



EUROPEAN COMMISSION

<b>TWINNING PROJECTS</b>	
<b>INTERIM QUARTERLY REPORT</b>	
<b>Project Title:</b>	<b>Support to the State Social Protection Fund on the introduction of funded element within the insurance – pension system, establishment of non – state pension funds and development of legal framework for regulating their activity</b>
<b>Partners:</b>	<b>Ministry of Welfare of the Republic of Latvia German Federal Ministry of Labour and Social Affairs State Social Protection Fund of the Republic of Azerbaijan</b>  <b>Implementing body: German Association for Social Security Policy and Research</b>
<b>Date:</b>	<b>15<sup>th</sup> of January, 2015</b>

**Section 1: Project data**

Twinning Contract number:	Twinning Contract 2014/338-674 Twinning Reference No AZ/13/ENP/SO/24
Project Title:	Support to the State Social Protection Fund on the introduction of funded element within the insurance – pension system, establishment of non – state pension funds and development of legal framework for regulating their activity
Twinning partners (MS and BC)	Ministry of Welfare of the Republic of Latvia German Federal Ministry of Labour and Social Affairs State Social Protection Fund of the Republic of Azerbaijan  Implementing body: German Association for Social Security Policy and Research
Report number:	Twinning Interim Quarterly Report No 3
Period covered by the report:	From the 1 <sup>th</sup> of October, 2014 by the 31 <sup>st</sup> of December, 2014
Duration of the project:	Duration of the project is 18 months
Rapporteur:	<b>Ingus Alliks</b> Deputy State Secretary of the Ministry of Welfare of the Republic of Latvia Lead Member State project Leader  <b>Nigar Panahova</b> Head of the Personal Accounting Department of the State Social Protection Fund of the Republic of Azerbaijan

Signatures:

Date:

**Mr. Ingus Alliks**  
MS Project Leader

**Ms. Nigar Panahova**  
BC Project Leader

**List of abbreviations used in the report:**

BC	Beneficiary Country
GVG	German Association for Social Security Policy and Research
EUD	Delegation of the European Union to the Republic of Azerbaijan
EU MS	European Union Member State
ENPI	European Neighbourhood and Partnership Instrument
IS	Information systems
ISSA	International Social Security Association
IT	Information Technology
ITIL	Information Technology Infrastructure Library (set of practices for Information Technology (IT) service management)
MoW	Ministry of Welfare of the Republic of Latvia
NGO	Non-governmental organisation
Project	Twinning project related to the Twinning Contract 2014 / 338/674
PSC	Project Steering Committee
RTA	Resident Twinning Adviser
SSPF	State Social Protection Fund of the Republic of Azerbaijan
STE	Short term experts
UNDP	United Nations Development Programme

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## 2A – BACKGROUND

This report covers activities that have been carried out in the third quarter of the project from the 1<sup>st</sup> of October, 2014 to the 31<sup>st</sup> of December, 2014.

The Quarterly report No.2 was not approved by EUD yet, because there had been conducted intense discussions with BC project leader on the content of Quarterly report No.2 regarding separate parts in order to change wording of contained information and facts in report, as well as to make amendments in the Study report “On demographical, economic, financial and capital market situation and social insurance system of Azerbaijan”.

Finally, Quarterly report No.2 was submitted to the EUD on the 18<sup>th</sup> of December, 2014.

### Overall objectives

Overall Objective and indicators of achievement (as in Log frame)	State of Achievement / problems encountered
<b>Development of the insurance-pension system in Azerbaijan</b>	
<p><i>Indicator of achievement</i></p> <p>Positive assessment of the pension reform by local and international organisations (Commission of the European Union, the World Bank, NGO).</p>	<p>Implementation of project activities was directed at achieving planned objectives and obtaining positive results.</p> <p>All project activities to be performed in the third quarter of project implementation were successfully completed.</p> <p>In the reporting period, there was published the Concept of reforms of pension provision system in the Republic of Azerbaijan in 2014 - 2020 approved by the President of Republic of Azerbaijan on the 4<sup>th</sup> of November, 2014 (hereinafter – Concept).</p> <p>The Concept specifies the basis of government policy in pension provision within the period of its coverage. One of the main directions of implementation of the concept is activation of voluntary funded component of labour pensions and development of non-state pension institutes which completely relate to the scope of project activities and indicates importance of pension provision issues in the government of the Republic of Azerbaijan.</p> <p>Within the third quarter, the following project activities were realized in line with the work plan of the third quarter for the implementation of EU funded Twinning Project:</p> <ul style="list-style-type: none"> <li>✓ activity 1.2. “Development of a blueprint of the funded component in the multi-level state pension</li> </ul>

	<p>system” sub-activity 1.2.1. “Feasibility study (economic calculations) and conducting a two-day workshop with relevant staff of SSPF”;</p> <p>✓ activity 3.1 “Development of a blueprint to facilitate and regulate the development of private, voluntary, pension arrangements” sub-activity 3.1.1.”Two-day workshop on key issues to be addressed for the development of private, voluntary, pension arrangements”.</p>
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**Project Purpose**

<b>Project purpose and indicators of achievement (as in Logframe)</b>	<b>State of Achievement / problems encountered</b>
<p><b>To enhance capacity of the State Social Protection Fund (SSPF) to establish the regulatory, legal and administrative framework for the introduction of a funded element in the insurance-pension system and the establishment of non-state pension funds.</b></p>	
<p>Positive assessment of the SSPF capacity.</p>	<p>All implemented and started activities (sub-activities) in the third quarter had a direct impact on capacity building of the staff of SSPF – increased the knowledge and understanding about pension systems in EU MS – Latvia and Germany, as well as about international practices in the field.</p> <p>Three representatives of SPPF within the mutual agreement on bilateral cooperation between SSPF and Social Insurance Institution of Republic of Poland (ZUS) were on Study visit to Poland in October in which they had been acquainted with responsibilities, tasks and duties of ZUS working with pension issues.</p> <p>After approval of Concept in November and for the purpose of realizing the duties and tasks of Concept, there was established a new department in the SSPF - Forecasting Department, the main tasks of which are to deal with long term social policy measures planning and budget planning based on actuary analyses for long term development of pension system.</p> <p>There were combined tasks dealing with insurers and personal accounts of employees and physical persons in one department – Personal Accounts Department.</p>

## **Policy Developments**

- New policy document related to the pension system was adopted during the reporting quarter - on the 4<sup>th</sup> of November, the President of Republic of Azerbaijan approved the “Concept of reforms of pension provision system in the Republic of Azerbaijan in 2014 -2020”, which specifies the basis of government policy in pension provision within the period of its coverage, because despite the achieved results, in order to establish a modern and socially efficient pension provision system, there appears necessity for improving the existing pension provision model taking account of international best practices and new realities.
- In November after approval of the Concept, SSPF established new department - Forecasting Department with two sectors – a sector of Actuarial Research dealing with actuary analyses and prognoses, the second sector of Budget forecasting dealing with long term social policy measures planning and budget planning issues.
- In November, there was approved the Budget of SSPF in which incomes and expenditures are approved in the amount of 3 056 285 700 manats (balanced budget). In comparison with previous year, the budget planned incomes and expenditures are increased by 4,36% per cent. State mandatory social contributions payments are increased by 9,54% per cent. Transfers from the State budget were reduced by 3% per cent points in comparison with the previous year and form 36% of budget incomes.
- In December, State Social Protection Fund held a meeting with World Bank mission. Reforms on insurance-pension system of Azerbaijan envisaged to be implemented in the coming years were discussed at the meeting.
- During the reporting period, State Social Protection Fund organized 8 “Open Day” events and/or civil forums in different regions of Azerbaijan – Imishli, Lankaran, Shemkir, Ismayilli, Zagatala, Salyan, Aghjabadi and Barda regions. In the “Open Days” activities, there participated residents, taxpayers, employers and pensioners. There were provided information on actual issues, offered services – personal accounts, pension calculations, as well as information on features of the pension insurance system, approved Concept and future pension system developments.  
These are appropriate measures for different stakeholders to receive clear first-hand information, keep track of the planned changes in the system, and learn about issues stakeholders misunderstood, as well as to extensively inform whole public about the current events, thus promoting the awareness of society.
- According to the statistics of December 1, 2014, the number of personal accounts increased by 9, 29 % per cent as compared to the beginning of the year. During January-December, some 249 951 persons opened personal accounts in the SSPF. The number of insured people reached to 2 941 308. Some 59, 06% per cent (1 737 136) of insured people registered in personal accounting system of SSPF is male and 40, 94 % per cent (1 204 172) - female.  
Personal accounting means collecting and registering information about every insured people in order to provide rights for labor pensions and other social protections benefits. Increased number of personal accounts is an evidence, that people know and understand their duties and rights related to social guaranties.
- In October SSPF hosted International Social Security Association (ISSA) European Network Technical seminar on “e-Services in social security: Enhancing quality and scalability”) in which addressed these issues and discussed approaches and solutions applicable in varying regulatory contexts and scenarios with different levels of development in e-Government service.



**Project Assumptions**

	<b>Intervention logic</b>	<b>State of achievement/ problems encountered</b>
<b>Project Purpose</b>	<p>To enhance capacity of the State Social Protection Fund (SSPF) to establish the regulatory, legal and administrative framework for the introduction of a funded element in the insurance-pension system and the establishment of non-state pension funds.</p>	
	<p><b>Assumptions</b></p> <ul style="list-style-type: none"> <li>• SSPF establishes appropriate cooperation and information exchange links with other relevant institutions in the administration (e.g. Ministry of Finance, Ministry of Taxes, etc.).</li> </ul>	<p style="text-align: center;"><b>In progress</b></p> <p>Within the activity 1.1. “Carrying out the study on demographical, economic situation of Azerbaijan”, project experts together with BC experts visited 20 different institutions - government, non-government and international institutions, namely, Ministry of Labour and Social Protection of Population, Ministry of Finance, Ministry of Taxes, Ministry of Economy and Industry, State Statistical Committee, Central Bank of Azerbaijan, State Committee for Securities, Baku Interbank Currency Exchange, State Insurance Supervision Agency, Central Depository, Ateshgah Sigorta Life Insurance Company, International Bank of Azerbaijan, Baku Stock Exchange, Azerbaijan Mortgage Fund, Kapital Bank, State Oil Fund, World Bank, UNDP, American Chamber of Commerce, which will be directly or indirectly involved and/or will operate within the second and third tier of the pension system in Azerbaijan. SSPF cooperates with state</p>

	<b>Intervention logic</b>		<b>State of achievement/ problems encountered</b>
			<p>institutions on daily basis, but they were not involved in the project activities in the last quarter.</p> <p>The action plan of Concept envisages implementation of activities together with Ministry of Finance, Ministry of Economy and Industry, Ministry of Labour and Social Protection of Population, Central Bank regarding preparation of proposals for activation of voluntary funded component, development of non-state pension institutions (funds) and creation of legal framework for regulating their activities.</p>
		<ul style="list-style-type: none"> <li>• Adequate financial resources are allocated to ensure solid backing of the pension reform.</li> </ul>	<p><b>Completed</b></p> <p>For realization of measures of adopted “State Programme on development of insurance-pension system in Azerbaijan in 2009-2015” in the expenditure part of the Budget of Republic of Azerbaijan for SSPF for 2014, financial resources were planned in amount of 2,93 mln. manats, but for 2015 – 1,5 mln. manats. Mentioned financial resources are enough to secure on-going pension reforms.</p>
		<ul style="list-style-type: none"> <li>• Capital market and other relevant financial institutions are further developed in Azerbaijan.</li> </ul>	<p><b>In progress</b></p> <p>Draft Law "On Capital Markets" was prepared within EU financed Twinning project "Approximation of the legal and regulatory framework for the securities market of</p>

	<b>Intervention logic</b>		<b>State of achievement/ problems encountered</b>
			<p>Azerbaijan to the European Union acquis and capacity building for the State Committee for Securities”, which envisages supervision on capital markets that is very necessary element for this project results as well, however, the Law has not been adopted yet, but according information from the State Committee for Securities, this law will be adopted this year.</p>
		<ul style="list-style-type: none"> <li>• There is overall understanding and support of the pension reform on the business side as well as employees.</li> </ul>	<p><b>In progress</b> SSPF informs social contributions payers of the planned developments of pension system, but growth of the number of social contributions payers also shows an increase of trust to SSPF activities. In reporting period, SSPF organized 8 “Open Day” events and/or civil forums in the different regions of Azerbaijan which were attended by residents, taxpayers, employers and pensioners. There were provided information on actual issues, offered services – personal accounts, pension calculations, as well as information on features of the insurance-pension system, approved Concept and future pension system developments. Thus these events promoted the awareness of society.</p>

<b>Mandatory Results</b>	<b>Intervention logic</b>	<b>State of achievement/ problems encountered</b>
	<ol style="list-style-type: none"> <li>1. Relevant pieces of legislation elaborated for establishment of the funded component in the state pension system.</li> <li>2. Technical description of the mechanism for accumulations and management of the funds on the individual funded accounts elaborated.</li> <li>3. Relevant pieces of legislation elaborated to facilitate the development of non-state pension institutions.</li> <li>4. Capacity of the relevant SSPF staff enhanced through training and coaching to ensure effective launch and implementation of the funded component in the state pension system.</li> <li>5. A communication strategy elaborated to raise public awareness concerning the new funded component of the state pension system.</li> </ol>	
	<p><b>Assumptions</b></p>	<ul style="list-style-type: none"> <li>• SSPF retains its key staff who possess relevant knowledge, competences and skills to continue working on the pension reform.</li> </ul>

<b>Mandatory</b>	<b>Intervention logic</b>		<b>State of achievement/ problems encountered</b>
		<ul style="list-style-type: none"> <li>• There is political will at the top management of the SSPF to promote introduction of the funded elements in the pension system, and overall political support to the SSPF for the pension reform.</li> </ul>	<p style="text-align: center;"><b>Completed</b></p> <p>Political will is not lost, pension reform issues continue to be actual. SSPF together with the Ministry of Finance and other government authorities have prepared draft of Concept for further developments of pension reforms and submitted to the Administration of the President for approval.</p> <p>In November, there was published Concept of reforms of pension provision system in the Republic of Azerbaijan in 2014-2020 approved by the President of Republic of Azerbaijan on the 4<sup>th</sup> of November.</p> <p>Concept specifies the basis of government policy in pension provision within the period of its coverage.</p>
<b>Activities</b>	<b>Assumptions</b>	<ul style="list-style-type: none"> <li>• Continued political will on the part of the SSPF to engage in moving towards the introduction of funded elements in the pension system.</li> </ul>	<p style="text-align: center;"><b>Completed</b></p> <p>Desire to improve the pension system is not changed, the SSPF works hard to acquire international experience about pension issues in order to continue its reforms.</p> <p>After approval of Concept, in November SSPF chairman ordered creation of work plan for 2015 which included all activities what would be developed and applied to achieve the defined results.</p>
		<ul style="list-style-type: none"> <li>• Sufficiently qualified, knowledgeable and energetic staff can be made available to work alongside the RTA and short term-experts on these issues.</li> </ul>	<p style="text-align: center;"><b>In progress</b></p> <p>Sufficiently skilled, knowledgeable and energetic staff is available to the possible extent.</p>

Mandatory	Intervention logic	State of achievement/ problems encountered
	<ul style="list-style-type: none"> <li>SSPF will have already developed appropriate econometric models and have them in place enabling assessment of different pension reform scenarios and its key variables.</li> </ul>	<p><b>In progress</b> SSPF has its own proven model in operating of the whole insurance-pension system. But process of progress requires adequate improvements.</p> <p>SSPF-created model is too general which is difficult to apply for calculations of pension reform scenarios, therefore during feasibility study experts built another “model”, which would be used to assess different scenarios of pension reform (make economic calculations).</p> <p>Experts created the first version of calculator (model) for calculation simulations and it is currently under test and if deemed appropriate – it will be adjusted. During the blueprint development with model, there will be calculated economic impact in proposed solutions.</p>
	<ul style="list-style-type: none"> <li>Interest of public in project, its entity and activities.</li> </ul>	<p><b>In progress</b> Public interest about the implementation of project is regularly promoted, primarily through electronic means, publishing press releases in the SSPF and MoW websites, and through SSPF staff informing public on actual issues, including information about the project.</p>
	<ul style="list-style-type: none"> <li>Access to relevant information</li> </ul>	<p><b>In progress</b> A lot of information and data were necessary for creation calculator (model) for calculation simulations which would be used to assess different scenarios of pension reform (make economic calculations). Since lots of data are not available, experts have made adequate assumptions.</p>

Mandatory	Intervention logic		State of achievement/ problems encountered
			<ul style="list-style-type: none"> <li>• Responsiveness and availability of the SSPF.</li> </ul>
		<ul style="list-style-type: none"> <li>• Commitment and strong interest of the SSPF.</li> </ul>	<p align="center"><b>In progress</b></p> <p>Involvement of other department directors and staff in the project activities is coordinated by the BC project leader. BC project leader regularly informed Chairman of SSPF, Counsellor of Chairman and others on project activities.</p>
		<ul style="list-style-type: none"> <li>• Strong involvement of the Azerbaijan authorities</li> </ul>	<p align="center"><b>Started</b></p> <p>Within the activity 1.1. "Carrying out the study on demographical, economic situation of Azerbaijan", project experts together with BC experts visited different government institutions, as well as representatives of government institutions participated in the Launching conference (Kick-off conference) of the project.</p>
		<ul style="list-style-type: none"> <li>• Active support from the Latvian and German authorities</li> </ul>	<p align="center"><b>In progress</b></p> <p>In organisation of Study visits to Latvia and Germany, there are involved representatives from institutions which during the visits will be attended by SSPF staff to obtain their experience, acquaint themselves with duties and responsibilities of institutions.</p>

## **Modifications to the Project Activities by Side-Letters**

During reporting period, there have been prepared and submitted to EUD three Side Letters (Side Letter No.2, Side Letter No.3 and Side Letter No.4).

In October, there was submitted to EUD the **Side Letter No.2** which was registered in the EUD on 14<sup>th</sup> of October, 2014.

**The purpose** of the modification was as follows:

1. Introduction of the supplement action to project activity 1.2. Development of a blueprint of the funded component in the multi-level state pension system - sub-activity 1.2.1. Conducting a two-day workshop with relevant staff of SSPF.
2. Added supplement action to project activity 1.2. Development of a blueprint of the funded component in the multi-level state pension system, and reprogramming of implementation of project activities, demand of budget amendments. The supplement action requires additional 15 man-days of which 12 man-days are found as a result of reprogramming project, but 3 additional man-days will be financed from the economy of financial resources.
3. Involve project's expert Ms. Dace Brencena in other project activities – in 4 (four) sub-activities - activity 2.1. – sub-activities 2.1.1. and 2.1.3. and activity 2.2. – sub-activities 2.2.1. and 2.2.2..
4. Introduction of Short term expert Mr. Bernd Schulte-Brinker, Regulatory Officer of the Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht* - BaFin), representing Junior Member State Partner to the following activities - activity 3.1. – sub-activities 3.1.1. and 3.1.2. and activity 3.2..
5. Prolongation of activities related to Component 1 of original work plan: activity 1.2. – sub-activities 1.2.1. and 1.2.2. and activity 1.3. – sub-activities 1.3.1., 1.3.2. and 1.3.3..

There was prepared **Side Letter No.3**, which was registered in the EUD on 17<sup>th</sup> of November, 2014.

**The purpose** of the modification is as follows:

Change number of expert man-days in project activities – increase number of expert man-days in project activity 1.2. Development of a blueprint of the funded component in the multi-level state pension system sub-activity 1.2.1. Feasibility study (economic calculations) and conducting a two-day workshop with relevant staff of SSPF by 2 (two) man-days and simultaneously reduce number of experts' man-days by 2 (two) man-days in project activity 1.3. Development of the legislation in relation to the funded component in the multi-level state pension system sub-activity 1.3.1. Drafting the legislation in relation to the funded component in the multi-level state pension system.



There was prepared **Side Letter No.4**, which was registered in the EUD on 24<sup>th</sup> of December, 2014.

**The purpose** of the modification is as follows:

1. change the number of expert man-days in project activities – increase to 11 (eleven) the number of expert man-days in project activity 3.1. Development of a blueprint to facilitate and regulate the development of private, voluntary, pension arrangements sub-activity 3.1.2. Development of a blueprint and simultaneously reduce number of experts' man-days to 11 (eleven) man-days in project activity 3.2. Drafting of legislation to facilitate and regulate private, voluntary, pension arrangements;
2. reallocated amount of 1,211 Euro from the Project Coordination to the Activity 3.1 Development of a blueprint to facilitate and regulate the development of private, voluntary, pension arrangements sub-activity 3.1.2. Development of a blueprint to cover one additional airfare and one per diem costs;
3. reprogram financial resources and specify title of activity 4.4. Study visits for a maximum of three SSPF staff to the EU MS + one person as a translator for study visit in Germany and add additional position in budget for that activity “Interpretation services from German into/from Azeri language”;
4. increased budget for the 2<sup>nd</sup> Study visit will be covered by the savings from the 1<sup>st</sup> Study visit within the same activity 4.4, thus no reallocation between the Activities is needed.
5. some technical amendments concerning planned number of trips.

## 2B - ACHIEVEMENT OF MANDATORY RESULTS

Mandatory Results	Indicators of achievement	Activity	State of achievement			Remarks
			started	in progress	completed	
Component 0: General Activities. 0.1. Kick-off conference	<ul style="list-style-type: none"> <li>Stakeholders, media and public are informed about the start, content and expected results of the Project.</li> </ul>	0.1			x	Successfully completed and the result achieved in the <b>first</b> quarter.
0.2. Thematic mid-term project visibility event	<ul style="list-style-type: none"> <li>Stakeholders, media and public are informed about the achievements at this phase of the project.</li> </ul>	0.2	x			This benchmark will be achieved in the month 12 of the project. Started preparatory measures for conference, fixed the conference date and time.
0.3. Closing Conference	<ul style="list-style-type: none"> <li>Stakeholders, media and public are informed about the results of the Project.</li> </ul>	0.3				This benchmark will be achieved in the month 18 of the project.
<b>Result 1.</b> Relevant pieces of legislation elaborated for establishment of the funded component in the state insurance-pension system	<p>Package of legislation for establishment of the funded component of the pension system accepted by the SSPF for use in dialogue with other stakeholders by the end of the project duration.</p> <p>This legislation is expected to provide a legal base for:</p> <ol style="list-style-type: none"> <li>a mechanism for collecting of funds on real funded accounts;</li> <li>methods for managing the funds accumulated on the funded accounts as well as a legislative basis providing for the requirements to managing</li> </ol>	1.1.			x	Successfully completed and the result achieved in the <b>second</b> quarter. This activity is designed specifically for achieving objectives of the project and stipulated achievements of Result 3 also. It is base for further implementation of activities. Prepared report contains description and evaluation of current demographical, economic situation, state social

Mandatory Results	Indicators of achievement	Activity	State of achievement			Remarks
			started	in progress	completed	
	<p>companies and specialized custodians;</p> <p>c) procedures for the selection of managing companies to manage the funds accumulated on the funded accounts as well as rules on selection of the relevant managing companies by the insured persons;</p> <p>d) regulatory and legal framework providing for the mechanisms of administrative and technical control over the investment of the funds on the funded part of individual accounts of the insured.</p>					insurance system, financial and capital markets developments, supervision of financial and capital markets and assessment of gaps for successful funded pension system introduction in Azerbaijan. Results and conclusions of Study report will be used to elaborate the possible solutions for development of pension system.
		1.2.		x		This benchmark will be achieved in the month 11 of the project. (According Side Letter No.2).
		1.2.1.			x	Successfully completed and the result achieved in the <b>third</b> quarter. Completed the feasibility study and developed the first version of calculation model, organized and conducted two-days' workshop on possible solutions for development of multi-level pension system (beginning of

Mandatory Results	Indicators of achievement	Activity	State of achievement			Remarks
			started	in progress	completed	
						development of blueprint)
		1.2.2.	x			In the reporting period started development of blueprint, were elaborated Structure of blueprint of the funded component which will include all aspects (vision) for funded element.
		1.3.				This benchmark will be achieved in the month 15 of the project. (According Side Letter No.2).
		1.3.1.				This benchmark will be achieved in the month 13 of the project.
		1.3.2.				This benchmark will be achieved in the month 14 of the project.
		1.3.3.				This benchmark will be achieved in the month 15 of the project.
<b>Result 2.</b> Technical description of the mechanism for accumulations and	Technical description of the internal SSPF mechanisms in relation to implementation of the funded component in the state pension system accepted by the SSPF by the end of the project duration.	2.1.		x		This benchmark will be achieved in the month 16 of the project. In the reporting period started analysis of existing IT systems.

Mandatory Results	Indicators of achievement	Activity	State of achievement			Remarks
			started	in progress	completed	
management of the funds on the individual funded accounts elaborated.		2.1.1.				This benchmark will be achieved in the month 13 of the project.
		2.1.2.		x		This benchmark will be achieved in the month 12 of the project. There is started analysis of existing IT systems by expert and was prepared the first draft of assessment report on IT system applied in SSPF.
		2.1.3.				This benchmark will be achieved in the month 16 of the project.
		2.2.				This benchmark will be achieved in the month 18 of the project.
		2.2.1.				This benchmark will be achieved in the month 17 of the project.
		2..2.2.				This benchmark will be achieved in the month 18 of the project.
<b>Result 3.</b> Relevant pieces of	Package of legislation on development of non-state pension institutions accepted by the SSPF Board of Directors for use in	3.1.		x		This benchmark will be achieved in the month 12 of the project.

Mandatory Results	Indicators of achievement	Activity	State of achievement			Remarks
			started	in progress	completed	
legislation elaborated to facilitate the development of non-state pension institutions;	<p>dialogue with other stakeholders by the end of the project duration. This legislation is expected to provide a legal base for:</p> <p>a) establishment of non-state pension funds and regulating their activity; b) regulations for allocation of non-state pension funds' resources and control over such placements; c) mechanisms for granting, financing and delivery of non-state pensions by non-state pension funds; d) mechanism for involvement of non-state pension funds to the participation in the management of resources on the funded part of the insured's individual account in the state pension system.</p>	3.1.1.			x	Successfully completed and the result achieved in the <b>third</b> quarter. Organized and conducted two-day' workshop on possible solutions for development of non-state pension funds (beginning of development of blueprint).
		3.1.2.	x			This benchmark will be achieved in the month 12 of the project. In the reporting period started development of blueprint, were elaborated sections of Blueprint for establishment non-state pension institutions and development of legal framework in Azerbaijan and defined responsible experts per each theme.
		3.2.				This benchmark will be achieved in the month 15 of the project.

Mandatory Results	Indicators of achievement	Activity	State of achievement			Remarks
			started	in progress	completed	
<p><b>Result 4.</b> Capacity of the relevant SSPF staff enhanced through training and coaching to ensure effective launch and implementation of the funded component in the state pension system</p>	<p>Positive improvement of the SSPF staff assessment results (impact of training and coaching activities) by the end of the project duration.</p>	4.1.			x	Successfully completed and the result achieved in the <b>second</b> quarter. SSPF staff knowledge about operating pension systems in the 3 Member States was improved.
		4.2.				This benchmark will be achieved in the month 15 of the project.
		4.3.				This benchmark will be achieved in the month 16 of the project.
		4.4.			x	This benchmark will be achieved in the month 10 of the project, but not in 8 as planned before. In the second quarter was obtained practical experience on how pension system works in Latvia that are used for pension system developments in Azerbaijan and in the reporting period proceed measures to prepare the second study visit to Germany.

Mandatory Results	Indicators of achievement	Activity	State of achievement			Remarks
			started	in progress	completed	
<b>Result 5.</b> A communication strategy elaborated to raise public awareness concerning the new funded component of the state pension system.	Communication strategy to raise awareness on the pension reform accepted by the SSPF management.	5.1.				This benchmark will be achieved in the month 16 of the project.
		5.2.				This benchmark will be achieved in the month 18 of the project.



## 2C – Activities in the Reporting Period

During the third reporting period the works were focused on:

- ✓ organization and implementation of three expert missions to implement the project activities:
  - two sub-activities were completed:
    - activity 1.2. “Development of a blueprint of the funded component in the multi-level state pension system” *sub-activity 1.2.1. “Feasibility study (economic calculations) and conducting a two-day workshop with relevant staff of SSPF”*;
    - activity 3.1 “Development of a blueprint to facilitate and regulate the development of private, voluntary, pension arrangements” *sub-activity 3.1.1. “Two-day workshop on key issues to be addressed for the development of private, voluntary, pension arrangements”*.
  - three sub-activities were started:
    - activity 1.2. “Development of a blueprint of the funded component in the multi-level state pension system” *sub-activity 1.2.2. “Development of a detailed blueprint of the funded system”*;
    - activity 2.1. “Thorough assessment of management processes and IT systems of the SSPF” *sub-activity 2.1.2. “Analysis of the IT systems”*;
    - activity 3.1. “Development of a blueprint to facilitate and regulate the development of private, voluntary, pension arrangements” *sub-activity 3.1.2. “Development of a blueprint”*.
- ✓ organization of the Study visit to Germany;
- ✓ preparation and finalization of the 2nd Twinning interim Quarterly Report and organization of the second Project Steering Committee;
- ✓ preparation of the work plan for next quarter and description of assignments for experts’ missions;
- ✓ issues addressing visibility of project;
- ✓ procurement procedures.

48 STE expert days were used in the reporting period, of which – 35 days were STE expert days for experts from Latvia, and 13 days were STE expert days for experts from Germany. During the reporting period there were organized three expert missions and the following project sub-activities **were implemented**:

- ✓ Activity 1.2. “Development of a blueprint of the funded component in the multi-level state pension system” *sub-activity 1.2.1. “Feasibility Study (economic calculations) and conducting a two-day workshop with relevant staff of SSPF”* was implemented from the 3<sup>rd</sup> of November to 12<sup>th</sup> of December, 2014 within three separate expert missions:
  - The first expert mission from November 3 to 7, 2014. 10 STE expert days were used – all days for experts of Latvia;
  - The second expert mission from November 24 to 28, 2014. 10 STE expert days were used – all days for experts of Latvia;
  - The third expert mission from December 10 to 12, 2014. 6 STE expert days were used – 3 days for expert of Latvia and 3 days for expert of Germany.

Within the two first expert missions, there was finalized accessible data collection (from SSPF, State Statistic Committee, Ministry of Economy and Industry), analysis of existing data, creation of necessary assumptions to replace missing data, to make prognoses and formed all information in Excel file format and designed for the calculation of the first simulation version.

In order to conduct a comprehensive analysis of existing pension policy and to develop economically justified decisions concerning system development and evolution, SSPF should have regular data collection, compilation and analysis, therefore it is advisable to create separate unit which will deal with data collection and policy analysis.

Based on existing legal documents in pension policy field, experts has set up a list of the most significant data necessary that should be regularly collected and analysed. (*Annex 1*).

Thus simulation calculator for detailed calculations of different scenarios of funded pension component consists of input data, key assumptions and the results or output sheets. Created simulation calculator is being tested and there will be made corrections if necessary. It is very important to reach agreement of both sides on assumptions about voluntary participation rate in the second pillar too.

During expert mission from November 24 to 28, experts and RTA upon request of newly created Forecasting Department, prepared presentations and shared experience of Latvia on social insurance budget planning, long term forecasting and self-financing budget model which were important elements to ensure sustainability of state pension system. (*Annex 2 and Annex 3*).

From December 10 to 11, there was organized a workshop. Agenda of the workshop was divided into four separate sessions – the first session was a general session which included brief overview of content of blueprint, overview on constitutional law on normative legal acts in Azerbaijan, main conclusions from Study report on demographical, economic, financial and capital market situation and social insurance system of Azerbaijan, and brief overview of experts proposals for blue print, but the rest of sessions was dedicated to possible solutions for development of funded component in the multi-level pension system. Experts’ suggestions of possible solutions (vision) on funded component were related to all aspects of pension pillar - organization, administration, financing, supervision which would be described in detail in the blue print in a version that would be further developed.

- ✓ Activity 3.1 “Development of a blueprint to facilitate and regulate the development of private, voluntary, pension arrangements” *sub-activity 3.1.1. “Two-day workshop on key issues to be addressed for the development of private, voluntary, pension arrangements”* was implemented from December 10 to 12, 2014. 9 STE expert days were used – 3 days for expert of Latvia and 6 days for expert of Germany. From December 10 to 12, 2014, there was organized the workshop. Experts’ suggestions of possible solutions (vision) on non-state pension funds, were related to all aspects of pension pillar - organization, administration, financing, supervision which will be described in detail, in the blue print in a version which that would be further developed.

During the reporting period, the following project sub-activities **started**:

- ✓ Beginning of activity 1.2. “Development of a blueprint of the funded component in the multi-level state pension system” *sub-activity 1.2.2. “Development of a detailed blueprint of the funded system”* took place from the December 8 to 9, 2014. 4 STE expert days

were used – 2 days for expert of Latvia and 2 days for expert of Germany.

Experts discussed about content of blueprint and agreed that the blueprint was a detailed description of pillar of pension system for design which included all aspects of operation for pillar – entitlements, administration, performance, financing, reporting, monitoring, controlling, supervision and based on blueprint, this description itself would be transformed into articles of law and/or other legislative rules. Where necessary, description of the pension system in a single pillar may contain a number of possible options for solutions. Experts prepared the possible structure of blueprint of the funded component (*Annex 4*) and time schedule (Experts’ missions) for development of blueprints for funded component (*Annex 5*).

- ✓ Beginning of activity 2.1. “Thorough assessment of management processes and IT systems of the SSPF” *sub-activity 2.1.2. “Analysis of the IT systems”* took place from the November 3 to 7, 2014. 5 STE expert days used by expert of Latvia.

During the expert’s mission, IT expert was acquainted with existing IT systems of SSPF, which supported the implementation of the first pension pillar – basic component and “insurance” component, and analysed their performance and operation for the purpose of developing recommendations of necessary improvements, developments and technical solutions for introducing the real funded component in the frame of the state insurance pension system.

Expert had meetings and discussions with director of Information Technology (IT) Department and its staff to obtain information on description of information systems (IS) infrastructure and architecture, kinds of applicable IS systems and its short descriptions, descriptions of processes of IS, and evaluated existing Information Systems processes regarding Information Technology Infrastructure Library (set of practices for Information Technology (IT) service management) (ITIL) principles, IT department structure, functions and tasks, IS security issues, as well as information on performed systems audits and evaluations. After the expert mission, there was prepared draft of assessment report on IT systems at the SSPF – first part. *Sub-activity 2.1.2. “Analysis of the IT systems”* will continue in March or April, 2015. (*Annex6*).

- ✓ Beginning of activity 3.1. “Development of a blueprint to facilitate and regulate the development of private, voluntary, pension arrangements” *sub-activity 3.1.2. “Development of a blueprint”* took place from the December 8 to 9, 2014. 4 STE expert days were used – 2 days for expert of Latvia and 2 days for expert of Germany.

Experts discussed the content of blueprint and agreed that the blueprint was a detailed description of pillar of pension system for design which included all aspects of operation for pillar – entitlements, administration, performance, financing, reporting, monitoring, controlling, supervision and based on blueprint, this description itself would be transformed into articles of law and/or other legislative rules. Where necessary, description of the pension system in a single pillar may contain a number of possible options for solutions. Experts prepared the possible structure of blueprint for establishment non-state pension institutions and development of legal framework in Azerbaijan and divided duties and responsibilities between involved experts (*Annex 7*) and prepared time schedule (Expert missions) for development of blueprints for non-state pension institutions (*Annex 5*).

- ✓ During the reporting period, there were done preparatory works for continuation of activity 4.4. “Study visits for a maximum of six SSPF staff to the both EU MS + one person as a translator for study visit in Germany” which were be carried out by Junior Member State partner. No STE expert days were used.

The Study visit to Germany will be held in January week 5, the following representatives of SSPF will participate:

- Ms. Nigar **Panahova** - Head of Personal Accounting Department, BC project Leader;
- Mr. Yalchin **Muslumov** - Counsellor of Chairman;
- Mr. Farid **Bakhshiyev** - Head of Forecasting Department;
- Mr. Farid **Garayev** – Head of Sector of International Relationship of Department of International and Public Relations.

The goal of this study visit is the same as for Latvia - to make discussions less abstract by providing a point of reference, a system that is operating successfully. The Study visit will help to show how the pension systems are in reality in Germany and have actual “hands-on” experience of how the systems operate on a day-to-day basis on working level. Preliminary agenda of study visit (*Annex 8*).

Representatives of SSPF will visit different institutions in Bonn, Cologne and Frankfurt on Main - Federal Ministry of Labour and Social Affairs, Federal Financial Supervisory Authority, German Pension Insurance Fund (DRV), Regional Office Hessen/Frankfurt am Main, European Insurance & Occupational Pensions Authority (EIOPA), SOKA-Bau Pensionskasse, Confederation of German Employers’ Associations (BDA), pension fund (*Pensionsfonds*) of the Deutsche Telekom AG.

- ✓ On the 31<sup>st</sup> of October, there was organized the meeting of the second Project Steering Committee (PSC). PSC meeting was organized jointly by the RTA and Azerbaijani partners and a press realise was prepared. (*Annex 9*). The meeting was attended by the Project Leaders of Latvia, Germany and Azerbaijan, the RTA and her counterpart, as well as representatives of Programme Administration Office (PAO), the EU Delegation to the Republic of Azerbaijan (EUD) and representatives of the SSPF (*Annex 10*). The PSC discussed the progress of the project, reviewed and approved the second interim quarterly report as a base and took notice of report on implementation of Communication plan from the beginning of Project by 30<sup>th</sup> of September. (*Annex 11*).

There were discussions about available data and data collection in SSPF, its disposal to the project experts, as well as about involvement of different institutions in the project activities.

After PSC, it took long to achieve harmonization of the Quarterly report No.2 and its annexes with the SSPF, at first there were received proposals in writing and for taking into account proposed changes - improving and clarifying the text and wording of the report and annexes (*Annex12*), thus the Quarterly report No.2 was presented to the EUD only on the December 18.

- ✓ By the beginning of the fourth quarter, the work plan of the project was worked out in which necessary measures and time schedule are planned. (*Annex 13*). In the fourth quarter, there will continue creation of blue prints for the funded component and non-state pension institutions by applying results of feasibility study as well. Therefore, there are planned four separate expert missions together for the both pension pillars. The works with blueprints are foreseen to finish in the week 14. Developed blueprints are going to

be presented and discussed in the thematic mid-term project visibility event in the last week of April (week 18).

In the fourth quarter, there will be a Study visit to Germany and after that there will be concluded the implementation of activity 4.4. “Study visit of a maximum of three employees of SSPF to EU Member States (Germany)”.

In the second half of this quarter, there will continue *sub-activity 2.1.2. “Analysis of the IT systems”* and planned to start activity 2.1. “Thorough assessment of management processes and IT systems of the SSPF” *sub-activity 2.1.1 “Analysis of management processes of the SSPF”*.

In the work plan of fourth quarter, it has been also foreseen to start preparation work for organisation of thematic mid-term project visibility event in the last week of April.

During feasibility study (economic calculations), experts will analyse obtained data from SSPF, State Statistic Committee, Ministry of Economy and Industry, Ministry of Labour and Social Protection of Population, intended to develop the initial version of calculations for different scenarios of funded pension component in the state social insurance system which is the main objective of experts mission.

The results of feasibility study will be used for preparing the seminar which will be start of the development of a detailed blueprint of the funded system.

In this quarter, an expert from Latvia will start to investigate existing IT systems of SSPF, which support the implementation of the first pension pillar – basic component and “insurance” component, analyse their performance and operation with a view to develop recommendations of necessary improvements, developments and technical solutions for introducing the real funded component in the frame of the state insurance pension system.

- ✓ Project Team prepared Report No.2 on implementation of Communication plan from the 1<sup>st</sup> of October, 2014 to 31<sup>st</sup> of December (*Annex 14*).

The communication activities were organised in the framework of the project and focused on the following target groups:

1. State Social Protection Fund of the Republic of Azerbaijan;
2. Relevant public/private authorities of the Republic of Azerbaijan;
3. Mass media of the Republic of Azerbaijan;
4. Civil society of the Republic of Azerbaijan;
5. Azerbaijani citizens;
6. Interested institutions and persons in the EU MS (mainly Latvia and Germany).

In total, 5 groups of communication activities out of 9 were organised in the reporting period to cover all target groups.

During reporting period, there were produced and published press realises before every project event – 4 press realises in English, but SSPF project significance was stressed in 5 different information pages in website of SSPF.

- ✓ In reporting period documentation of procurement procedure was prepared to obtain services for translation of materials and consecutive and simultaneous interpretation from Azerbaijani into English and vice versa, Azerbaijani into Russian and vice versa during the Twinning project implementation time. After the final harmonisation of documents with the Ministry, an announcement will be published.



<b>Component 1: Capacity building aimed at implementation of the funded component in the state insurance pension system (“second pillar”)</b>	
<b>Mandatory Result 1 Relevant pieces of legislation elaborated for establishment of the funded component in the state insurance-pension system</b>	
<b>Activity 1.2.</b>	<b>Development of a blueprint of the funded component in the multi-level state pension system</b>
<b>Sub-activity 1.2.1.</b>	<b>Feasibility study (economic calculations) and conducting a two-day workshop with relevant staff of SSPPF</b>
<b>MS Experts</b>	<p><b>Experts from Latvia:</b></p> <ol style="list-style-type: none"> <li>1. Ms. Jana <b>Muizniece</b> – Expert, Component 1 Leader, Director of Department of Social Insurance of the Ministry of Welfare of Republic of Latvia – 3 man-days;</li> <li>2. Ms. Sandra <b>Stabina</b> – Expert - Deputy Director of Department of Social Insurance of the Ministry of Welfare of Republic of Latvia - 10 man-days;</li> <li>3. Ms. Inese <b>Upite</b> - Expert – Senior Officer of Department of Social Insurance of the Ministry of Welfare of Republic of Latvia - 10 man-days;</li> <li>4. Ms. Agrita <b>Groza</b> MS RTA.</li> </ol> <p><b>Experts from Germany:</b></p> <ol style="list-style-type: none"> <li>5. Mr. Markus Maximilian Maria <b>Sailer</b> -Senior Economist / Senior Expert Consultant in the Department for Research and Development of German Pension Insurance-Federal Institute (Deutsche Rentenversicherung Bund) - 3 man-days;</li> </ol>
<b>BC Experts</b>	<p><b>Experts from State Social Protection Fund</b></p> <ol style="list-style-type: none"> <li>1. <u>Ms. Nigar</u> <b>Panahova</b> – BC Project Leader, Head of Personal Accounting Department of the State Social Protection Fund of Republic of Azerbaijan;</li> <li>2. Mr. Farid <b>Garayev</b> - Head of Sector International Relationship of Department of International and Public Relations;</li> <li>3. Mr. Mammad <b>Nuriyev</b> - Head of Department of the Budget and Finances;</li> <li>4. Mr. Emil <b>Haqverdiyev</b> - Deputy Head of Director of Department of the Budget and Finances;</li> <li>5. Ms. Lale <b>Ibrahimova</b> - Head of Sector of Budget Forecasting of Department of the Budget and Finances;</li> <li>6. Mr. Nazim <b>Shiriyev</b> – Head of Department of Accounting of Budget Execution;</li> <li>7. Ms. Durdane <b>Muslumova</b> - Deputy Head of Department of Labour Pension;</li> <li>8. Mr. Emin <b>Abdulayev</b> - Senior Adviser of Department of Labour Pension;</li> <li>9. Mr. Emin <b>Alirzayev</b> - Adviser of Personal Account Department, RTA of Beneficiary country;</li> <li>10. Mr. Farid <b>Bakhshiyev</b> - Head of Forecasting Department;</li> <li>11. Mr. Eyvaz <b>Ismayilov</b> - Head of Pension Granting Sector of the Department of Labour Pensions, Leader of Component 2</li> <li>12. Ms. Nurana <b>Safarova</b> - Senior advisor of Department of Law and Strategic Research.</li> </ol>

<b>Outputs</b>	<p>Experts’ mission from November 3 to 7, 2014 - press release (<i>Annex 14</i>) experts’ mission report (<i>Annex15</i>).</p> <p>Experts’ mission from November 24 to 28, 2014 - press release (<i>Annex 16</i>), seminar minutes and agenda (<i>Annex 17</i>), presentations (<i>Annex 2 and Annex 3</i>), experts’ mission report (<i>Annex18</i>).</p> <p>Expert mission from December 10 to 12, 2014 - press release (<i>Annex 19</i>), agenda workshop (<i>Annex 20</i>), list of participants of the workshop (<i>Annex 21</i>), training materials - presentations 6 pieces (<i>Annex22</i>), (<i>Annex23</i>), (<i>Annex24</i>), (<i>Annex29</i>), (<i>Annex30</i>), (<i>Annex31</i>), possible structure of blueprint of the funded component (<i>Annex 4</i>) and time schedule (Experts’ missions) for development of blueprints for funded component (<i>Annex 5</i>), experts’ mission report (<i>Annex32</i>).</p>
<b>Benchmark</b>	Two-day workshop was conducted and follow-up meetings were held
<b>Duration</b>	From the 3 <sup>rd</sup> of November to 12 <sup>th</sup> of December (26 experts man-days)
<b>Initially planned</b>	Month 5, according Side Letter No.2 Month 8-9
<b>Implemented</b>	<p>Month 9. There were organized 3 experts’ missions:</p> <ul style="list-style-type: none"> <li>✓ From November 3 to 7, 2014</li> <li>✓ From November 24 to 28, 2014</li> <li>✓ From December 10 to 12, 2014</li> </ul>

**Description**

Sub-activity “Feasibility study (economic calculations) and conducting a two-day workshop with relevant staff of SSPF” had been extended and included supplement action - feasibility study (economic calculations) to project sub-activity. Before conducting the workshop and starting the activity of development of blueprint for funded element (second pillar), it was necessary to conduct feasibility study, to develop the tool for the detailed calculations of different scenarios of funded pension component.

According to Twinning contract 2014/338-674 Article 3. Mandatory results (outputs) it is stated, that “SSPF will have already developed appropriate econometric models and have them in place enabling assessment of different pension reform scenarios and its key variables” but unfortunately it does not develop such model with appropriate data - with demographic data, data on existing pensions, insured persons, incomes and wages from which social contributions are paid, accrued pensions capital etc.” which are important to make different estimations (including financial) and projections in order to elaborate proposals for development funded element in current insurance pension system.

In the two first expert missions, there was finalized accessible data collection (from SSPF, State Statistic Committee, Ministry of Economy and Industry), analysed the existing data for creation of necessary assumptions to replace missing data, made prognoses and formed all information in Excel file format and they were designed for the calculation of the first simulation version.

Thus, simulation calculator for detailed calculations of different scenarios of funded pension component consists of input data, key assumptions and the results or output sheets. Created simulation calculator is under test and there will be made corrections if necessary.

It is very important to achieve both sides agreement on assumptions about voluntary participation rate in the second pillar too. Simulation calculator will be used and different scenarios of funded pension component will be calculated during blueprint and legislation development phase. Starting of development of blueprint of funded component was connected with the results of feasibility study.

During expert mission from November 24 to 28, experts and RTA upon request of newly created Forecasting Department prepared presentations and shared experience of Latvia on social insurance budget planning, long term forecasting and self-financing budget model which were important elements to ensure sustainability of state pension system (*Annex 2*) (*Annex 3*).

The presentation cover all key features of social insurance system in Latvia – general principles, existing laws in the field, types of social insurance, socially insurable persons who are subject to mandatory and voluntary social insurance and types of social insurance, rates of mandatory and voluntary contributions, contributions rates for persons distribution according to payers of social insurance, object of mandatory and voluntary contributions, ceilings for social contributions payments, the state social insurance special budgets, their incomes and expenditures etc. Presentation on long term forecasting cover practical information on procedures, organization of work, collection of data, results obtained and applied in practice.

In presentation, there participated 13 participants from the staff of State Social Protection Fund (SSPF) – Forecasting Department, Labour Pension Department, Personal Accounting Department and Department of International and Public Relations.

Presentations were translated into Azerbaijani.

On December 10 to 11, there was organized the workshop “Possible solutions for development of multi-level pension system in the Republic of Azerbaijan (beginning of development of blueprint)”. Agenda of workshop was divided into four separate sessions – the first session was general session which included brief overview of content of blueprint, overview on constitutional law on normative legal acts in Azerbaijan, main conclusions from Study report on demographical, economic, financial and capital market situation and social insurance system of Azerbaijan, and brief overview of expert proposals for blue print, but the rest of sessions were dedicated to possible solutions for development of funded component in the multi-level pension system.

The next sessions were dedicated to possible solutions for development of multi-level pension system. For the funded component, following key issues were included:

- mechanisms of accumulations of the funds in the funded accounts;
- mechanisms of managing the funds accumulated on the funded accounts for contributions;
- type of investments the accumulations may be channelled;
- methodology to value assets and calculate investment return;
- choice of investment options offered;
- possible use of private sector institutions for the funded component in the state pension system;
- initial mechanism for the pay-out phase;
- resources managers and custodian bank;
- supervision of funds.



Experts suggestions of possible solutions (vision) on funded component were related to all aspects of pension pillar - organization, administration, financing, supervision which would be described in detail, in the blue print in a version which will be further developed.

During workshop, experts proposed possible solutions for the frame of funded component:

- Mandatory participation based on redistribution of collected contributions;
- Voluntary participation based on redistribution of collected contributions.
- Voluntary participation with increased voluntary contributions of employees and redistribution of collected contributions.

In presentation, there participated 23 participants from the staff of State Social Protection Fund (SSPF) – Forecasting Department, Labour Pension Department, Personal Accounting Department, Finance-Budget Department, Law and Strategic Research Department and Department of International and Public Relations and others.

Presentations were translated into Azerbaijani.

<b>Component 2: Capacity building aimed at the development of non-state pension funds (“third pillar”)</b>	
<b>Mandatory Result 3 Elaboration of a relevant legal framework to organize the process of establishment of non-state pension funds</b>	
<b>Activity 3.1.</b>	<b>Development of a blueprint to facilitate and regulate the development of private, voluntary, pension arrangements</b>
<i>Sub-activity 3.1.1.</i>	<i>Two-day workshop on key issues to be addressed for the development of private, voluntary, pension arrangements</i>
<b>MS Experts</b>	<p><b>Experts from Latvia:</b></p> <ol style="list-style-type: none"> <li>1. Ms.Dace <b>Brencena</b> - Expert, Component 2 Leader, Head of Private Pension Committee of Latvian Bank Associations - 3 man-days;</li> <li>2. Ms. Agrita <b>Groza</b> MS RTA.</li> </ol> <p><b>Experts from Germany:</b></p> <ol style="list-style-type: none"> <li>3. Mr.Heinz-Dietrich <b>Steinmeyer</b> - Expert for Social Policy (incl. pension systems and reforms) and Social Security, Employment and Free Movement issues Association for Social Security Policy and Research, Professor for German and European Labour Law and Social Security Law Director of the Institute for Labour Law, Social Security Law and Economic Law III - 3 man-days;</li> <li>4. Mr.Bernd <b>Schulte-Brinker</b> - Regulatory Officer of the Federal Financial Supervisory Authority (<i>Bundesanstalt für Finanzdienstleistungsaufsicht</i> - BaFin) - 3 man-days.</li> </ol>

<b>BC Experts</b>	<p><b><u>Experts from State Social Protection Fund</u></b></p> <ol style="list-style-type: none"> <li>1. <u>Ms. Nigar Panahova</u> – BC Project Leader, Head of Personal Accounting Department of the State Social Protection Fund of Republic of Azerbaijan;</li> <li>2. <u>Mr. Farid Garayev</u> - Head of Sector International Relationship of Department of International and Public Relations;</li> <li>3. <u>Mr. Emin Alirzayev</u> - Adviser of Personal Account Department, RTA of Beneficiary country;</li> <li>4. <u>Mr. Eyvaz Ismayilov</u> - Head of Retirement destination Sector of the Department of Labour Pensions, Leader of Component 2</li> <li>5. <u>Ms. Nurana Safarova</u> - Senior advisor of Department of Law and Strategic Research.</li> </ol>
<b>Outputs</b>	Expert mission from December 10 to 12, 2014 - press release ( <i>Annex 19</i> ), agenda workshop ( <i>Annex 20</i> ), list of participants of the workshop ( <i>Annex 21</i> ), training materials - presentations 8 pieces ( <i>Annex22</i> ), ( <i>Annex23</i> ), ( <i>Annex24</i> ), ( <i>Annex25</i> ), ( <i>Annex26</i> ), ( <i>Annex27</i> ), ( <i>Annex28</i> ), ( <i>Annex31</i> ), possible structure of blueprint of establishment non-state pension institutions ( <i>Annex 7</i> ) and time schedule (Experts’ missions) for development of blueprints for non-state pension institutions ( <i>Annex 5</i> ), experts’ mission report ( <i>Annex32</i> ).
<b>Benchmark</b>	Two-day workshop is conducted and follow-up meetings held
<b>Duration</b>	From December 10 to 12 (9 expert man-days)
<b>Initially planned</b>	Month 10
<b>Implemented</b>	Month 9. From December 10 to 12, 2014
<b>Description</b>	
<p>From December 10 to 11, there was organized the workshop “Possible solutions for development of multi-level pension system in the Republic of Azerbaijan (beginning of development of blueprint)”. Agenda of workshop was divided into four separate sessions – the first session was general session which included brief overview of content of blueprint, overview on constitutional law on normative legal acts in Azerbaijan, main conclusions from Study report on demographical, economic, financial and capital market situation and social insurance system of Azerbaijan, and brief overview of expert proposals for blue print, but the rest of sessions were be dedicated to possible solutions for development the multi-level pension system.</p> <p>The next sessions were be dedicated to possible solutions for development of multi-level pension system. For the development of private, voluntary, pension arrangements, following key issues were included as well:</p> <ul style="list-style-type: none"> <li>• general structure of private pension fund scheme, operation principles, etc.;</li> <li>• administration of private pension fund scheme;</li> <li>• management of private pension fund resources;</li> <li>• supervision of private pension fund;</li> <li>• resources managers and custodian bank.</li> </ul>	

Expert suggestions of possible solutions (vision) on funded component were related to all aspects of pension pillar - organization, administration, financing, supervision which would be described in detail, in the blue print in a version which will be further developed.

In presentation, there participated 23 participants from the staff of State Social Protection Fund (SSPF) – Forecasting Department, Labour Pension Department, Personal Accounting Department, Finance-Budget Department, Law and Strategic Research Department and Department of International and Public Relations and others.

Presentations were translated into Azerbaijani.

## **2D – Timing and Delays**



Activity/action Planned



Activity/action Performed



Activity/action Completed



Activity/action Delayed by more than 3 months

Years	2014									2015								
Months	4	5	6	7	8	9	10	11	12	1	2	3	4	5	6	7	8	9
Project month	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18

**Component 0: General activities**

<b>Activity 0.1.</b>		x	c															
<b>Activity 0.2.</b>																		
<b>Activity 0.3.</b>																		

**Component 1 Capacity building aimed at implementation of the funded component in the state insurance pension system (“second pillar”)**

<b>Activity 1.1.</b>			x	x	c														
<b>Activity 1.2.</b>																			
<i>Sub-activity 1.2.1.</i>								x	c										
<i>Sub-activity 1.2.2.</i>									x										
<b>Activity 1.3.</b>																			
<i>Sub-activity 1.3.1.</i>																			
<i>Sub-activity 1.3.2.</i>																			
<i>Sub-activity 1.3.3.</i>																			
<b>Activity 2.1.</b>																			
<i>Sub-activity 2.1.1.</i>																			
<i>Sub-activity 2.1.2.</i>									x										
<i>Sub-activity 2.1.3.</i>																			
<b>Activity 2.2</b>																			
<i>Sub-activity 2.2.1.</i>																			
<i>Sub-activity 2.2.2.</i>																			

**Component 2 Capacity building aimed at the development of non-state pension funds (“third pillar”)**

<b>Activity 3.1</b>																					
<i>Sub-activity 3.1.1.</i>																			c		
<i>Sub-activity 3.1.2.</i>																			x		
<b>Activity 3.2</b>																					

**Activities relating to both components**

<b>Activity 4.1</b>				c																		
<b>Activity 4.2</b>																						
<b>Activity 4.3</b>																						
<b>Activity 4.4</b>																				x	x	
<b>Activity 5.1</b>																						
<b>Activity 5.2</b>																						

## Recuperation of delays

As the project activities are monitored according the date of notification of the project, rather than the actual project start date (from the date when RTA started operations in Azerbaijan), the deviations per month are "self-evident" deviations, which have so far failed to eliminate.

Therefore due to respect the provided work plan in contract for the implementation of the activities, time schedule was planned to expert missions in a timely manner, where it possible for all set of activities.

In October was not organized no one experts' mission due to engagement of staff SSPF (Study visit to Poland and hosted ISSA European Network Technical seminar on "e-Services in social security: Enhancing quality and scalability").

Activity 1.2. "Development of a blueprint of the funded component in the multi-level state pension system" *sub-activity 1.2.1. "Feasibility Study (economic calculations) and conducting a two-day workshop with relevant staff of SSPF"* according the change schedule (Side Letter No.2) was planned implementation in month 8-9 (November - December) and was implemented in December.

Activity 3.1 "Development of a blueprint to facilitate and regulate the development of private, voluntary, pension arrangements" *sub-activity 3.1.1. "Two-day workshop on key issues to be addressed for the development of private, voluntary, pension arrangements"* according the schedule was planned to be implemented in month 10 (January, 2015) and was implemented in month 9 in December.

Since it has been decided to create joint experts' missions to work simultaneously with both pension pillars - the funded component and non-state pension funds, because some parts of blueprints will be very similar, were reprogrammed start-up time of project activities 1.2. and 1.3. later, but planned activity 3.1. to launch earlier than planned before, finally sub-activity 3.1.1. started just only one month earlier.

Activity 1.2. "Development of a blueprint of the funded component in the multi-level state pension system" *sub-activity 1.2.2. "Development of a detailed blueprint of the funded system"* was started in the month 9 as planned (Side Letter No.2).

Activity 2.1. "Thorough assessment of management processes and IT systems of the SSPF" *sub-activity 2.1.2. "Analysis of the IT systems"* was started in the month 8 few months before planned month 12. Expert had been acquainted and evaluated existing IT systems in SSPF. This change related to availability of expert and also in order to plan implementation of activities equability.

Activity 3.1. "Development of a blueprint to facilitate and regulate the development of private, voluntary, pension arrangements" *sub-activity 3.1.2. "Development of a blueprint"* according the schedule was planned to be implemented in month 10 (January, 2015) and was implemented in month 9 in December.

Second part of activity 4.4. "Study visits for a maximum of six SSPF staff to the both EU MS + one person as a translator for study visit in Germany" study visit to Germany according the schedule was initially planned to be implemented in month 8 (November), but postponed to the

tenth month and therefore deviation is less than 3 months. A slight deviation from the planned schedule due to the "self-evident" deviations, but in December not planning study visit due to congestion of staff of SSPF and other experts in the end of year and subject to certain holidays as well.

## **2E – Assessment**

### **Overall Assessment of progress**

The project and the implementation of activities within the third project quarter went smoothly, but with slight deviations, later than planned will be implemented activity 4.4. "Study visits for a maximum of six SSPF staff to the both EU MS + one person as a translator for study visit in Germany".

The project is implemented in close cooperation between the RTA and BC project team on a daily basis.

Within the third quarter, two sub-activities were completed:

- activity 1.2. "Development of a blueprint of the funded component in the multi-level state pension system" *sub-activity 1.2.1. "Feasibility study (economic calculations) and conducting a two-day workshop with relevant staff of SSPF"*;
- activity 3.1 "Development of a blueprint to facilitate and regulate the development of private, voluntary, pension arrangements" *sub-activity 3.1.1. "Two-day workshop on key issues to be addressed for the development of private, voluntary, pension arrangements"*.

In December during the two-day workshop on "Possible solutions for development of multi-level pension system in the Republic of Azerbaijan (beginning of development of blueprint)" there participated only staff of State Social Protection Fund (SSPF) from the Forecasting Department, Labour Pension Department, Personal Accounting Department, Finance-Budget Department, Law and Strategic Research Department and Department of International and Public Relations and nobody from other state institutions which would be directly or indirectly involved and/or will operate within the second and third tier of the pension system in Azerbaijan.

Lack of involvement of other institutions in creating processes of pension system tiers poses a risk to the proper understanding about the proposed solution, adequate information extraction from the original source (meetings with experts, experts' presentations and possibility to ask questions) and may affect the results of the project.

During the feasibility study and data collection process it was showed that SSPF had collected large number of different information, but it was impossible to obtain summarized data on essential issues. But before the feasibility study, experts had set up a list of the most significant data necessary that should be regularly collected and analysed. (*Annex 1*).

By the end of November, experts received summarized data from SSPF which data was collected and accessible, from Statistical Committee, Ministry of Economy and Industry, but not from Ministry of Labour and Social Protection of Population. For the creation of simulation calculator for calculation of different scenarios of funded pension component, there was made necessary assumptions to replace missing data, but the main assumptions will be discussed in the next mission.

Actual data from the State Statistic Committee are very important for detailed pension monitoring and forecasting, especially demographic data with breakdowns in gender and single age.

It is also significant to have actual data with breakdowns in gender and single age on recipients of each type of pensions and benefits (separately by stock of pensions and newly granted for each type of pensions), average amounts of granted each type of pensions and with breakdowns on different (separate) supplements to each type of pension, payers of social insurance contributions, amount of paid contributions, average social insurance wage and object of social contributions payments with breakdowns in gender and single age and in the same breakdown the initial pension capital and accumulated pension capital, as well as the average length of service years for newly granted pensions and for the stock of pensions, average actual retirement age when each type of pension is granted, etc.

Within the third quarter, three sub-activities were started:

1. activity 1.2. "Development of a blueprint of the funded component in the multi-level state pension system" *sub-activity 1.2.2. "Development of a detailed blueprint of the funded system"*;
2. activity 2.1. "Thorough assessment of management processes and IT systems of the SSPF" *sub-activity 2.1.2. "Analysis of the IT systems"*;
3. activity 3.1. "Development of a blueprint to facilitate and regulate the development of private, voluntary, pension arrangements" *sub-activity 3.1.2. "Development of a blueprint"*.

It was right decision to combine activities for both pension system tiers – funded component and non-state pension funds component and to develop them simultaneously, therefore it was better to use competences and knowledge of experts and it was more effective to apply the capacity of experts since some parts of blueprints would be quite similar related to the supervision of involved institutions operations, assets management issues.

During the expert mission in December, there were developed structure of blueprints for the both components and elaborated time schedule for implementation of sub-activities *1.2.2. "Development of a detailed blueprint of the funded system"* and *3.1.2. "Development of a blueprint"* which will proceed by the beginning of April.

Within the third quarter, there was continued the preparatory work for the second part of activity 4.4. "Study visits for a maximum of six SSPF staff to the both EU MS + one person as a translator for study visit in Germany" study visit to Germany and the last draft of agenda was supplemented by requested visits of SSPF. Study visit will be carried out in January. There was decided to hire interpretation service in Germany, therefore some corrections were asked in the contract agreement of project.

There was very long delay and slow work with Quarterly report No.2 on proposals of improvement from SSPF which included not only proposal on text clarification in report but also in the annexes of report especially to the Study report "On demographical, economic, financial and capital market situation and social insurance system of Azerbaijan" (*Annex 33*). As a result, the Quarterly report No2 was submitted to the EUD on the 18<sup>th</sup> of December, 2014 and not yet approved by the EUD.

Project Team prepared Report No2 on implementation of Communication plan from the 1<sup>st</sup> of



October, 2014 to 31<sup>st</sup> of December which is enclosed to report. The communication activities were organised in the framework of the project and focused on target groups of project. All-rounded information on project implementation can be found only in the website of Ministry of Welfare: <http://www.lm.gov.lv/text/2757>. There was delayed the creation of the informative links with the home page of EUD.

At this stage of the project implementation, there are no other risks that next activities (sub-activities) will not be started as planned and that they will be delayed for more than three months, but some of its will start even earlier.

### **Issues**

Invite to participate in workshops, seminars and discussions, other state institutions which will be directly or indirectly involved and/or will operate within the second and third tier of the pension system in Azerbaijan.

Lack of involvement of other institutions in creating processes of pension system tiers poses a risk to the proper understanding about the proposed solution, adequate information extraction from the original source (meetings with experts, experts' presentations and possibility to ask questions) and may affect the results of the project.

Even the action plan of Concept envisages implementation of activities together with Ministry of Finance, Ministry of Economy and Industry, Ministry of Labour and Social Protection of Population, Central Bank regarding preparation of proposals for activation of voluntary funded component, development of non-state pension institutions (funds) and creation of legal framework for regulating their activities.

### **Recommendations**

Involve in the workshops, seminars, discussions and examinations of project proposal and documents, at least these state institutions which are mentioned in approved Concept as cooperation institutions with SSPF.

Submit feedback on prepared draft of documents and proposals duly in time or follow generally used approach, the request is not responded for more than two weeks, the document is accepted without changes.

The next expert missions will be planned 4-5 months ahead and for the whole activity (sub-activity) in order to ensure the involvement of experts.

Not to retreat from mild critical advice and try to solve them with understanding and keep in mind that this is way for new challenges and improvements.

Improve data collection procedures, and summaries of the obtained data as well as provide additional data collection and processing possibilities to form forecasting tools and carry out comprehensive analysis of implemented pension policy.



### **Section 3: Expenditures**

The total cost of the action eligible for financing is 749 994,41 EUR. Execution in the third quarter amounts to 115 651,67 EUR or 15,42% of total estimated cost, but from the beginning of project, the amount expended is 233 596,30 EUR or 31,15% of total cost (*Annex 34 and Annex 35*).