Social Security Investments for the Sustainability of the Future Pension Guarantees

Technical Reports
Collection

02

socieux+

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Table of contents

Presentation

SOCIEUX+ Expertise on Social Protection, Labour and Employment is a technical assistance facility set-up co-funded by the European Union, France, Spain and Belgium and implemented by a partnership composed of four partners: Expertise France, leader of the partnership, Fundación Internacional y para Iberoamérica de Administración y Políticas Públicas (FIIAPP), Belgian International Cooperation on Social Protection (BELINCOSOC), and Belgian Technical Cooperation Agency (Enabel).

SOCIEUX+ aims to expand and improve access to better employment opportunities and inclusive social protection systems in EU partner countries by drawing expertise by EU Member States. It also works on enhancing the capacities of partner countries to better design, manage and monitor inclusive, effective, and sustainable employment strategies and social protection systems through peer-to-peer short-term technical assistance and knowledge development.

The present report is part of the technical series of SOCIEUX+. This research series showcase and analyse the work done by SOCIEUX+ on key themes for the development of the debate on social protection and decent employment. The technical reports express in a simple and concise way complex information collected throughout the work of SOCIEUX+. They also seek to analyse the outcomes and impacts of the interventions to draw good practices and general knowledge on the theme.

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Acronym list

ADB	Asian Development Bank
ILO	International Labour Organization
NSPC	National Social Protection Council
NSPPF	National Social Protection Policy Framework
NSSF	National Social Security Fund
OECD	Organization for the Economic Cooperation and Development

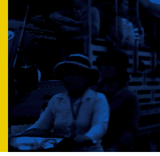
Key messages

Population ageing, changes in the social structure, the increase of the role of the social partnership, economic downturns, the globalisation, and technological development encourage reforms in the social security, especially in the pension field. We could underline four groups of factors, impeding changes in the pension policy: demographic (increase of life expectancy, decline in the fertility rate, ageing); social (inequality issues and changes in the employment structures); economic (economic crisis and globalisation); and political.

The coherent social security investment policy and the creation of the pension reserve fund is one of the key elements to ensure the sustainability of the pension system guarantees for the future generations in the light of social and economic downturns. Moreover, besides the investment policy, the modern pension policy should provide adequate and targeted income support for all population, encourage the participation in the labour market, ensure uniform access, and transparency. The aim of the social security investment policy and the creation of the pension reserve fund is to guarantee sufficient amounts for future generations. By ensuring the implementation of the principle of social solidarity between generations and taking into account the social-economic challenges in the future towards the pension guarantees, the pension reserve fund and the investment policy should be implemented in the social policy.

The need for a social security investment policy in Cambodia is clearly stated following the recommendations of the European Union experts: since the Cambodian population is still very young with an average age of approximately 24, the pension contribution inflows may be well above the needs to pay out benefits. Depending on the legislation, pension benefits may not be paid at all in the first years of the scheme's operation. This implies that accumulated financial reserves inevitably should be invested somewhere safely, responsibly and profitably.

Exchanges and analysis of the best international pension policy practices are the key elements to design or reform the pension system and the expertise of EU funded SOCIEUX+ programme contributes to achieve this goal.



This note explains the need for the creation of a social security investment policy to ensure the sustainability of the pension system for future generations. It is targeted at policy makers, international organizations, researchers, social protection stakeholders, and all others interested in the social policy development issues.

It also argues that the social security investment policy is important for the developing countries. Furthermore, adopting the social security investment policy and the pension reserve fund can ensure the social security guarantees for the future generations in a long-term period. In this sense, the creation of the social security investment policy is part of the modernisation of the social security system; however, related parametric changes shall be implemented in the organization of the pension system as well. For example, after the implementation of activities in Cambodia, the EU experts highlighted that there is an urgent need to strengthen pension legislation and capacity building in the field of the drafting pension policy and the social security investment management (supervision rules, investment policy, transition rules on how to integrate public sector's pension system into the new universal pension system; elaboration of the incentives for the voluntary pension insurance; the need for capacity building; set-up performance management and actuarial valuations; and functional responsibilities among social security institutions).

This note sets forth a vision of how to achieve an adequacy of pension system in Cambodia setting-up a social security investment policy in the light of the recommendations of the European Union (including expertise of the European Union funded programme SOCIEUX+), other international organizations and best EU practice. The next sections describe social security investment policy rules, present illustrations of their contributions, and discuss specific steps for their development:

1. Why is it important to create a social security investment policy and how can the social security investment policy be defined?
2. Which challenges in Asia do impact the need for social security reforms? Example of Cambodia.
3. What is the importance of the political engagements in the social security? New social policy engagements in Cambodia.
4. How should social security investments be developed? Three concrete examples (Lithuania, Norway, and Finland).
5. How should social security investments be developed? The Social Security Investment Fund and investment rules for Cambodia.

1. Why is it important to create a social security investment policy and how can the social security investment policy be defined?

One of the measures that ensure the sustainability of the social security system is the accumulation of the pension reserve fund and the implementation of the related investment policy. Social security investment is placing the money in a transparent manner for a long-term perspective to guarantee purchasing power in the future, when money is needed; balancing the surplus and deficit of funds; harmonising of the risk and yield and diversification only in a secure way to reduce risk. In addition, the social investment principle is applicable (i.e. socially and economically, useful investments funded by social security institution funds should provide risk-adjusted returns consistent with market standards). There should be an investment in social security funds, based on the prudent fiduciary conduct, in order to create employment as well as to improve the overall quality of life of the population.

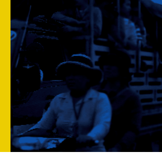
The purpose of the social security investment policy is to ensure the stability of the social security budget and to accumulate the monetary resources (pension reserve fund), which are necessary for the financing of social insurance benefits when the social security budget revenues are insufficient. Relevant investment policy and management of the pension reserve fund shall be adopted: financial sources, investment principles, management, supervision, accounting, and use of the pension reserve fund.

Several international organizations drafted guidelines for the investment of the social security funds: the International Social Security Association (*Guidelines on the Investment of Social Security Funds*)[1], the International Labour Organization (issuing country specific recommendations on the investment policy)[2], and the Organization for the Economic Cooperation and Development (*Guidelines on Pension Fund Asset Management*)[3].

1 International Social Security Association (2013). *Guidelines on the Investment of Social Security Funds.* Retrieved from https://www.issa.int/en/guidelines/investment

2 Cruz, H. (December 2017). *Technical Assistance on Investment and Financial Governance of the NSSF-EII Branch and of the New Old-Age Pension System for the Private Sector of the Kingdom of Cambodia*. International Labour Organization.

3 OECD (2006). *Guidelines on Pension Fund Asset Management*. Retrieved from http://www.oecd.org/finance/privatepensions/36316399.pdf



BOX 1

Recommendations of the international organizations for the investment policy

The International Labour Organization (ILO) highlighted that the investment policies should consider that different schemes need to address different approaches and policies in order to build adequate portfolios; the implementation should be in charge of an operational body that is adequately endowed with resources and staff with the skills needed to materialize the investment decisions made by the executive body; the operational staff involved in the investment implementation should be different from the ones who implement risk assessment procedures and monitoring and reporting procedures; the procedures carried out to assure the correct evaluation and the feasibility of an investment need to be clearly determined[4].

The Organization for the Economic Cooperation and Development (OECD) noted the importance of the good governance of the investment institutions: they have regulatory and legal frameworks at arm's length from the government; clearly stated missions to guide investment policy; an oversight board that is accountable to the competent authorities and members; and transparency about their investment and risk management to report them to different stakeholders[5].

4 Cruz, H. (December 2017). *Investment Strategies and Financial Governance Recommendations for the NSSF, Including the EII as well as Pension Schemes.* International Labour Organization.

5 OECD (2018). *OECD Pensions Outlook 2018.* OECD Publishing, p. 14. Retrieved from http://www.oecd.org/finance/oecd-pensions-outlook-23137649.htm

2. Which challenges in Asia do impact the need for social security reforms? Example of Cambodia

New economic and social trends encourage the countries of the **Asia region** to reform pension systems. In order to achieve this several options can be underlined: avoiding mistakes (adopting an integrated view on retirement income provision, balancing individual and social equity with efficiency considerations, averting fiscal unsustainability, and integrating public and private sector pensions); being innovative (moving toward a multi-pillar structure, prudently extending coverage, trying new approaches to reduce administrative costs, and extending social risk management through informal support and safety nets); and fostering financial markets (decentralizing pension fund management; reviewing governance, regulation and supervision; and creating or supporting the provision of new instruments)[6].

The Pacific Economic Council, in particular, noted several Asian countries' pension system policy trends: population ageing, the expansion of atypical employment relationships, the need for the funded pension system, the increase of the pension coverage, the growth of industrialization and urbanization (what requires extra income for people's living conditions, higher costs for health care, and pension benefits), and the increased demand for cross-border social security agreements (because of the activation of the migration of workers)[7].

The Organization for the Economic Cooperation and Development (OECD) stressed that a greater focus on social policies in this region is also in line with the stimulation of the domestic demand. Several structural reforms (some of which are addressed in their medium-term plans) would create a more favourable environment for strengthening private consumption. At the same time, the Asia and Pacific region has started to focus on 'inclusive growth', which is another factor to change the nature of the social policy growth in the region[8].

The International Labour Organization (ILO) underlined that only 38.9% of the population in the Asia and Pacific region is effectively covered by at least one in-cash social protection scheme, although significant progress has been made in the field of the strengthening of the social protection systems and building relevant social protection floors. There are concerns regarding persistent coverage gaps in the areas of maternity and unemployment protection, as well as regarding the adequacy of pensions and other social protection benefits in the light of demographic change and short-term austerity fiscal pressures[9].

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6 Holzmann, R., Mc Arthur, I. W. and Sin, Y. (June 2000). *Pension Systems in East Asia and the Pacific: Challenges and Opportunities (World Bank Social Protection Discussion Papers Series No. 0014)*. Retrieved from https://siteresources.worldbank.org/SOCIALPROTECTION/Resources/SP-Discussion-papers/Pensions-DP/0014.pdf

7 Pacific Economic Council (2010). *Towards a More Resilient Society: Lessons from Economic Crisis (Report of the Social Resilience Project)*. Tokyo: Japan Institute of International Affairs, p. 41-42.

8 OECD (2011). *Southeast Asian Economic Outlook 2011/12*. Retrieved from https://www.oecd.org/dev/49427029.pdf

9 International Labour Organization (2017). *World Social Protection Report 2017-19*. Retrieved from https://www.social-protection.org/gimi/gess/RessourcePDF.action?ressource.ressourceId=54887

BOX 2

Socio-economic and institutional challenges in Cambodia

Social protection in **Cambodia** is at an initial stage and thus, there are several challenges to overcome: most Khmer people have little or no effective coverage, particularly the most vulnerable; civil servants enjoy a comprehensive benefit package financed through the state's budget; the National Social Security Fund (NSSF) covers 1.2 million workers in the private sector, providing injury insurance, maternity benefits and, most recently, health insurance; however, legally and practically, coverage is limited to large enterprises; workers in the informal economy, representing 90% of the labour force, have no access to the pension provisions[10]. Cambodia's population expanded rapidly from 10 million people twenty years ago to 15.6 million in 2015 (this represents an average annual growth of 1.9%). Cambodia has recently experienced a decline in fertility, although its total fertility rate was at 2.7% in 2015. Life expectancy at birth in 2015 was estimated at almost 67 years for males and 71 years for females. It has increased considerably over the last 20 years, by about 12 years and from an average of 69 in 2015, it is expected to increase to 81 by 2065[11]. Cambodia is considered to be a young country with those aged over 65 accounting for only 5% of the total population in 2015. However, the trend of population growth has gradually declined from 2.26% in 2000 to 1.65% in 2014[12]. In the report of the Asian Development Bank (ADB), six major challenges and constraints to productive employment in Cambodia were highlighted: sustaining long-term growth and the macroeconomic environment; skills acquisition and productive employment; agricultural productivity growth and rural development; reducing vulnerable employment; limited social protection; and improving industrial relations[13].

10 International Labour Organization. *Together, to Change Millions of Lives in Cambodia.* Retrieved from https://www.social-protection.org/gimi/RessourcePDF.action?ressource.ressourceId=51884

11 Betina, R. L. (2018). *National Social Security Fund for Civil Servants: Reform for a More Sustainable Pension Scheme*. International Labour Organization.

12 Kingdom of Cambodia (2017). *National Social Protection Policy Framework 2016-2025*. Approved by the Council of Ministers on 24 March 2017.

13 Asian Development Bank and International Labour Organization (2015). *Cambodia: Addressing the Skills Gap Employment Diagnostic Study.* Retrieved from https://www.ilo.org/wcmsp5/groups/public/---asia/---ro-bangkok/documents/publication/wcms_425375.pdf

Several institutional, financial and regulatory challenges for the Cambodian pension system can be stressed:

- *Institutional framework*: fragmentation among operators of different social insurance schemes (pensions, work injury, health); inconsistency of allowances/benefits; National Social Protection Council and National Social Security Fund's functions with regard to investment of social security funds not clearly indicated in regulations of relevant bodies; the need of capacity building for employees of the National Social Protection Council and National Social Security Fund in the investment management, risk management, performance management, and actuarial valuations fields.
- *Financial framework*: a potential sharp increase of expenditure when first pensions are paid (related to the launching of the new pension system); pension contribution collection has not been implemented yet; demographic change; the important level of informal economy.
- *Legal and regulatory framework*: the existing legislation provides a framework to operate compulsory pension schemes only; the supervision framework (public and private sector) do not fully meet technical and financial sustainability standards; early voluntary exit for civil servants as well as the level of benefits or other allowances have not been fully considered and amended to reflect social changes and recent developments in the public administration system.

3. What is the importance of the political engagements in the social security? New social policy engagements in Cambodia

The International Labour Organization (ILO) emphasized the importance of the role of the social protection in the national strategies and pointed out that the social protection is at the forefront of the development agenda, given its positive social and economic impact, and it is a key element of the national strategies to promote human development, political stability, and inclusive growth; it ensures that people enjoy income security and have effective access to health and other social services, and are empowered to take advantage of economic opportunities. The design of a pension scheme is the result of a large array of choices. Of these, two in particular stand out and are often used as the basis on which to characterize the scheme as a whole: whether the basis of pension calculation should be related to active life earnings or directly to contributions paid, whether the financial system should be based on the provision of monies as needed for each year's benefit payments or based on the advance accrual (from higher contribution rates) of assets which are invested in reserved funds[14], governments should make efforts to strengthen the management of social security funds as well: social security financing should be sustainable, with the assumption by the state general responsibility for it; social security funds should be protected to the best possible extent against mismanagement, cyclical fluctuations and market failures; the purchasing power of benefits in payment should be maintained by adjusting them in relation to the cost of living[15].

The Organization for the Economic Cooperation and Development (OECD) noted that in the face of an economic crisis, governments adopt short-term practical solutions, meanwhile, long-term strategic plans, which are important to pensioners' incomes, are ignored[16]. OECD stressed as well that pension systems should reflect on their objectives (poverty relief, redistribution, sustainability, and consumption-smoothing) and risks (demographic, social, labour, macroeconomic, and financial). A robust safety net for pensioners, as well as a diversified and balanced pension system (that incorporates a funded component), is important, especially promoting and reallocating national savings toward long-term investment. Additionally, well-designed pension systems need automatic mechanisms that align benefits with economic and demographic realities[17].

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14 International Labour Organization (2017). *World Social Protection Report 2017-19*. Retrieved from https://www.social-protection.org/gimi/gess/RessourcePDF.action?ressource.ressourceId=54887

15 International Labour Office (2010). *World Social Security Report 2010/2011: Providing Coverage in Times of Crisis and Beyond*. Geneva: International Labour Office, p. 112.

16 OECD (2013). *Pensions at a Glance. Retirement-Income Systems in OECD and G20 Countries*. Retrieved from www.oecd.org/els/social/pensions/PAG

17 OECD (December 2018). *OECD Pensions Outlook 2018*. OECD Publishing, p. 13. Retrieved from http://www.oecd.org/finance/oecd-pensions-outlook-23137649.htm

BOX 3

New social policy engagements in Cambodia

To develop the social protection system in **Cambodia**, the National Social Protection Council (NSPC) was established in 2017. NSPC holds the responsibility to coordinate and steer the development of social protection strategies and policies, and to ensure their coherence and sustainability. In March 2017, the Royal Government of Cambodia passed the *National Social Protection Policy Framework 2016-2025* (*NSPPF*) in view of the expansion and reform of the social protection system. As a consequence, the significant expansion of the social security (mainly in the pension field) has been planned for the forthcoming years.

NSPPF indicates the need to align and concentrate the existing social protection programmes and schemes to expand the coverage of social safety network to all citizens and to enhance the efficiency, equity, transparency and consistency of social protection[18]. The NSPPF is planning to introduce a contributory pension scheme for private sector workers where both, employers and employees, would pay contributions for a defined benefit scheme. Public sector employees have a non-contributory pension scheme which is financed from sources of the state budget and this pension scheme should be incorporated (with transitional rules) in the future defined benefit pension scheme. The administration of the pension scheme is envisaged to be managed with the National Social Security Fund (operator) under the Ministry of Labour and Vocational Training, while the supervision should be handled by the National Social Protection Council of the Kingdom of Cambodia (regulator).

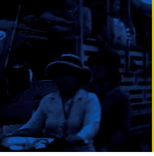
18 Kingdom of Cambodia (2017). *National Social Protection Policy Framework 2016-2025*. Approved by the Council of Ministers on 24 March 2017.

4. How should social security investments be developed? Three examples (Lithuania, Finland, and Norway)

Primary objectives for the social security investments are the profitability (the investments should achieve maximum returns, subject to acceptable risk) and security (the investments should assist the social security scheme to meet its commitments in a cost-effective way). Investments should be made with a view to achieving a reasonable balance between security and profitability objectives. A subsidiary objective is the social and economic utility (investments which contribute to long-term national economic growth, for example, investments in human resources, health care or transportation infrastructure).

Investments shall be managed in a cost-effective manner and invested in such a way as to exclude any loss, achieve a reasonable return and ensure adequate liquidity. Furthermore, they should be based on the general governance and the investment principles.

According to the international practice, *the general governance principles* are: the prudent person principle, the investment return principle, the monitoring principle, the participation principle, the relevant legislation principle, the due diligence principle, the capacity building principle, the transparency principle, and the transparent procurement principle. Moreover, *the general investment principles* are: the investment target principle, the segregated portfolio principle, the limitations principle, the social investment principle, the performance evaluation principle, and the allocation principle.



BOX 4

Social security investments diversification in Lithuania, Norway, and Finland

The purpose of the creation of the State Social Security Reserve Fund (reserve fund) in **Lithuania** has been related to the need to ensure the stability of the social insurance fund budget and to accumulate the monetary resources (which are necessary for the financing of social insurance benefits when the reserve fund revenues are insufficient). Resources of the reserve fund shall be invested only in debt securities, and up to 30% of the reserve fund's resources may be invested in debt securities denominated in foreign currencies, and the rest of the reserve fund's resources in euro-denominated debt securities. In **Finland**, the state pension fund had to abide by the following restrictions: investments in fixed-income securities must amount to at least 45%, investments in equities may not exceed 45%, and other investments may not exceed 12% of the value of the fund. In **Norway**, the revenues of the Norwegian Government Pension Fund come from the oil and gas revenues. All investments are abroad according to the diversification rules: 60% in equities, 35-40% in fixed-income securities, and up to 5% in real estate.

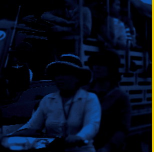
5. How should social security investments be developed? The Social Security Investment Fund and investment rules for Cambodia

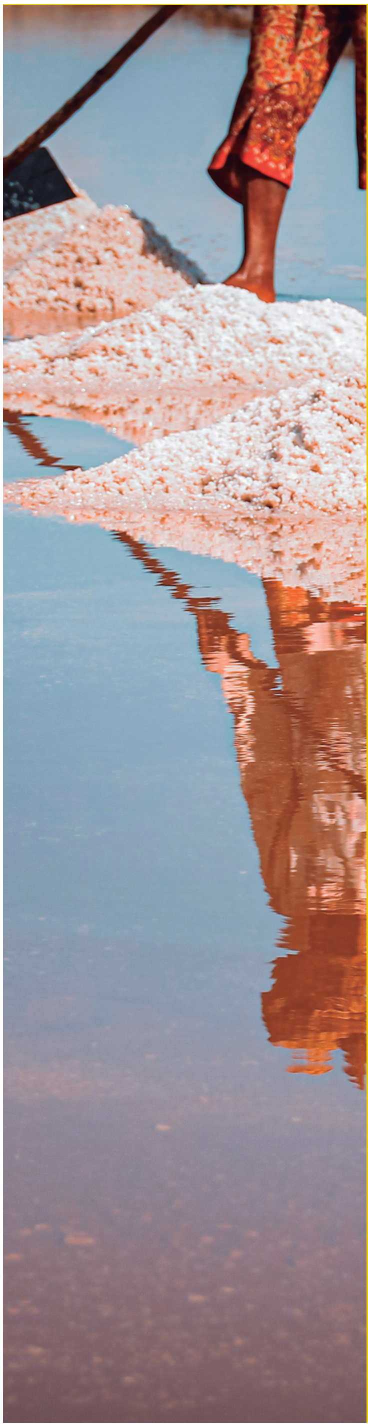
Establishing a sustainable pension policy for future generations in Cambodia is core to set up the social security reserve fund (in pension, health and work injury branches) and to elaborate related investment guidelines (including supervision bodies and investment policy) to revise the legislation in relation to the social security investments, to perform capacity building for the social insurance actors on the latest developments of the Cambodian financial market and best international practise, to set up performance management and the actuarial valuations system, to evaluate transitional requirements and scenario in the creation of the new pension system framework, to set-up clear functional responsibilities of the National Social Protection Council and the National Social Security Fund.

Cambodia does not currently have a proper financial market that can support the amount of social security investments. One-year term banking deposits are the longest maturity saving instruments available, there is no government bonds market and the development of the securities market in Cambodia is still at an early stage. Despite the strong commitment of the Securities and Exchange Commission to introduce corporate bonds and attract new companies to the stock exchange, the market is not expected to have enough dimension to absorb national social security fund projected reserves[19].

The following challenges for the creation of the social security fund investment can be highlighted: currently, Cambodia has no legislation concerning investments of the social security fund; there is a limited set of available investment instruments in the domestic market; the government bond would offer easy and risk-free investment option, but at present there is no government bond market despite the need to channel funding for infrastructures and for Cambodian's social and economic development; the government relies in concession loans from China, Japan and the Asian Development Bank, which may act as an obstacle for investing pension funds for infrastructure projects; the national currency has limited use in the financial system so far; the current social security reserves are invested in short-term deposits in two commercial banks; employees of relevant institutions need to have competencies in the finance management field; the National Social Protection Council and the Nacional Social Security Fund missions with regard to investment of the social security funds are not clearly indicated in regulations of relevant institutions.

19 Betina, R. L. (2018). *National Social Security Fund for Civil Servants: Reform for a More Sustainable Pension Scheme.* International Labour Organization.





BOX 5

The Social Security Investment Fund and the investment guidelines for Cambodia

The Social Security Investment Fund and the investment guidelines for Cambodia have been drafted using the experts' methodology: firstly, draft guidelines have been prepared on the basis of the evaluation of needs and relevant situation (including discussions with stakeholders); secondly, draft guidelines have been discussed with the beneficiary; and thirdly, draft guidelines have been tuned according to the comments and remarks of the beneficiary.

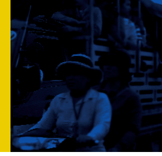
Guidelines establish principles in the field of the regulation of the sources, investment policy and instruments, management, supervision, accounting, use of the Social Security Investment Fund and investment policy in the Kingdom of Cambodia.

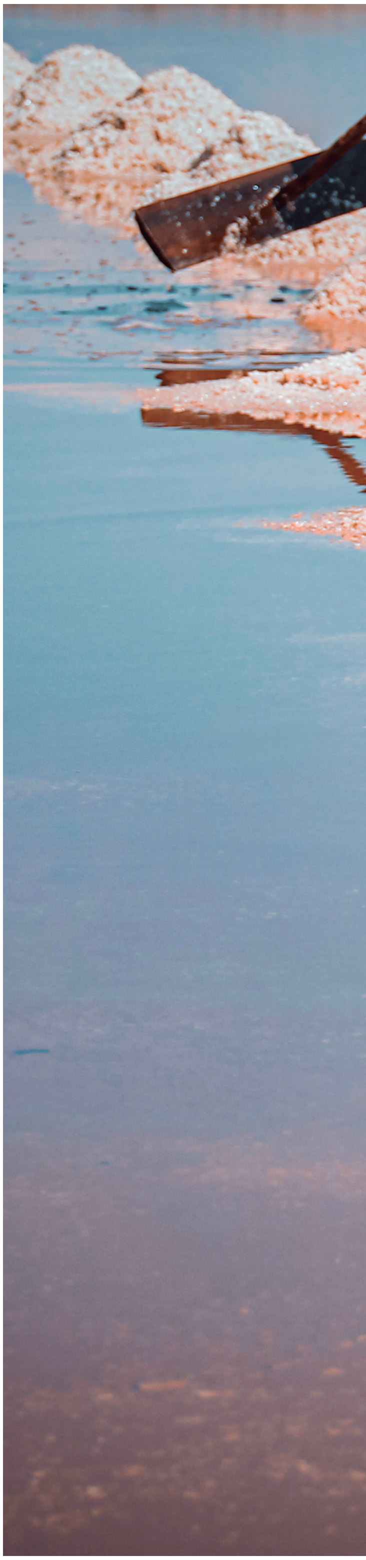
The purpose of the creation of the Social Security Investment Fund in Cambodia is to ensure the Social Insurance Fund budget stability; to cover future payment liabilities when demographic situation gets worse (i.e. accumulation of monetary resources necessary for the social insurance payments according to the Labour Law, the Insurance Law, the Law on Social Security Schemes for Persons Defined by the Provisions of the Labour Law and future developments in the legislation) and to apply rules of use, management, supervision, and investment policy of the Social Security Investment Fund.

The *primary objectives* for the investments of the Social Security Investment Fund are security (the investments should assist the social security scheme to meet its commitments in a cost-effective way) and profitability (the investments should achieve maximum returns, subject to acceptable risk). The investments of the Social Security Investment Fund should be made with a view to achieving a reasonable balance between security and profitability objectives.

The *revenues* of the Social Security Investment Fund could be the actual and future surplus of all social insurance schemes (health, injury, pensions), the investment returns, the part of the social insurance contribution upon the decision of the Council of Ministers of the Royal Government of Cambodia, and other legally obtained revenues (including donations). The Social Security Investment Fund financial means should be accumulated in a separate account in the National Social Security Fund.

In addition, the investments of the Social Security Investment Fund should be managed in a cost-effective manner and invested in such a way as to exclude any loss, achieve a reasonable return and ensure adequate liquidity.





When implementing the guidelines, the necessary legislation should include special regulation in different fields:

- *Supervision:* determination of the management and supervisory authorities (governing bodies) and supervision rules; determination of the scope of supervision; qualification requirements for the personnel of governing bodies; right of the supervisory authority to audit business, files, and accounts of the Social Security Investment Fund; determination of regular meetings of the supervision bodies with the operator and the relevant supervisory authorities (governing bodies) and ministries.
- *Accounting and management:* rules administration of the Social Security Investment Fund; rules for the budgets of the Social Security Investment Fund, including efficiency measures; reporting rules; accounting rules; requirements for the risk management, performance measurement, monitoring; and rules for matching assets and liabilities.
- *Investment:* rules for the investments of the Social Security Investment Fund (objectives, goals, strategy, policy) in which securities the Social Security Investment Fund money can be invested (strategy and portfolio construction for each portfolio); size of investment amounts (diversification and dispersion); rules for the placement of all securities of the Social Security Investment Fund in the depositary bank; rules for all transactions through the depositary bank; reporting system of transactions to the supervision authorities (governing bodies); rules for risk budgeting; liabilities policy; restrictions on investments rules; social responsible investment rules; appropriate benchmarks; direct investments rules; currency hedging rules; investment instruments; safety and segregation rules.

The supervision and the management system of the Social Security Investment Fund should be indicated in the legislation:

- *Political level:* the government establishes transparent and accountable supervisory authorities (governing bodies) and financial accounting system, formulation of the investment policy according to the relevant legislation.
- *Stakeholders' level:* the National Social Protection Council decides the investment goals for each separate portfolio and should include representatives of the trade unions and employers' organizations (tripartite principle), other government's institutions, and independent experts.
- *Executive level:* a special investment sub-committee of the Executive Committee of National Social Protection Council (together with the General Secretariat of the National Social Protection Council) integrates periodic review of liabilities in the investment strategy, adopts adequate valuation methodologies, approves benchmarks for performance evaluation, approves a policy of procurement of eligible service providers, etc.

- *Operational level:* the National Social Security Fund or external manager (upon the decision of the National Social Protection Council) defines the operational structure to implement an investment strategy, defines and implement investment procedures, etc.
- *Specialized level:* an independent external consultancy for the National Social Security Fund shall provide periodic review of each scheme liability profile.
- *External supervision:* the National Bank of Cambodia shall be responsible for the external supervision of the reserve fund accounts for banking products (government bonds) and the Securities and Exchange Commission of Cambodia shall be responsible for the external supervision of the reserve fund accounts for other investment products (corporate bonds, stocks, equities, etc.).

Conclusions

The coherent social security investment policy and the creation of the pension reserve fund is one of the key elements ensuring the sustainability of the pension system guarantees for the future generations in the light of social and economic downturns.

The purpose of the social security investment policy should be to ensure the stability of the social security budget and to accumulate the monetary resources (pension reserve fund), which are necessary for the financing of social insurance benefits when the social security budget revenues are insufficient.

The primary objectives for the social security investments are profitability and security, and investments should be made with a view to achieving a reasonable balance between security and profitability objectives.

Social security investment funds, based on the prudent fiduciary conduct, should be invested in order to create employment as well as to improve the overall quality of life of the population. However, the relevant investment policy and management of the pension reserve fund shall be adopted: financial sources, investment principles, management, supervision, accounting, and use of the pension reserve fund.

The purpose of the creation of the Social Security Investment Fund in Cambodia is to ensure the Social Insurance Fund budget stability; to cover future payment liabilities when demographic situation will worsen and to set up rules of use, management, supervision, and investment policy of the Social Security Investment Fund. Exchanges and analysis of the best EU and international pension policy practices are the key elements to design or reform the pension system, and the expertise of EU funded SOCIEUX+ programme contributes in achieving this goal.

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