



## Assessment report on the management processes at the SSPF

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### 1. Background

Administratively, the functions of the social protection system in Azerbaijan are divided between two entities: the Ministry of Labour and Social Protection of Population and the State Social Protection Fund (SSPF). The SSPF of Azerbaijan Republic was established in 1992 on the basis of the Pension Fund of Azerbaijan Republic and the Social Insurance Fund of Azerbaijan Republic. Though the SSPF is not a ministry, it has a ministry-like structure and has ministerial functions. The SSPF has the following (administrative) structure: a central office, an office for the Nakhchivan Autonomous Republic, 3 departments and 75 city (district) branches. About 2,616 civil servants are employed with the fund. The head of the SSPF is appointed by the president of Azerbaijan.

The main duties of SSPF are: (1) to work out proposals on the state policy in the area of social insurance and labour pension and implementation of this policy; (2) to collect of mandatory state social insurance contributions; (3) to ensure financing of expenses from SSPF budget (including labour pensions); (4) to ensure personal accounting system. The budget of SSPF is determined separately from the budget of other ministries and it is approved by parliament and signed into the law by the president.

As one of main the main task of SSPF is to provide the policy processes and administration issues regarding the social insurance contributions and state pensions, it is prospective, that SSPF will have the leading role also in introducing and further operating.

To provide introduction and development of the funded component of the state pension system, it is important to assess the already existent management processes, reviewing context and establishing a vision of main processes in SSPF, as well as evaluating the success rate in planning, implementing, monitoring of those processes.



**Purpose of this report** is to assess the main management processes, as well as most important basic processes in SSPF in the context of the introduction and development of the funded component of the state pension system.

The developed of assessment report was based on (1) consultations and discussions with SSPF staff; (2) analysis of the documents related to the social insurance and state pensions issues and the blueprint draft; (3) decisions made by the experts involved.

Consultations and discussions regarding the management processes in SSPF were organized with Personal Accounting Department, Department of Pension Documentations and Application, Pensions and Benefits Department, Department of Accounting of Budget Execution, Finance Department. In additionally the visit to the Regional Branch office was arranged....

All meetings were organized in high professional level. Experts had gotten clear and usable information for further work with the Assessment report on current situation regarding management processes in SSPF. The detailed information had gotten connected to Old age pensions granting process, reconsidering process of granted pensions, contributions collecting process, information exchange process, accounting and budgeting process, etc. The visit to the Regional Branch office gave an opportunity to see how regional office operates, equipment, employers, services.

## **2. Business processes in public administration**

Business Process Management is already widely used in the private sector. The importance of knowledge management and Business Process Management in the public administration also increases due to the advancing demographic change, the increasing cost pressures, the consequent lack of resources as well as the increased demand of customers for administrative services. So the management of these processes therefore regarded as an effective tool to achieve the ambitious goals of modernization within public administration. Despite a uniform legal framework, the business processes are executed differently in different administrations<sup>1</sup>.

It should be noted that there is little research about Business Process Management in public administrations, but there are mentioned some of challenges of Business Process Management in public administrations: (1) Heterogeneity of the legal-political determined range of activities: In contrast to most companies in the private sector, the spectrum of public tasks is heterogenous and differentiated by a corresponding number of core processes. (2) Legal requirements and conditions for the actions: The administrative action is externally determined to a large extent, i.e. laws specify details and conditions and sometimes considerably restrict the scope of action of the public administration. Further, changing political conditions and preferences of the current regent coalitions at the federal level and state level result in amendments to existing laws and thus the (externally driven) need for process adaptations. (3) Importance of information, knowledge and decision-making in the creation of administrative services: The necessary information for the provision of services is distributed due to the hierarchical structure and the fragmentation of the administration of both institutions and across levels as well as within an organization. Similarly, decision-making processes are highly fragmented. (4) Structure of the

<sup>1</sup> <http://edoc.hu-berlin.de/dissertationen/ahrend-norbert-2014-03-28/PDF/ahrend.pdf>



processes that are required to create the administrative services: Processes are mostly less structured in public administrations than in the private sector. Therefore, despite the large number of institutions with the same tasks, processes are not identical. These differences between the processes are due to unspecific legal regulations for those tasks. (5) Lack of management support due to strong segmentation of management: Management responsibilities are distributed across many hierarchy levels. Therefore, it is difficult to equally involve all managers into Business Process Management initiatives. The presented challenges show the important differences between the private sector and the public sector<sup>2</sup>. Hence, Business Process cannot be easily transferred to the public administration institutions without taking into account above mentioned aspects.

### **3. Departments involved in main management processes regarding the social insurance contributions and pensions**

#### 3.1. Department of Individual Accounts (employees)

Main functions: to analyse the registration process of policy holders, ensure the submission of questionnaires to Fund's local bodies with respect to revealing and specification of contradictory data and to analysis of data collected in database, identify the problems existing in database and taking measures for their elimination, ensure the preparation of responses and explanations to the incoming correspondence, etc.

Department includes 5 sectors with 22 staff employees + 5 over staff employees.

##### 3.1.1. Sector on Analysis of Policy Holders' Data (4 employees).

Main functions: analyse the registration process of policy holders, analyse the data collected in database, submit questionnaires to Fund's local bodies with respect to revealing and specification of contradictory data, identify the problems existing in database and taking measures for their elimination, prepare the responses and explanations to the incoming correspondence, etc.

##### 3.1.2. Sector of Social Insurance Participants' Accounts

Main functions: organize the registration of data about the insurers and the insured, prepare proposals for improvement of legislation in individual accounts area, ensure the preparation of draft normative legal acts with respect to enforcement of legislation on individual accounts, take measures for legalizing the state social insurance certificates and their distribution to Fund's local bodies, participate in regular training of relevant sector employees of Fund's local bodies in this area, prepare responses and explanations with respect to incoming correspondence, etc.

##### 3.1.3. Sector of Data Collection regarding the Policy Holders (5 employees)

Main functions: functions: organize the work of sector, organize the registration of data about the insurers and the insured, prepare proposals for improvement of legislation in individual accounts area, ensure the preparation of draft normative legal acts with respect to enforcement of legislation on individual accounts, take measures

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<sup>2</sup> <http://edoc.hu-berlin.de/dissertationen/ahrend-norbert-2014-03-28/PDF/ahrend.pdf>



for legalizing the state social insurance certificates and their distribution to Fund's local bodies

#### 3.1.4. Sector on Supervision to Policy Holders' Individual Personal Accounts (2 employees).

Main functions: organization of data registration about policy holders, participate in preparation of proposals for improvement of legislation in individual accounts area, participate in preparation of draft normative legal acts with respect to enforcement of legislation on individual accounts, take measures for legalizing the state social insurance certificates and their distribution to Fund's local bodies, participate in regular training of relevant sector employees of Fund's local bodies in this area, prepare responses and explanations with respect to incoming correspondence, etc.

#### 3.1.5. Sector on Awareness of Policy Holders and Archiving (3 employees defined staff, but in reality 2 employees).

Main functions: organize the awareness of policy holders with respect to amount of mandatory state social payments reflected in individual personal accounts, take measures for archiving and reliable maintenance of data, provide responses and explanations to incoming correspondences, etc.

### **3.2. Department of Pension Documentations and Application (Department includes 2 sectors with 28 staff employees)**

#### Sector on the Work with Archived Pension Documents (25 employees)

Main functions: take relevant measure on the receipt, archiving, protection and usage of pension works, provide proposals for improvement of work with the archived pension documents, ensure the preparation of responses to correspondences, and applications received with respect to archived pension documents, keeping of archive for pensions granted until 2013, collection of documents (paper form) received from the Regional Branch Offices

#### Sector on work with applications and complaints (3 employees)

Main functions: prepare proposals for reviewing the applications pertaining to archived pension documents, ensure the review of and feedback to applications received with respect to archived pension documents, registration of all of applications and complaints, etc.

### **3.3. Pensions and Benefits Department (16 staff employees)**

#### 3.3.1. Sector on Organization of Pension and Benefits Allocation

Main functions: improve the legislation in labor pension area, ensure the preparation of proposals regarding the draft legislative acts, ensure the receipt and summarization of relevant statistical data with respect to labor pensions from the Fund's local bodies, review the applications received with respect to pension allocation and ensure the responses to them.

#### 3.3.2. Sector on Methodological Work on Pensions and Benefits

Main functions: ensure the preparation of draft normative legal acts with respect to enforcement of legislation on labor pensions, ensure the preparation of relevant instructions and methodological instructions based on legislative acts in effect in labor



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pension area, conduct seminars, meetings and other measures of instructional nature with respect to the right application of legislation on labor pension by Fund's local bodies, review the applications received with respect to pension allocation and ensure the responses to them.

### **3.4. Department of Budget Implementation Accountancy** (Department includes 3 sectors with 15 staff employees)

#### 3.4.1. Summary-balance sector (4 employees)

Main functions: conduct the accountancy in the order stipulated by existing legislation, receive and summarize the accountancy balance sheets and reports from the Fund's local bodies, ensure the submission of summarized balance sheets and reports to the bodies defined by legislation within the defined timeline, provide methodological assistance to Fund's local bodies for conducting the accountancy and design of reports, etc.

#### 3.4.2. Sector on Organization of Budget Implementation (4 employees).

Main functions: conduct the accountancy according to existing legislation, take relevant measures in organization of Fund budget execution accounting, provide methodological assistance to Fund's local bodies on the budget execution accounting, direct contact with State Treasury ( flow of money: revenues, expenditures), etc.

#### 3.4.3. Sector on organizing the accountancy of goods-materials prices (7 employees).

Main functions: ensure the accountancy of main assets, goods and materials, inventory and equipment in Fund's apparatus, provide methodological assistance to Fund's local bodies on the budget execution accounting, etc.

### **3.5. Finance Department** (Department includes 2 sectors with 15 staff employees)

#### 3.5.1. Sector of Financial Planning

Main functions: organize the work of the sector in fulfillment of requirements of legislative acts on preparation and implementation of the draft budget of the Fund for the next year; prepare an action plan and oversee its implementation with the goal of preparing the draft budget of the Fund for the next year, identification of main parameters in order to prepare the draft budget and ensure the receipt of relevant information from relevant bodies in that regard; administer the quarterly and monthly division of the forecasting approved on mandatory state social insurance payments on local bodies; provide methodological and practical assistance to Fund's local bodies, etc.

#### 3.5.2. Sector of Profit Summarization

Main functions: participate in the preparation of proposals and draft legislative acts regarding the improvement of mandatory state social insurance; participate in preparation of draft policy measures in mandatory state social insurance area for the next year and of draft budget of the Fund for the next year; organize the receipt of summary, monthly, quarterly and annual reports on mandatory state social insurance from the Fund's local bodies, their generalization and prepare relevant analysis materials; respond to applications received by the Fund in mandatory state social insurance area, provide methodological assistance to Fund's local bodies for



organizing the accountancy, calculation and accumulation of mandatory state social insurance payments, etc.

#### **4. The main management processes in SSPF.**

##### **4.1. Flow of the Budgeting and Planning Information (Annex1)**

(1) For the Budget planning the Ministry of Finance provides SSPF (Finance department) with the time schedule, guidelines, transfers and main macro assumptions. SSPF Finance department and Department of Accounting of Budget Execution provide Ministry of Finance with regular financial information, proposals, projections, reports, balances, etc.

(2) For small and middle employers the social insurance contributions are collected by regional branch offices. For large employers the social insurance contributions are collected by the special sector in SSPF. The special sector for large employers regularly provides reports of contributions to SSPF Finance Department and SSPF Department of Accounting and Budget Execution.

(3) The Regional Branch Offices regularly provides SSPF Department of Accounting and Budget Execution with financial reports (electronically and manually). SSPF Department of Accounting and Budget Execution provide methodological supports to Offices.

(4) SSPF Finance Departments and SSPF Department of Accounting of Budget Executions work with close cooperation connected with all financial information, budgetary reports, cost counting, etc.

(5) SSPF Department of Accounting of Budget Executions provides higher organizations, Statistical Board, the State Treasure and Ministry of Finance with Balances, acts and other information.

##### **4.2. Flow of the Money (Annex 2)**

(1) For small and middle employers the social insurance contributions are collected by regional branch offices. For the big employers the social insurance contributions are collected by special department in SSPF

(2) The Ministry of Finance provides the state basic budget transfers (for basic part of pensions, etc.) in accordance with the accepted budget.

(3) In accordance with the reports from the regional branch offices the SSPF shares out the state basic budget transfers as well as covers a difference in contributions between really collected and really necessary finances for providing the regular pension payments by regional branch offices.

(4) The regional branch offices provide the regular pension payments via the banks.

(5) Pensioners receive a pension via the banks by using a special credit card for retirees.

##### **4.3. Old age pension granting process by phone line “190” (Annex 3).**

Scheme shows the process, how the old age pension is granted, if person uses possibility to require it by phone line “190”.

(1.1.) Client → SSPF; Application for granting the old age pension is submitted by phone: name, surname, tax payer’s code, address, telephone, date from which the pension is requested).

(1.2.) SSSF → Client; Official checks in data base whether the client is eligible to the old age pension or not.



(1.3.a) SSPF → Client; the amount of the old age pension is calculated considering the information available in SSPF data base.

(1.3.b) SSPF → Client; Granting of old age pension is rejected due to discrepancy with legislation; the reasons are explained to the Client.

(1.4.) SSPF → Client; the granting of old age pension is conformed (application's filling date).

(1.5.) SSPF → Client; The official registers the application in the data base (number, date).

(1.6.) SSPF – Client; Statement of old age pension granting is prepared by SSPF official (application's registration date and number).

(1.6.a) SSPF→ Regional division; an e-mail is sent automatically to the regional office regarding the old age pension granting (name, surname, tax payer's code, payment amount and date).

(1.7.) SSPF →Bank; Information concerning the pension granting and amount to the Bank are provided (name, surname, tax payer's code, payment amount and date).

(1.8.) SSPF →Client; the statement on pension granting, amount and payment is sent to the Client.

(1.9.) SSPF official binds the statement into the dossier/file.

#### **4.4. Old age pension granting in regional division (Annex 4).**

Scheme shows the process, how the old age pension is granted, if person applies in regional division

(1.1.) Client → SSPF regional office; the application for granting of old age pension is submitted by Client in SSPF regional office (name, surname, tax payer's code).

(1.2.) SSPF→ Client; Official registers the application (date, number).

(1.3.) SSPF →Client; Official verifies whether the client is eligible to the old age pension.

(1.4.) SSPF →Client; Official calculates the amount of the old age pension.

(1.5.) SSPF →Client; Official conforms the granting (date, pension amount).

(1.6.) SSPF → Client; the statement of old age pension granting is prepared (date, number, pension amount, Bank details).

(1.7.) SSPF →Bank; Information concerning the pension granting and amount to the Bank is provided (name, surname, tax payer's code, payment amount and date).

(1.8.) SSPF → Client; The statement of pension granting, amount and payment is sent to the client.

(1.9.) SSPF official binds the statement into the dossier/file.

#### **4.5. Information on social insurance contributions in SSPF (Annex 5).**

Scheme shows, how the process goes in SSPF in the case of registration of the insured (employee).



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(1.a.) Client → Ministry of Taxes; client submit data (personal code, name, surname, tax payer's code, status of insured person, beginning of the contribution period, income of person) to the Ministry.

(1.b.) Client → “Online Registration of the Insured”; Client submit data by electronically online system.

(1.c.) Client → Local body of SSPF; Client submit data over paper carriers.

(1.2.) Ministry of taxes/Online Registration system/Local body of SSPF → Central office of SSPF; data regarding insured persons is sent to the Central office of SSPF.

(1.3.) Data processing in Central office of SSPF.

(1.4.) Development of insurance number.

(1.5.) Transfer of date to the central data base.

(1.6.) Legalization of social insurance certificate (printing out).

(1.7.) Central office → local body of SSPF; Central office deliver social insurance certificates to the local body of SSPF.

(1.8.) Local body of SSPF→ Client; local body of SSPF gives the social insurance certificate to the Client.

#### **4.6. Information on social insurance contributions in SSPF (Annex 6).**

Scheme shows, how the process goes in SSPF in the case of registration of the insurer (employer).

(1.a.) Client → Ministry of Taxes; client submit data (personal code, name, surname, tax payer's code, status of insured person, beginning of the contribution period, income of person) to the Ministry of Taxes.

(1.b.) Client → Local body of SSPF; Client submit data over paper carriers.

(1.2.) Ministry of taxes/Local body of SSPF → Central office of SSPF; data regarding insured persons is sent to the Central office of SSPF.

(1.3.) Data processing in Central office of SSPF.

(1.4.) Development of insurance number.

(1.5.) SSPF central office → Client; Central office of SSPF deliver registration number to employer.

(1.5.) Transfer of date to the central data base – opening of personal accounting sheet.

#### **4.7. Scheme shows the process, if some changes concerning the employee's wage is carried out (Annex 7).**

(1.1.) Employer → SSPF; receives data from the insurer (quarterly report reflecting profits subjected to mandatory state insurance on months, calculated and paid social insurance contributions, the status of data regarding the insures).

(1.2.) SSPF Central office →Employer; SSPF processes and verifies the information.

(1.3.) SSPF Central office→ substantial verification of data submitted at local departments.



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1.4. SSPF Central office → transfer of final information to central database.

1.5. SSPF Central office → placement of data about contributions at the centre to individual personal accounts (as a result, reverse “information flow” with respect to emergence of uninterrupted supervision possibility of insureds over their individual information).

## **Conclusion**

In SSPF is well developed structure with detailed distribution of competencies and functions. In the assessing of already existent management processes the high success rate in planning and implementing processes is provided.

To provide introduction and development of the funded component of the state pension system no essential reforms are needed regarding to SSPF structure or currently management processes. The introduction of funded component could be established in one of already existent department adjusting and reconsidering current functions and tasks, as well as increasing number of staff.

Introduction of funded component will demand also addition processes to provide the flow of all necessary information and contributions among SSPF, pension funds (in the transition period - Default fund), custodian bank and clients.