David A. Robalino, *et al.* (eds.). *Pensions in the Middle East and North Africa: Time for Change*. Washington, D. C.: The World Bank, 2005. pp. xxviii+253. Price not given.

This report by David A. Robalino, *et al.* on *Pensions in the Middle East and North Africa: Time for Change* evaluates the current mandatory pension systems formulated in the 1970s in the region. Since the publication of Boersch-Supan Palacios and Tumbarello (1999), cited in the volume, the Word Bank has been providing technical assistance to the countries of the region in the area of pension reforms. According to Schwarz and Demirguc-Kunt (1999), also cited in the volume, more than 60 countries have introduced pension reforms in the last 20 years. The financial problems and the fiscal burden of these generous schemes was the common motivation for the reforms undertaken. The present book by David Robalino and his co-authors is the extension of those previous works published five years ago.

The book is divided into six chapters. Chapter 1 consists of a comprehensive overview of the book. Chapter 2 discusses the initial conditions for pension reforms. Chapter 3 takes stock of pension systems in the region and identifies the main problems. Chapter 4 introduces a general framework for pension reforms and describes minimum conditions that any reform agenda will have to meet. Chapter 5 distinguishes the issue of how to improve the management of public funds in the best interests of members. Finally, Chapter 6 ranks countries of the region comprehensively based upon their reforms process and discusses the prospects for the future.

The background and salient features of the demographic situation, macroeconomic transitions, and further critical appreciation of the financial sector in the region are discussed in detail. Demographically, the Middle East and North Africa are endowed with relatively large young populations with high growth rates, but the transition and structure of population is different among countries of the region. However, aging of the population is not the main reason behind the financial problems faced by the pension system. Chapter 2 provides interesting figures on the dynamics and its linkages with dependence ratio, labour market participation, and subsequently the pension issue. The chapter further indicates a alarming situation in the near future regarding the payment of a very high implicit rate of return on contributions. It provides the basis of reforms in the present period. Finally, the importance of macroeconomic stability for the proper functioning of the financial sector and the pension system is empirically explained. So far as the financial sector is concerned, the chapter classifies the countries on the basis of complete and incomplete financial markets. The policy suggestions pertaining to the pension systems have been provided according to the stage of the development in each individual country.

Chapter 3 contains the findings of more than 30 pension schemes across 13 countries. It is important to note that none of the countries surveyed has a national pension scheme that covers all types of workers. In Jordan, self-employed and agriculture workers are excluded whereas Egypt, Tunisia, and Morocco have the largest number of schemes. This fragmentation constrains the mobility of the labour force across and within sectors. The coverage rates are largely varied among the countries, between 10 to 70 percent. Generally, the prospects for expanded coverage rates are limited.

Two important questions are raised in Chapter 4. These are: (a) questions regarding the objectives of pension reform and its income replacement mandate, and (b) questions regarding mechanisms with which to implement this mandate.

There are no formal rules to define an adequate level of basic pension or the average replacement rate. It depends on the family structures, and cultural and economic factors. These schemes can be classified along three dimensions (i) how the system is financed, (ii) how the risks are diversified, and (iii) how the system is managed. The choices have been dictated by local, economic, social, political, and cultural conditions. The chapter provides extensive international experiences in terms of designing the pension system whether based on adequacy or income replacement criteria. In this chapter, the following standards have been formulated to achieve the desired objectives of a prudent pension system: indexation of all wages by covering all the salaries, choice of an accrual rate reflecting the mandate of the pension system regarding income replacement and an affordable contribution rate, taking into account all of its components. The chapter speaks in favour of a virtual account system, which is considered as a very transparent link between contributions and benefits. In addition, various ways to increase funding and its cost and benefits are discussed. The authors are of the view that the success of any attempt to reform the national pension programme will depend on administrative capacity and planning.

Chapter 5 discusses alternate policies and options available globally to manage pension funds more efficiently. The chapter raises the question of accumulated pension reserves ranging between 4.2 percent (Djibouti) and 52.2 percent (Bahrain) of GDP. The regional average of the mandatory pension systems stands at 14.4 percent of GDP which stands as the highest in the world after South Asia. Nevertheless, some policy formulations have been suggested which are quite relevant to the overall environment of the region. These are:

(a) building technical capacity to design investment policies, as countries need to invest in terms of qualified human resource base capable of managing pension funds.
(b) outsourcing the management of part of the funds, for which public bids may be utilised for outsourcing based on clear investment strategies;
(c) improving transparency includes mandating full disclosure of pension fund operations.

The final chapter evaluates the performance of pension reforms across countries in the non-Gulf countries of the Middle East and North Africa. It also explains the socioeconomic factors responsible for the observed differences. The countries can be classified into three groups. The first group includes Algeria, Libya, and Syria, where the reform process is in its infancy. The second includes the Islamic Republic of Iran, Iraq, Tunisia, and the Republic of Yemen, where policy discussions are at a more advanced stage. Djibouti, Egypt, Jordan, Lebanon, Morocco, and the West Bank and Gaza are placed in the third group, where there are leading pension reforms.

(a) In the third group where there are leading reform efforts, the motivation for reforms is the civil servants crisis and military pension schemes.
(b) In the second group of countries, the publication of reports pertaining to pension schemes-related problems initiated the public dialogue. Good analysis and diagnoses were the driving forces behind the motivation.
(c) A high-level policy-maker or a think-tank has been driving the reform process in the third group of countries, where all countries have leading pension reform systems. But, definitely, the challenges for the future are necessarily different in all three groups of countries.

The report intends to raise awareness about the need for immediate intervention in the pension systems. It recommends the governments to initiate a gradual reform process now. Besides, the report admits that it could not discuss several important areas vital for the proper functioning of a pension system, including (a) the institutional organisation, type of programmes, and the institutions in charge of managing them, (b) the way in which administration is designed and implemented, and (c) the way in which pension funds are regulated.

The drawbacks in the pension systems in the Middle East and North Africa, as indicated in this report, are quite relevant to the case of Pakistan. The pension system is fragmented and mostly covers public servants. Pakistan lacks the technical expertise for proper investment of pension funds. Furthermore, the investment opportunities can be numbered as low, which makes it risky in the absence of diversification. This report may serve as a springboard for further research in this growing area, leading possibly to more equitable and financially viable pension reforms.

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