INVESTING PENSIONS FOR DEVELOPMENT

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Treasury

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Pension funds in small economies are between a rock and a hard place

- Pressure for higher returns to sustain state pension commitments, while contributing to the country’s economic development
- Lack of domestic investment instruments and opportunities to diversify risks
- Maturity mismatch between the plan’s liabilities (typically long maturity and indexed to inflation) and available short-term investment instruments
- Lack of investment expertise and staffing constraints
Potential solutions

• “Create” new investment vehicles, e.g. through collaboration with government authorities and private sector, that could be a “win-win” for the pension plan’s beneficiaries and the country

• New instruments could be utilized to serve unsatisfied domestic demand, e.g. housing financing or infrastructure bonds

• Challenges: Appropriate public accountability structure is very essential, including Board oversight, investment expertise, independent valuations, avoidance of conflict of interest
• Designed as a pay-as-you go state retirement system; invest primarily domestically in fixed income and private assets

• Domestic market investment opportunities are very limited

• Contribution to the country’s development:
  • Development of domestic capital markets, e.g. played an essential role in establishing the domestic securities exchange (2013)
  • Development of properties: builds commercial, office, residential and storage spaces, which is in great demand in the country
  • “Win-win” partnerships with government in the real estate space
  • Natural buyer for long maturity domestic bonds
Fiji National Provident Fund

• Largest financial institution and major investor in Fiji, about 2B US$ equivalent in size

• Investment objective is to achieve returns, after fees in excess to inflation by a minimum 1% per annum, rolling over a three-year period

• Invest in real estate, local companies, commercial loans, offshore, including Fiji USD bonds and foreign equities

• Housing financing program established through the House Finance Bank (75% owned by FNPF)
Cabo Verde’s Instituto Nacional de Previdência Social

- Sole pension scheme for formal sector workers and the largest financial institution in Cabo Verde, about 200M US$ equivalent in size
- Investments are domestic; exchange controls limit overseas investments
- Available financial instruments are limited
- 60+% is in local treasuries and government guaranteed bonds, other investments include deposits, corporate bonds, public and private equities
- INPS invests in largest domestic companies (utilities, transportation) as well as new ventures
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