh has a unique distinction of employing more than four million workers of which more than 80% workers are women across more than 5,000 garment factories. This group is large, though loosely covered under the labour laws of the country but has strong associations and could be targeted through these association of employers and employees towards expanding the coverage of the voluntary pension scheme. The government could also encourage employers to put up co-contribution top ups for this group while providing certain concessions and facilities.

**Banking and Postal Financial Services** – Bangladesh is uniquely placed in terms of remittances from people to people both from abroad as well as within the country. While the network of bank branches is limited in Bangladesh, the postal network is wide spread. The postal department has recently entered into providing financial services including that of G2P under SSN programs. A Postal Cash Card has been designed that provides for features such as the delivery of OAA payment at the doorsteps. Similarly, P2G services for collection of contributions could be harnessed to facilitate inclusive pension system.

**Penetration of Financial Services** – The origins of microcredit in its current practical incarnation can be linked to several organizations founded in Bangladesh. Thus, while it is a well-known fact that Bangladesh presented the micro financial services (micro credit) to the world, these services could quickly be tweaked towards collection of contributory savings from the poor. As mentioned, they are well spread and have penetrated across the country and, therefore, their services could easily be harnessed.

**Modern Money Transfers** – Bangladesh has recently progressed well in promoting mobile money, mobile banking, agent banking, etc. where a great deal of the technology has been used to create low cost transfer of funds. This includes not only remittances P2P but also certain cash transfers G2P in the form of stipend payments to millions of students at a very low cost and at convenient locations.

**High Speed Internet / Connectivity** – This can help the IT based financial services to be harnessed for pension collection, non-cash transactions, issuance of real time account statements on tap, etc.

**Initiatives from the Ministry of Finance** – There have been several initiatives from the MoF that may go a long way in designing and implementing an inclusive pension system. The maiden efforts of mapping the employees and pensioners with the NID using a single registry mechanism, the idea of developing an MIS at the FD for all social protection schemes of different ministries, the coordination of a2i on financial inclusion and its appetite towards implementing pension reforms have been witnessed in recent times. The FD is also considering in principle designing a central processing and payment system that could be utilized for the G2P as well as P2G system.

**Strong Political Will** – Finally, nothing in the country could move if there is no political will to do so. However, the political economy of Bangladesh is well poised to design and implement an inclusive social security/ pension system that has been well envisaged in the NSSS document. Moreover, the budget announcements by the Finance Minister towards designing an inclusive pension system would go a long way to serve the country, fight the risk of longevity as well as death and shall facilitate Bangladesh's fight to overcome old age poverty in the future.

**The Prime Minister's Office's a2i** – As a2i drives the creation of a public service innovation ecosystem and delivery infrastructure from the Prime Minister's Office working closely with the Cabinet Division, its model revolves around establishing delivery platforms enabling 'Services for All'. With 5,000+ digital centres and the National Portal uniting 43,000+ government offices it now delivers over 100 services – both public and private – to an average 4.5 million underserved citizens in less time, cost, and number of visits to access services. These services could be easily tweaked into providing an inclusive pension and insurance funds as discussed.



## CHALLENGES BANGLADESH

While the country has certain and distinct advantages as mentioned above, there are certain challenges and issues that it might face, going ahead. However, most of these challenges can be viewed as opportunities to provide an impetus to the inclusive pension system. Lack of Regulatory Authority on Pensions including the lack of a dedicated cell or wing in the FD for pensioners is a challenge the government has to reckon with in future. Manual practices of record keeping will have to be improved and brought under the purview of the single registry. The NID poses opportunities for creating a centralized record for every adult citizen in the country. Similarly, poor capacities and knowledge about data processing within the LMs including accounting practices will have to be overcome by the government. Lack of awareness on ageing and old age issues will have to be tackled by the government by creating pension and financial literacy and providing 100% financial inclusion. Lack of depth in capital and money markets for investments of pension funds poses challenges for fund management. However, it may be suggested that a larger forum such as the SAARC pension fund or an internationally diversified fund could be created where at most 50% investible funds could be parked. For the rest of the investment, it also poses opportunities for investment in long term infrastructure bonds and other investments. As a symbiotic effect the pension funds can promote and facilitate the development of the financial and asset markets.

## WAY FORWARD

The government is currently considering the following options in the pension space:

1. **Parametric Reforms in Products** – certain reforms to be introduced for the existing civil servants as well as the pensioners where the existing products could be further rationalized to suit the contemporary requirement and demographic changes.
2. **Parametric Reforms in Processes** – in order to improve the standard of service delivery and smoothly implement the various processes of pension cases including clearing of pendency, there is an urgent need for reforming various processes to streamline the delivery.
3. **Extensive Use of MIS** – while the various processes are essentially streamlined at different levels there is a necessity for extensively using IT for systemic processing, unique PPOs, generating MIS, etc.
4. **Systemic Reforms** – There is a possibility that the government might consider pre-funding of pension liabilities by creating a fund. This could be within the existing framework or may require switching the pension system from a DB to DC where new employees / civil servants could contribute along with the co-contributions from the government as the employer.

5. **Inclusive Pension System** – In case a co-contributory pension system is designed and implemented for the civil servants/ new employees, the same could be easily accessed by the formal sector using the employer employee mechanism of payroll deductions. Similarly, the system could also be accessed by the informal sector workers using multiple channels of P2G as described earlier. The scheme can also be attached with an insurance product that shall together cover the risk of death (insurance) and the risk of longevity (pensions).