



EUROPEAN COMMISSION

<b>TWINNING PROJECTS</b>	
<b>INTERIM QUARTERLY REPORT</b>	
<b>Project Title:</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>Partners:</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  Implementing body: German Association for Social Security Policy and Research
<b>Date:</b>	20 <sup>th</sup> of April, 2015

Twining Contract number: 2014/338674

**Section 1: Project data**

Twinning Contract number:	Twinning Contract 2014/338-674
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 4
Period covered by the report:	From the 1 <sup>st</sup> of January, 2015 by the 31 <sup>st</sup> of March, 2015
Duration of the project:	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

## Section 2 : Content

<b>Section 1: Project data</b>	2
List of abbreviations used in the report:	3
<b>Section 2 : Content</b>	4
2A – Background	7
2B – Achievement of Mandatory Results	20
2C – Activities in the Reporting Period	29
2D – Timing and Delays	47
2E – Assessment	50
<b>Section 3. Expenditures</b>	53

### Annexes

1. Materials of the expert mission from January 5 to 9, 2015
  - 1.1. Annex 1. Press release – Blueprints preparation continued
  - 1.2. Annex 2. Mission Report January 5 to 9, 2015
2. Materials of the expert mission from February 9 to 14, 2015
  - 2.1. Annex 3. Press release – Expert mission from Latvia and Germany
  - 2.2. Annex 4. Presentation - Results of the feasibility study
  - 2.3. Annex 5. Mission Report February 9 to 14, 2015
  - 2.4. Annex 6. Draft Blueprint FDC component
  - 2.5. Annex 7. Draft Blueprint Licensing rules for private pension funds
  - 2.6. Annex 8. Draft Blueprint Organization of pension plan asset management
3. Annex 9. SSPF choice regarding to FDC component
4. Materials of the expert mission from March 9 to 12, 2015
  - 4.1. Annex 10. Press release – EU Twinning project expert mission
  - 4.2. Annex 11. Mission Report March 9 to 12, 2015
  - 4.3. Annex 12. Presentation in Press briefing of German expert
  - 4.4. Annex 13. Presentation in Press briefing of RTA
5. Materials of the expert mission from March 30 to April 03, 2015
  - 5.1. Annex 14. Press release – EU Twinning project experts’ mission
  - 5.2. Annex 15. Mission Report March 30 to April 03, 2015
  - 5.3. Annex 16. Blueprint of establishment of funded component and development of legal framework in Azerbaijan

- 5.4. Annex 17. Appendix from 2 to 8 to Annex 16
- 5.5. Annex 18. Blueprint of establishment non-state pension institutions and development of legal framework in Azerbaijan
6. Materials of Study visit to Germany
  - 6.1. Annex 19. Press Release - Representatives from State Social Protection Fund of Republic of Azerbaijan to be on study visit to Germany
  - 6.2. Annex 20. Agenda of Study visit to Germany with participants
  - 6.3. Annex 21. Study visit report on Germany by BC officials
  - 6.4. Presentations:
    - 6.4.1. Annex 22. Occupational pensions in Germany (slides)
    - 6.4.2. Annex 23. Occupational pensions in Germany (text)
    - 6.4.3. Annex 24. Riester pensions in Germany
    - 6.4.4. Annex 25. Federal Financial Supervisory Authority (Bafin) (the first part)
    - 6.4.5. Annex 26. Federal Financial Supervisory Authority (Bafin) (the second part)
    - 6.4.6. Annex 27. Confederation of German Employers' Association
    - 6.4.7. Annex 28. German Pension Insurance Fund (DRV) (the first part)
    - 6.4.8. Annex 29. German Pension Insurance Fund (DRV) (the second part)
    - 6.4.9. Annex 30. German Pension Insurance Fund (DRV) (the third part)
    - 6.4.10. Annex 31. EIOPA. Private pensions
    - 6.4.11. Annex 32. Occupational pension system in construction industry German (the first part)
    - 6.4.12. Annex 33. Occupational pension system in construction industry German (the second part)
7. Materials of the expert mission from February 23 to 27, 2015
  - 7.1. Annex 34. Press release – EU Twinning project experts mission
  - 7.2. Annex 35. Mission Report February 23 to 27, 2015
8. Preparation of Thematic mid-term project visibility event
  - 8.1. Annex 36. Draft of Agenda for mid-term event
  - 8.2. Annex 37. Preliminary List of participants
9. Materials of Project Steering Committee:
  - 9.1. Annex 38. Press release – The third Project Steering Committee meeting
  - 9.2. Annex 39. List of participants of the third meeting of Steering Committee
  - 9.3. Annex 40. Minutes No 2 of the Project Steering Committee Meeting
  - 9.4. Annex 41. Minutes No 3 of the Project Steering Committee Meeting
10. Annex 42. Reference No1 regarding the objections from involved institutions and the specified wording of Quarterly report No.3
11. Annex 43. Reference No2 regarding the objections of SSPF and the specified wording of Quarterly report No.3
12. Annex 44. Reference No3 regarding the objections of SSPF and the specified wording of Quarterly report No.3

13. Annex 45. Work plan of the fifth quarter for the implementation of EU funded Twinning Project
14. Annex 46. Report No3 on implementation of Communication plan from the 1<sup>st</sup> of January to 31<sup>st</sup> of March, 2015
15. Annex 47. Matrix for the evaluation of the candidates to the vacancy: Assistant - translator of the EU funded Twinning Project
16. Budget
  - 16.1. Annex 48. Financial report
  - 16.2. Annex 49. Expenditures

**2A – BACKGROUND**

This report covers activities that have been carried out in the fourth quarter of the project from the 1<sup>st</sup> of January, 2015 to the 31<sup>st</sup> of March, 2015.

The Quarterly report No.3 was approved by EUD, as stated in the letter of EUD of the 08<sup>th</sup> of April, 2015 (ARES/(2015)/1558793).

**Overall objectives**

<b>Overall Objective and indicators of achievement (as in Log frame)</b>	<b>State of Achievement / problems encountered</b>
<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>In February, SSPF received representatives of Social Insurance Institution of Republic of Poland (ZUS) in mutual agreement on bilateral cooperation. The main objective of visit was to share experience with SSPF staff on different operational aspects of Polish pension system.</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 fourth quarter of project implementation were successfully completed.</p>

**Project Purpose**

<b>Project purpose and indicators of achievement (as in Logframe)</b>	<b>State of Achievement / problems encountered</b>
<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>Positive assessment of the SSPF capacity.</p>	<p>Completed and started activities (sub-activities) in the fourth 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, particularly, in Germany. There was a study tour to this country and four representatives from SSPF gained a thorough insight into private pension system (voluntary occupational and personal) in Germany, visited institutions which are involved in policy making process, operational processes and supervision processes.</p>

## Policy Developments

- New policy document related to the pension system was adopted during the reporting quarter – on the new rules of indexation of labour pensions (insurance part) and accrued pensions’ capital – annual rate of consumer price index 1,4 has been applied due to inflation in 2014.
- According to the statistics of April 1, 2015, the number of personal accounts increased by 2.2% (65 495 persons) as compared to the beginning of the year. If dynamics of opening personal accounts remained the same, that in the end of this year, the overall increase could be less than last year. The greatest increase in the number of personal accounts is in age group 60+, if compared with the beginning of this year, which could mean that the person started preparing his/her documentation for granting of pensions. Next biggest increase is in working age group 30 – 40, which means that persons have incomes and social contributions are paid. The increased number of personal accounts is evidence that people know and understand their duties and rights related to social guarantees.
- In the beginning of this year, the number of foreigners in personal accounting system reached 22 524. The highest number of foreigners out of 104 different countries is from Turkey – 53% (12 033 persons), Georgia - 11% (2 527 persons), Russian Federation – 6% (1 294 persons).
- During the reporting period, information was published on the implementation of the state budget of 2014 related to the operation of SSPF. Actual revenue of SSPF budget was 2 894,3 mil. manats, but expenditures – 2868,8 mil. manats. Surplus of the budget appeared to be in the amount of 25,5 mil. manats. 98% (2 809,1 mil. manats) of expenditures were spent for the pensions (97,5%) and benefits (2,5%).
- The number of persons receiving pensions in the beginning of the 1st of January, 2015 was 1 290,1 ths. persons and during the last year it increased by 13 ths. persons. (1277.1 ths. persons in early 2014). (The number of old age pension receivers increased by 8 ths. persons, receivers of survivors pension by 4,3 ths. persons, and 0,7 ths. persons receiving disability pensions.
- On the 1<sup>st</sup> of January, 2015, the average monthly amount of pensions was 173,4 manats, but the average monthly amount of old-age pensions amounted to 192,3 manats.
- SSPF organized a survey for its website visitors to answer the question for what kind of information they needed related to services provided by SSPF. Finally, 42,83% responded that more information was necessary on social insurance issues, 40,5 % - that needed more information on pensions, but 17,12% - on personal accounts.
- During the reporting period, State Social Protection Fund organized 5 “Open Day” events and/or civil forums in different regions of Azerbaijan (with participants from 17 different regions and cities) – Sheki, Quba, Shabran, Siyezin, Xaghmaz, Sumgait city and the regions such as, Aghjabadi, Lancin, Ucar. In the “Open Days” activities, the population present represented residents, taxpayers, employers and pensioners. Information was provided on actual issues, services offered– 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 the entire public about the current events, thus promoting the awareness of society.

**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>SSPF cooperates with state institutions on a daily basis. Cooperation and information exchange with other relevant institutions with respect to the development issues of pension systems in the funded component and voluntary pension arrangements for non-state pension funds of the multi-level state pension system which are the main tasks of the project, were established within framework of activities - 0.1. Kick-off conference (information on project activities and pension system in Latvia and Germany for institutions, which will be directly or indirectly involved and/or will operate within the second and third tier of the pension system in Azerbaijan), activity 1.1. Carrying out the study on demographical, economic situation of Azerbaijan (discussions and</p>

	Intervention logic		State of achievement/ problems encountered
			<p>information collection for Study report from institutions which could operate within the second and third tier of the pension system in Azerbaijan - 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, State Insurance Supervision Agency, Central Depository, Azerbaijan Mortgage Fund, State Oil Fund) and sub-activity 1.2.1. Feasibility study (economic calculations) and conducting a two-day workshop with relevant staff of SSPF (data from Ministry of Economy and Industry and State Statistical Committee).</p>
		<ul style="list-style-type: none"> <li>Adequate financial resources are allocated to ensure solid backing of the pension reform.</li> </ul>	<p>For realization of measures in the adopted “State Programme on development of insurance-pension system in Azerbaijan in 2009-2015”, the expenditure part of the Budget of Republic of Azerbaijan for SSPF for 2014 planned the financial resources in the amount of 2.93 million manat and same amount also was spent, but for 2015 – 1,5 million manats. The specified financial resources are enough to secure the on-going pension reforms.</p>

	<b>Intervention logic</b>		<b>State of achievement/ problems encountered</b>
		<ul style="list-style-type: none"> <li>Capital market and other relevant financial institutions are further developed in Azerbaijan.</li> </ul>	<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 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>SSPF informs social contributions payers of the planned developments in the pension system, but growth in the number of social contributions payers and persons who have personal accounts also shows an increase of trust to SSPF activities. Thus, during 2014 the number of socially insured persons who opened personal accounts increased by 10,6 % or 284 961 persons and in 01.01.2015 reached 2 976 318 persons. But in the reporting period, the number of persons who opened personal accounts increased by 65 495 persons.</p> <p>In reporting period, SSPF organized 6 "Open Day" events and/or civil forums in</p>

	<b>Intervention logic</b>	<b>State of achievement/problems encountered</b>
		different regions of Azerbaijan (with participants from 29 different regions and cities) which were attended by residents, social contributors, employers and pensioners. Information was provided on actual issues, services offered – personal accounts, pension calculations, as well as, regarding the features of the insurance-pension system, approved Concept and future pension system developments. Thus, these events promoted the awareness of society.

	<b>Intervention logic</b>	<b>State of achievement/problems encountered</b>
<b>Mandatory Results</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>	

Mandatory	Intervention logic		State of achievement/ problems encountered
	Assumptions	<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>	<p>SSPF staff who are involved in project implementation have not been changed, and they work to their full potential and participate in different capacity building measures, including the project activities. The newly established Forecasting Department very actively participated in different meetings with project experts and provided necessary information and opinions for further developments.</p> <p>Four representatives of SPPF were in Study visit to Germany in which they were directly acquainted with the operation of pension system in practice by visiting different institutions involved in pension issues.</p>
	<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>Political will is not lost; pension reform issues continue to be actual.</p> <p>After the approval of Concept of reforms in pension provision system in the Republic of Azerbaijan in 2014 -2020 by the President of Republic of Azerbaijan dated 4 November, during the reporting period SSPF organized different meetings and seminars in many regions of Azerbaijan in which new plans for development of pension system have been presented and discussed.</p>	

Mandatory	Intervention logic		State of achievement/ problems encountered
Activities	<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>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>SSPF continued various activities related to the implementation of the approved Concept in different regions of Azerbaijan, as well as, in March, a press briefing was organized for public to become better acquainted with the project 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>Sufficiently skilled, knowledgeable and energetic staff is available to the possible extent.</p> <p>Gradually the workload increased for the involved staff, but during experts' missions in the legislation phase the joint work will be necessary with personnel on legal issues.</p>
		<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>SSPF has its own proven model in operating of the whole insurance-pension system, but used model requires adequate</p>

<b>Mandatory</b>	<b>Intervention logic</b>		<b>State of achievement/ problems encountered</b>
			<p>improvements.</p> <p>SSPF-created model is too general which is difficult to apply for calculations of pension reform scenarios, therefore, during feasibility study, the experts built another “model”, which would be used to assess different scenarios of pension reform (making economic calculations).</p> <p>Experts created the first version of calculator (model) for calculation simulations, then tested and adjusted it.</p> <p>In the beginning of January, 2015 within the experts’ mission an agreement with the representatives of Forecasting Department, Pensions and Benefits department, Personal Accounting Department and Department of International and Public Relations was reached regarding the applied assumptions in model.</p> <p>The created model was used to calculate the economic impact of proposed solutions for funded component during the development of blueprint.</p>

<b>Mandatory</b>	<b>Intervention logic</b>	<b>State of achievement/problems encountered</b>
	<ul style="list-style-type: none"> <li>• Interest of public in project, its entity and activities.</li> </ul>	<p>Public interest towards the implementation of project is regularly being 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. A press briefing was organized in March to communicate the project results to the public.</p>
	<ul style="list-style-type: none"> <li>• Access to relevant information</li> </ul>	<p>A lot of information and data were necessary for creation of the model for calculation simulations which would be used to assess different scenarios of the pension reform (making economic calculations). Since some data was not available, experts have made adequate assumptions and agreed with SSPF. The received internal documents for analysis of management processes are complicated. During the reporting period experts meetings have been organized with relevant departments of SSPF with the aim of becoming acquainted with their functions. Taking into account the non-availability of a translator for that period, responses to the issues that experts were interested in were provided during the meetings.</p>



<b>Mandatory</b>	<b>Intervention logic</b>		<b>State of achievement/ problems encountered</b>
			<p>At the next stage more detailed information was presented by SSPF regarding the content of each department and functions of each unit arising from their positions entailed in them according to relevant spheres where the experts were interested in. Therefore, it has to be noted that the information about the number of staff was not requested during the reporting period.</p> <p>As for analyses is important acquainted with existing documents, experts received information only on the statute of the Forecasting Department in which are described following items – general provisions (including the main aim of department), duties, functions, rights, organization of department.</p> <p>SSPF opinion is that presented information by being more comprehensive and detailed and reflecting the positional functions in relevant structural units in current condition is not different from the document as a statute requested by experts from SSPF in its quality and essence. Based on this information presented in more detail it is possible to continue the work without an obstacle.</p>

Mandatory	Intervention logic	State of achievement/problems encountered
	<ul style="list-style-type: none"> <li>• Responsiveness and availability of the SSPF.</li> </ul>	<p>As the pension system development is an important task of SSPF set in both documents - in the approved Concept and in SSPF's work plan for this year, the involvement of staff in addressing issues of the project, is coordinated by the project leader of the BC.</p>
	<ul style="list-style-type: none"> <li>• Commitment and strong interest of the SSPF.</li> </ul>	<p>Involvement of other department directors and staff in the project activities is coordinated by the BC project leader. BC project leader regularly updated 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>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. For implementation of sub-activity 1.2.1. "Feasibility study (economic calculations) and conducting a two-day workshop with relevant staff of SSPF", data was received from Ministry of Economy and Industry, and State Statistical Committee.</p>

Mand atory	Intervention logic	State of achievement/ problems encountered
	<ul style="list-style-type: none"> <li>Active support from the Latvian and German authorities</li> </ul>	<p>Representatives of institutions of Latvia and Germany involved in organization of Study visits for staff of SSPF and during the Study visits as well, participated and shared their experience on managing and operating of national pension system, institutions duties and responsibilities, therefore, were enabled to understand all necessary aspects of pension system and learned actual "hands-on" experience in both EU MS.</p>

## Modifications to the Project Activities by Side-Letter

During reporting period, a Side Letter (Side Letter No.5) has been prepared and submitted to EUD.

In January, 2015, the **Side Letter No.5** was submitted to EUD which was registered in the EUD on 21<sup>st</sup> of January, 2015.

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

- redistribute financial resources within the activity between the separate items of expenditures' positions without increasing total planned amount of financial resources for project 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";
- specify in Annex 3 "Budget" title 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" in such wording activity 4.4. "Study visits for a maximum of six SSPF staff to the both EU MS" and to specify title of expenditure position "Interpretation services from German into/from Azeri language" to "Interpretation services from/into German into/from Russian" and title of expenditure position "Air tickets to Baku-Riga-Baku" to "Air tickets to from/to Baku to/from Germany (Cologne/Bonn & Frankfurt)".

## 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, created the first draft of Agenda and list of participants, prepared necessary documents for procurement process and announced procurement procedures for translation services and production of visibility materials.
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	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	1.1.			x	Successfully completed and the result achieved in the <b>second</b> quarter. This activity is designed

Mandatory Results	Indicators of achievement	Activity	State of achievement			Remarks
			started	in progress	completed	
establishment of the funded component in the state insurance-pension system	<p>end of the project duration.</p> <p>This legislation is expected to provide a legal base for:</p> <ul style="list-style-type: none"> <li>a) a mechanism for collecting of funds on real funded accounts;</li> <li>b) methods for managing the funds accumulated on the funded accounts as well as a legislative basis providing for the requirements to managing companies and specialized custodians;</li> <li>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;</li> <li>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.</li> </ul>					<p>specifically for achieving objectives of the project and stipulated achievements of Result 3 also. It is the basis for further implementation of activities. The prepared report contains description and evaluation of current demographical, economic situation, state social 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.</p>

Mandatory Results	Indicators of achievement	Activity	State of achievement			Remarks
			started	in progress	completed	
		1.2.		x		This benchmark will be achieved in the month 11 of the project. (According Side Letter No.2). The actual benchmark will be achieved in the month 13 ( <b>fifth</b> quarter).
		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 a two-day workshop on possible solutions for development of multi-level pension system (beginning of blueprint development)
		1.2.2.		x		During the reporting period, the sub-activity was practically implemented and blueprint for funded element was prepared. The experts' visit for this particular sub-component

Mandatory Results	Indicators of achievement	Activity	State of achievement			Remarks
			started	in progress	completed	
						took place in the last days of March, but the week of experts' mission ended at the beginning of April ( <b>fifth</b> quarter), when experts submitted blueprint to the SSPF for comments.
		1.3.				This benchmark will be achieved in the month 15 of the project. (According to 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 <b>third</b> quarter an analysis of existing IT systems was initiated, but in

Mandatory Results	Indicators of achievement	Activity	State of achievement			Remarks
			started	in progress	completed	
management of the funds on the individual funded accounts elaborated.						reporting period, the analysis of management process of the SSPF was commenced.
		2.1.1.	x			This benchmark will be achieved in the month 13 of the project. Analysis of management process of the SSPF started.
		2.1.2.		x		This benchmark will be achieved in the month 12 of the project. In the November, 2014 the analysis of existing IT systems was commenced by the expert and the first draft of assessment report was prepared on IT system applied in SSPF. Expert's mission was planned in April, but SSPF postponed it to a later time (probably to the end of May).
		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.



Mandatory Results	Indicators of achievement	Activity	State of achievement			Remarks
			started	in progress	completed	
		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 legislation elaborated to facilitate the development of non-state pension institutions;	Package of legislation on development of non-state pension institutions accepted by the SSPF Board of Directors for use in dialogue with other stakeholders by the end of the project duration. This legislation is expected to provide a legal base for: 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.	3.1.		x		This benchmark will be achieved in the month 12 of the project. The actual benchmark will be achieved in the month 13 ( <b>fifth</b> quarter).
		3.1.1.			x	Successfully completed and the result achieved in the <b>third</b> quarter. Organized and conducted a two-day workshop on possible solutions for development of non-state pension funds (beginning of blueprint development).
		3.1.2.			x	This benchmark will be achieved in the month 12 of the project. During the reporting period, the sub-activity was practically

Mandatory Results	Indicators of achievement	Activity	State of achievement			Remarks
			started	in progress	completed	
						implemented and blueprint for non-state pension institutions was prepared. The final experts' visit for particular sub-component took place in the last days of March, but the week of experts' mission ended at the beginning of April, when experts submitted blueprint to the SSPF.
		3.2.				This benchmark will be achieved in the month 15 of the project.
<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	Positive improvement of the SSPF staff assessment results (impact of training and coaching activities) by the end of the project duration.	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

Mandatory Results	Indicators of achievement	Activity	State of achievement			Remarks
			started	in progress	completed	
						of the project.
		4.4.			x	<p>Successfully completed and the result achieved in the <b>fourth</b> quarter.</p> <p>This benchmark was achieved in the month 10 of the project, but not in 8 as planned before.</p> <p>In the <b>second</b> quarter, the practical experience was obtained as to how the pension system worked in Latvia, but in January, the representatives of SSPF received a detailed information on private pension system (voluntary occupational and personal) in Germany, visited institutions involved in policy making process and operational processes.</p>
<b>Result 5.</b> A communication strategy elaborated to	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.

Mandatory Results	Indicators of achievement	Activity	State of achievement			Remarks
			started	in progress	completed	
raise public awareness concerning the new funded component of the state pension system.		5.2.				This benchmark will be achieved in the month 18 of the project.

## 2C – Activities in the Reporting Period

During fourth reporting period the works were focused on:

- ✓ organization and implementation of five experts' missions to implement the project activities:
  - one activity was completed:
    - activity 4.4 „Study visits for a maximum of six SSPF staff to the both EU MS”.
  - two sub-activities were near to completion:
    - 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 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”*.
  - two activities (sub-activity) were initiated:
    - 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*”;
    - activity 02. “Thematic mid-term project visibility event”.
- ✓ preparation and finalization of the Twinning interim Quarterly Report No3 and organization of the third Project Steering Committee;
- ✓ preparation of the work plan for next quarter and description of assignments for experts' missions;
- ✓ issues addressing visibility of project;
- ✓ recruitment of necessary staff for the project office;
- ✓ procurement procedures.

52 STE expert days were used in the reporting period, of which – 37 days were STE expert days for experts from Latvia, and 15 days were STE expert days for experts from Germany.

During the reporting period five experts' missions were organized (one of missions was transitive and completed in the next quarter) and the following project sub-activities **were near to completion:**

- 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 December 8, 2014 and in the reporting period was implemented from the 5<sup>th</sup> of January, 2015 to 31<sup>st</sup> of March, 2015 within three separate expert's missions (one of missions was transitive and completed in the next quarter):
  - The first expert mission from January 5 to 9, 2015. 5 STE expert days were used – all days for experts of Latvia;
  - The second expert mission from February 9 to 14, 2015. 6 STE expert days were used – all days for experts of Latvia;
  - The third expert mission from March 30 to April 3, 2015. 2 STE expert days were used in reporting period – all days for experts of Latvia.

After the workshop in December on “Possible solutions for development of multi-level pension system in the Republic of Azerbaijan (beginning of development of blueprint)”, the experts prepared the possible structure of blueprint of the funded component and, in the first expert’s mission, updated possible solutions and elaborated Options for introduction of funded scheme and private pension component in Azerbaijan (*Annex 1 and Annex 2*).

Experts recommend five different options for funded component and SSPF had to choose at least two options for more detailed description in the blueprint of funded component:

1. Voluntary participation with increased voluntary social insurance contributions of employees and redistribution of collected social insurance contributions.
2. Voluntary participation with increased voluntary social insurance contributions of employees and defined additional payments as motivation instrument;
3. Voluntary participation based on redistribution of collected social insurance contributions;
4. Mandatory participation based on redistribution of social insurance collected contributions;
5. Voluntary participation with increased voluntary social insurance contributions of employees.

Key characteristics of options comprise range of payers, possible social contribution rate, income tax breaks, inheritance, return guaranties, opt—out, pay-out options, types of pension plans and others.

Based on Latvian and German experience, real and expected economic and demographic situation in Azerbaijan, experts have made some possible models for funded component of labour pension (hereinafter – financial defined contribution –FDC component) in Azerbaijan.

For modeling FDC component part, experts used econometric model. Experts made a set of assumptions about economic and demographic scenarios, member decisions and so forth, and, based on those assumptions, the model projects the prospective outputs.

Latvian experts took decision to update calculations on the following assumptions:

- Employment rate will increase each year by 1,1% for male, by 1% for female;
- Contributors changes based on employment rate;
- Inflation increase each year by 1,5%;
- Minimum wage will increase by growth of inflation;
- Contribution wage will increase double in the next 25 years and again double in the next 25 years;
- Pension capital will double start from 2020 for all insured persons. Until 2020 pension capital stay at the same level.
- Started from 2020, all uninsured expenditures (included basic pension) will be covered by state budget. (SSPF experts calculated that the share of uninsured expenditure is 45% from total social insurance budget).
- Interest rate for first reforms years (approximately 10 years) will be 3% (nominal), later – 5%;
- Participation rate in the voluntary funded component will be low – 5-10% of all contributors;
- In calculations are not include State budget transfers to the State Social insurance budget.

Based on these assumptions, the experts updated calculations of different options of funded pension and submitted for reconsideration results - participation rate, budget balance, accumulated assets and replacement rates. Results of calculations were discussed with responsible staff of SSPF on the 12<sup>th</sup> of February. (*Annex 3*).

SSPF became acquainted with the main results from feasibility study and on necessity of choice between budget perspective, individual replacement rate, coverage and development of economy in Azerbaijan (*Annex 4, Annex 5 and Annex 6*).

In late February, SSPF defined their choice from funded component options and selected three options as most appropriate for the overall situation in Azerbaijan - as the first priority - voluntary participation with increased voluntary social insurance contributions of employees, the second priority - voluntary participation with increased voluntary social insurance contributions of employees and redistribution of collected social insurance contributions and the third priority - voluntary participation with increased voluntary social insurance contributions of employees and defined additional payments as motivation instrument (*Annex 9*).

Blueprint on establishment of funded component and development of legal framework in Azerbaijan was finished in the last experts' mission of *sub-activity 1.2.2* on March 30, 2015 and submitted to SSPF for the review and comments. (*Annex 16 and Annex 17*).

- 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"* was started in December 8, 2014 and in the reporting period was implemented from the 5<sup>th</sup> of January, 2015 to 31<sup>st</sup> of March, 2015 within four separate experts' missions (one of missions was transitive and completed in the next quarter):
  - The first expert mission from January 5 to 9, 2015. 5 STE expert days were used – all days for experts of Latvia (*Annex 1, Annex 2 and Annex 8*);
  - The second experts' mission from February 9 to 14, 2015. 14 STE experts' days were used – 5 days for expert of Latvia and 9 days for experts of Germany (*Annex 4, Annex 5 and Annex 7*);
  - The third expert mission from March 9 to 12, 2015. 4 STE expert days were used – all days for expert of Germany (*Annex 10 and Annex 11*);
  - The fourth experts' mission from March 30 to April 3, 2015. 6 STE experts' days were used in reporting period – 2 days for expert of Latvia and 4 days for experts of Germany (*Annex 14 and Annex 15*).

After the workshop in December on "Possible solutions for development of multi-level pension system in the Republic of Azerbaijan (beginning of development of blueprint)", the experts prepared the possible structure of blueprint for establishment of non-state pension institutions and development of legal framework in Azerbaijan and in the first expert's mission, updated possible solutions and elaborated Options for introduction of the funded scheme and private pension component in Azerbaijan (*Annex 2 and Annex 5*).

One option is proposed for non-state pension funds - voluntary participation on the part of employee (person) and/or employer with defined amount of individual contributions,

inheritance principles, types of possible pension plans, pay-out solutions, etc., and each of these key characteristics can comprise more than one solution.

Within experts' missions, meetings with the SSPF staff were organized to explore views on possible solutions which were integrated in the content of blueprint and will be used for drawing up legislation as well.

Blueprint on establishment non-state pension institutions and development of legal framework in Azerbaijan was finished in the last experts' mission of *sub-activity 3.1.2* from the March 30, 2015 and submitted to SSPF (*Annex 18*).

During the reporting period, the activity 4.4 **was completed** on „Study visits for a maximum of six SSPF staff to the both EU MS”.

The first part of activity was implemented last year in September, when the Study visit to Latvia was organized. The second part of activity was implemented from January 26 to 30 (*Annex 19*). No STE expert days were used.

In Study visit to Germany, the following representatives of SSPF participated:

- 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 the Study visit was to show how the pension system works and operates on a day-to-day basis on working level in Germany.

Representatives of SSPF visited Federal Ministry of Labour and Social Affairs, Federal Financial Supervisory Authority, Association for Social Security Policy and Research, Regional Office of German Pension Insurance Fund (Hessen/Frankfurt on Main), European Insurance and Occupational Pensions Authority (EIOPA) and SOKA – Bau Pension Fund and meet representative of Confederation of German Employer's Associations (BDA). (*Annex 20*).

Participants of Study visit prepared a report and submitted to project office. (*Annex 21*).

Representatives from SSPF had an opportunity to see the main tasks and duties of institutions involved in management and execution processes to secure policy developments and operations of pension system, as well as, the supervision of system.

The study visit experience helped to better understand the pension system and this knowledge will be used to develop two pension pillars - the real funded component in the frame of state insurance-pension system and non-state pension funds in Azerbaijan within project. In the each meeting were prepared presentations. (*Annexes 22 - 33*).

During the reporting period, the following project activities (sub-activity) **were initiated**:

- 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*” took place from the February 23 to 27, 2015. 10 STE experts' days were used – all days for experts of Latvia.

The objective of this expert mission was to analyse the current management (business) processes with the purpose to give an overall description of the funded component business at the SSPF.

To achieve the objective of activity and fulfill the tasks of experts' mission, the experts



needed to analyze documents – statutes of departments of SSPF and divisions (sectors), investigated current business processes and assessed the number of involved staff and their duties.

Therefore, the experts assessed fulfilment of the main current SSPF tasks – collection of social security contributions collection and tracking, granting, allocation and payment of pensions, collection and pooling, public information, and other business processes, which have secured the quality services to the public. During the experts' mission, the experts had meetings with the staff of Personal Accounting Department, Pensions and Benefits Department, Department of Pension Documentations and Application, Department of Accounting of Budget Execution, Finance Department and Regional Branch office in the Yasamal district (*Annex 34 and Annex 35*).

In the end of this sub-activity 2.1.1., the experts will develop an assessment report on the management processes at the SSPF.

The assessment will include:

- Reviewing context and establishing a vision of each of management processes;
- evaluating the success rate in every step (planning, implementing, monitoring, evaluating) in each management process;
- assessing the amount of allocation of resources (inputs), and results of management actions (process);
- evaluating eventually products, goods and services (outputs).

The sub-activity 2.1.1. „*Analysis of management processes of the SSPF*” will continue in the April.

- The preparatory work started to implement the activity 02. “Thematic mid-term project visibility event”. RTA together with the staff of SSPF defined the date and place for the planned event. The thematic mid-term event will be held on 29 April in the Fairmont Baku Hotel. The first draft of Agenda and the list of participants were developed (*Annex 36*).

It was decided that the representatives from EUD, embassies, state institutions, international organizations, and social partners will be invited to the event which are or will be directly or indirectly involved and/or will operate within the second and third tier of the pension system in Azerbaijan, (*Annex 37*).

- ✓ On 22 January, 2015, the meeting of the third Project Steering Committee (PSC) was organized. PSC meeting was organized jointly by the RTA and Azerbaijani partners and a press release was prepared. (*Annex 38*). The meeting was attended by the Project Leaders of Latvia 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 39*). The PSC discussed the progress of the project, reviewed and approved the third interim quarterly report as a basis and took notice of report on implementation of Communication plan from the beginning of Project by 30 September. (*Annex 40 and Annex 41*).

After PSC, it took a long time to achieve the harmonization of the Quarterly report No.3. The suggestions on the draft Quarterly report No.3 were submitted by EUD, Junior Partner, Ministry of Economy and Industry and SSPF. Three references were prepared regarding the objections from involved institutions on Quarterly report No.3 (*Annex 42*,

*Annex 43 and Annex 44*). Thus, the Quarterly report No.3 was presented to the EUD only on March 18, 2015.

- ✓ By the beginning of the fifth quarter, the work plan of the project will be worked out in which the necessary measures and time schedule are planned. (*Annex 45*). In the fifth quarter, the finalization of blueprints for the funded component and non-state pension institutions is planned. Six experts' mission will be organised – four for creation of legislative documents for the funded component and non-state pension institutions and two experts' missions for achieving the Mandatory result 2.

In the work plan of fifth quarter, the continuation of preparatory works is also foreseen for organising the thematic mid-term project visibility event on 29 April and preparation works and organization of Project Steering committee on 30 April.

- ✓ Project Team prepared Report No.3 on implementation of Communication plan from 1 January, 2015 to 31 March (*Annex 46*).

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, 4 groups of communication activities were organised to cover all target groups. During the reporting period, the project team produced and published press releases before every project event – 7 press releases in English, but SSPF project significance was stressed in 2 press releases in Azerbaijani on SSPF website.

In March, the first press briefing was organized to inform the public on results of the project which was attended by BC project leader, RTA and the expert from Germany (*Annex 12 and Annex 13*). This event was displayed on TV news channels and 10 press releases were published in different news websites of Azerbaijan.

The information on twinning project was published in the article entitled “Pensions in Central & Eastern Europe”, as well as, on staff of institutions in Germany the representatives of which visited Germany in January through the Study visit.

On January 26, 2015, the Resident Twinning Adviser assistant – Mr Rafiks **Misirovs** had meeting with EUD Project Communication Coordinator - Ms Elnara **Taghiyeva** on recommendations on the EU visibility, since before EUD communication staff analysed the work of EU funded projects regarding the visibility and came up with a list of common mistakes.

- ✓ On 6 February, the service contract with RTA assistant-translator Chingiz **Chingizov** was terminated.

Before that the previous service contract was revised and updated and requirements were prepared and all necessary information for call for proposals regarding the RTA assistant-translator position. On 4 February, the call for proposals was announced in the webpage

of EUD. The deadline for submission of applications was due by 20 February and the project received 11 applications. After evaluation of documents, job interviews were organized with 4 the most suitable candidates. (*Annex 47*). Service contract was signed with Ms. Venera Mehdiyeva starting from 10 March, 2015.

- ✓ In the reporting period, the procurement of two separate services was prepared and announced:
  - translation services;
  - producing of visibility materials for the thematic mid-term project event and project office needs.

The documentation of procurement procedure was finalized with respect to obtaining 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 and harmonised with the Ministry of Welfare. On 5 February, 2015, an announcement with deadline of submitting proposals by the 20<sup>th</sup> of February was published on the website of EUD and on 12 February, on the website of SSPF. Nobody submitted the proposals. After that, changes were made to the requirements of services and the call for proposals was re-announced on the website of EUD on 10 March with the deadline due by 19 March. The proposals were submitted by 4 (four) service providers. The evaluation process will continue in the next reporting period (fifth quarter).

In the reporting period, the documentation for procurement procedure was prepared with respect to obtaining visibility materials for Twinning project needs and harmonising of documents with the Ministry of Welfare. On 18 March, 2015, an announcement was published on the website of EUD with the deadline of submitting proposals by 3 April, 2015.

<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 1.2.2.</b>	<i>Sub-activity “1.2.2. Development of a detailed blueprint of the funded system ”</i>
<b>MS Experts</b>	<p><b><u>Experts from Latvia:</u></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 – 18 man-days;</li> <li>2. Ms. Agrita <b>Groza</b> MS RTA.</li> </ol> <p><b><u>Experts from Germany:</u></b></p> <ol style="list-style-type: none"> <li>1. 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) - 2 man-days.</li> </ol>

<p><b>BC Experts</b></p>	<p><b><u>Experts from State Social Protection Fund</u></b></p> <ol style="list-style-type: none"> <li>1. Ms. Nigar <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. Yalchin <b>Muslumov</b> - Counsellor of Chairman;</li> <li>3. Mr. Farid <b>Bakhshiyev</b> - Head of Forecasting Department;</li> <li>4. Mr. Ufug <b>Hakhiyev</b> – Leader of Component I Head of Division of the Law and Strategic Research Department;</li> <li>5. Mr. Eyvaz <b>Ismayilov</b> - Head of Pension and Benefits Granting Sector of the Department of Pension and Benefits, Leader of Component 2.</li> <li>6. Mr. Farid <b>Garayev</b> - Head of Sector International Relationship of Department of International and Public Relations;</li> <li>7. Mr. Eltac <b>Babanli</b> - Senior adviser of sector of Actuarial Research of Forecasting Department;</li> <li>8. Mr. Elvin <b>Abdullayev</b> - Head of Sector of Actuarial Studies;</li> <li>9. Mr. Ahmed <b>Mustafayev</b> - Consultant of Sector of Actuarial Studies;</li> <li>10. Mr. Orhan <b>Seyidzada</b> - Consultant of Budget Prediction Sector;</li> <li>11. Mr. Emin <b>Alirzayev</b> - Adviser of Personal Account Department, RTA of Beneficiary country.</li> </ol>
<p><b>Outputs</b></p>	<p>Experts’ mission from December 08 to 09, 2014 - press release (Annex 19 of Quarterly Report No3), proposed structure of blueprint of the funded component (Annex 4 of Quarterly Report No3) and time schedule (Experts’ missions) for development of blueprint for funded component (Annex 5 of Quarterly Report No3), experts’ mission report (Annex32 of Quarterly Report No3).</p> <p>Expert’s mission from January 05 to 09, 2015 - press release (Annex 1) experts’ mission report (Annex 2).</p> <p>Expert’s mission from February 09 to 14, 2015 - press release (Annex 3), Presentation - Results of the feasibility study (Annex 4), experts’ mission report (Annex 5), Draft Blueprint FDC component (Annex 6).</p> <p>Expert’s mission from March 30 to April 03, 2015 - press release (Annex 14), expert’s mission report (Annex 15), Blueprint of establishment of funded component and development of legal framework in Azerbaijan (Annex 16), Appendix from 2 to 8 to Annex 16 of Blueprint of establishment of funded component and development of legal framework in Azerbaijan (Annex17).</p>
<p><b>Benchmark</b></p>	<p>A detailed blueprint of the funded system is developed and validated by SSPF</p>
<p><b>Duration</b></p>	<p>From the 08th of December, 2014 to 03rd of April, 2015 (20 experts man-days)</p>
<p><b>Initially planned</b></p>	<p>Month 7, according Side Letter No.2 Month 9 - 11</p>
<p><b>Implemented</b></p>	<p>Month 9-13. There were organized 4 experts’ missions:          From December 08 to 09, 2014          From January 05 to 09, 2015          From February 09 to 14, 2015          March 30 to April 03, 2015</p>

### Description

Sub-activity “1.2.2. Development of a detailed blueprint of the funded system” started in December in same time with the preparation and implementation of workshop “Possible solutions for development of multi-level pension system in the Republic of Azerbaijan (beginning of development of blueprint)”. Experts were discussed probably content of blueprint what have covered all necessary aspects of detailed description of funded component of labour pensions within the current insurance – pension system - organization, administration, financing, supervision, divided responsibilities between themselves and created time schedule for development of blueprints for funded component of labour pensions in which was planned to finish elaboration of blueprint by beginning of April.

Experts were prepared possible solutions for funded part taking into account international experience, Azerbaijani circumstances derived from the Study report “On demographic, economic, financial and capital market situation and social insurance system of Azerbaijan” and results of feasibility study.

In January experts present updated possible solutions for funded part of labour pensions, presented it to staff of SSPF with objective to receive feedback on the most appropriate solutions to create more detailed description on developed pension system.

Experts recommend five different options for funded component and SSPF had to choose at least two options for more detailed description in the blueprint of funded component:

- Voluntary participation with increased voluntary social insurance contributions of employees and redistribution of collected social insurance contributions.
- Voluntary participation with increased voluntary social insurance contributions of employees and defined additional payments as motivation instrument;
- Voluntary participation based on redistribution of collected social insurance contributions;
- Mandatory participation based on redistribution of social insurance collected contributions;
- Voluntary participation with increased voluntary social insurance contributions of employees.

Key characteristics of options comprise range of payers, possible social contribution rate, income tax breaks, inheritance, return guaranties, opt—out, pay-out options, types of pension plans and others.

Latvian experts took decision to update calculations on the following assumptions:

- Employment rate will increase each year by 1,1% for male, by 1% for female;
- Contributors changes based on employment rate;
- Inflation increase each year by 1,5%;
- Minimum wage will increase by growth of inflation;
- Contribution wage will increase double in the next 25 years and again double in the next 25 years;
- Pension capital will double start from 2020 for all insured persons. Until 2020 pension capital stay at the same level.
- Started from 2020, all uninsured expenditures (included basic pension) will be covered by state budget. (SSPF experts calculated that the share of uninsured expenditure is 45% from total social insurance budget).
- Interest rate for first reforms years (approximately 10 years) will be 3% (nominal), later – 5%;

- Participation rate in the voluntary funded component will be low – 5-10% of all contributors;
- In calculations are not include State budget transfers to the State Social insurance budget.

Based on these assumptions, the experts updated calculations of the five different options of funded component and submitted for reconsideration results - participation rate, budget balance, accumulated assets and replacement rates. Results of calculations were discussed with responsible staff of SSPF on the 12th of February. (Annex 3).

SSPF became acquainted with the main results from feasibility study and on necessity of choice between budget perspective, individual replacement rate, coverage and development of economy in Azerbaijan (Annex 4, Annex 5 and Annex 6).

In late February, SSPF defined their choice from funded component options and selected three options as most appropriate for the overall situation in Azerbaijan - as the first priority - voluntary participation with increased voluntary social insurance contributions of employees, the second priority - voluntary participation with increased voluntary social insurance contributions of employees and redistribution of collected social insurance contributions and the third priority - voluntary participation with increased voluntary social insurance contributions of employees and defined additional payments as motivation instrument (Annex 9).

Blueprint on establishment of funded component and development of legal framework in Azerbaijan was finished in the last experts' mission on March 30, 2015 and submitted to SSPF for the review and comments. (Annex16 and Annex 17).

<b>Component 1: Capacity building aimed at implementation of the funded component in the state insurance pension system (“second pillar”)</b>	
<b>Mandatory Result 2 Technical description of the mechanism for accumulations and management of the funds on the individual real funded accounts</b>	
<b>Activity 2.1.</b>	<b>Activity 2.1 Thorough assessment of management processes and IT systems of the SSPF</b>
<i>Sub-activity 2.2.1.</i>	<i>Sub-activity “Analysis of management processes of the SSPF”</i>
<b>MS Experts</b>	<p><b><u>Experts from Latvia:</u></b></p> <ol style="list-style-type: none"> <li>1. Ms. Sandra Stabina – Expert - Deputy Director of Department of Social Insurance of the Ministry of Welfare of Republic of Latvia - 5 man-days;</li> <li>2. Ms. Inese <b>Upite</b> - Expert – Senior Officer of Department of Social Insurance of the Ministry of Welfare of Republic of Latvia - 5 man-days;</li> <li>3. Ms. Agrita <b>Groza</b> MS RTA.</li> </ol>
	<p><b><u>Experts from State Social Protection Fund</u></b></p> <ol style="list-style-type: none"> <li>1. Ms. Nigar <b>Panahova</b> – BC Project Leader, Head of Personal Accounting Department of the State Social Protection Fund of Republic of Azerbaijan;</li> <li>2. Ms. Sanubar <b>Cabbarova</b> - Head of the Department of Pension Documentations and Application;</li> <li>3. Ms. Elnara <b>Tanriverdiyeva</b> - Senior Consultant of the Department of Pension Documentations and Application;</li> </ol>

<b>BC Experts</b>	<ol style="list-style-type: none"> <li>4. Ms. Aynura <b>Zamanova</b> - Consultant of the Department of Pension Documentations and Application;</li> <li>5. Ms. Simuzar <b>Mammadova</b> - Consultant of the Department of Pension Documentations and Application;</li> <li>6. Mr. Elshan <b>Mammadaliyev</b> - Head of Department of Pension and Benefits;</li> <li>7. Mr. Azar <b>Mammadov</b> - Senior consultant of Department of Pension and Benefits;</li> <li>8. Mr. Mammad <b>Nuriyev</b> - Head of Finance Department;</li> <li>9. Ms. Lale <b>Ibrahimova</b> - Head Head of Budget Rewiev Sector of Finance Department;</li> <li>10. Mr. Nazim <b>Shiriyev</b> - Head of Department of Accounting of Budget Execution;</li> <li>11. Ms. Mushkunaz <b>Ahmadova</b> - Deputy Head of Department of Accounting of Budget Execution;</li> <li>12. Mr.N.H.<b>Maharramov</b> - Head of the Department of SSPF Yasamal district;</li> <li>13. Mr. S.D.<b>Tagiyev</b> - Director of the Finance Department of SSPF Yasamal district;</li> <li>14. Mr. H.A.<b>Huseynov</b> - Head of the Individual accounting Department of SSPF Yasamal district;</li> <li>15. Mr. A.U.<b>Feyzullayev</b> - Head of the Revenue Department of SSPF Yasamal district;</li> <li>16. Mr. F.B. <b>Aliyev</b> - Head of Allocation pensions of SSPF Yasamal district.</li> </ol>
<b>Outputs</b>	Experts' mission from February 23 to 27, 2015 - press release (Annex 34) experts' mission report (Annex35) with time schedule for implementation Mandatory Result 2 Technical description of the mechanism for accumulations and management of the funds on the individual real funds accounts.
<b>Benchmark</b>	Assessment Report on the management processes at the SSPF is developed - not achieved yet.
<b>Duration</b>	From the 23rd of February to 27th of February (10 experts man-days)
<b>Initially planned</b>	Month 13
<b>Implemented</b>	Month 11. There was organized 1 experts' mission: From February 23 to 27, 2015
<b>Description</b>	
<p>Sub-activity “Analysis of management processes of the SSPF” started in February with objective to analyse the current management (business) processes with the purpose to give an overall description of the funded component business at the SSPF.</p> <p>To achieve the objective of activity and fulfill the tasks of experts' mission, the experts needed to analyze documents – statutes of departments of SSPF and divisions (sectors), investigated current business processes and assessed the number of involved staff and their duties.</p>	

Therefore, the experts assessed fulfillment of the main current SSPF tasks – collection of social security contributions collection and tracking, granting, allocation and payment of pensions, collection and pooling, public information, and other business processes, which have secured the

quality services to the public. During the experts’ mission, the experts had meetings with the staff of Personal Accounting Department, Pensions and Benefits Department, Department of Pension Documentations and Application, Department of Accounting of Budget Execution, Finance Department and Regional Branch office in the Yasamal district (Annex 34 and Annex 35).

In the end of this sub-activity 2.1.1., the experts will develop an assessment report on the management processes at the SSPF. Sub-activity 2.1.1. will be completed in the next quarter.

<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>
<b>Sub-activity 3.1.2.</b>	<b>Sub-activity ”Development of a blueprint”</b>
<b>MS Experts</b>	<p><b><u>Experts from Latvia:</u></b></p> <ol style="list-style-type: none"> <li>1. Ms.Dace <b>Brencena</b> - Senior Expert, Component 2 Leader, Head of Private Pension Committee of Latvian Bank Associations - 12 man-days;</li> <li>2. Ms. Ieva <b>Ose</b> - Senior Expert of Ministry of Welfare, Head of Pensions and Investment Funds Division of the Financial and Capital Market Commission of Republic of Latvia - 5 man-days;</li> <li>3. Mr. Harijs <b>Svarcs</b> - Senior Expert of Ministry of Welfare, Chief Executive Officer of the Investment Management division of SWEDBANK - 5 man-days;</li> <li>4. Ms. Agrita <b>Groza</b> MS RTA.</li> </ol> <p><b><u>Experts from Germany:</u></b></p> <ol style="list-style-type: none"> <li>1. 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 - 8 man-days;</li> <li>2. Mr.Bernd <b>Schulte-Brinker</b> - Regulatory Officer of the Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht - BaFin) - 12 man-days.</li> </ol>



<p><b>BC Experts</b></p>	<p><b>Experts from State Social Protection Fund</b></p> <ol style="list-style-type: none"> <li>1. Ms. Nigar <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. Yalchin <b>Muslumov</b> - Counsellor of Chairman;</li> <li>3. Mr. Farid <b>Bakhshiyev</b> - Head of Forecasting Department;</li> <li>4. Mr. Ufug <b>Hakhiyev</b> – Leader of Component I Head of Division of the Law and Strategic Research Department;</li> <li>5. Mr. Eyvaz <b>Ismayilov</b> - Head of Pension and Benefits Granting Sector of the Department of Pension and Benefits, Leader of Component 2.</li> <li>6. Mr. Farid <b>Garayev</b> - Head of Sector International Relationship of Department of International and Public Relations;</li> <li>7. Mr. Eltac <b>Babanli</b> - Senior adviser of sector of Actuarial Research of Forecasting Department;</li> <li>8. Mr. Elvin <b>Abdullayev</b> - Head of Sector of Actuarial Studies;</li> <li>9. Mr. Ahmed <b>Mustafayev</b> - Consultant of Sector of Actuarial Studies;</li> <li>10. Mr. Orhan <b>Seyidzada</b> - Consultant of Budget Prediction Sector;</li> <li>11. Mr. Emin <b>Alirzayev</b> - Adviser of Personal Account Department, RTA of Beneficiary country.</li> </ol>
<p><b>Outputs</b></p>	<p>Experts’ mission from December 08 to 09, 2014 - press release (Annex 19 of Quarterly Report No3), proposed structure of Blueprint for establishment non-state pension institutions and development of legal framework in Azerbaijan (Annex 7 of Quarterly Report No3) and time schedule (Experts’ missions) for development of blueprint of non-state pension institutions (Annex 5 of Quarterly Report No3), experts’ mission report (Annex32 of Quarterly Report No3).</p> <p>Expert’s mission from January 05 to 09, 2015 - press release (Annex 1) experts’ mission report (Annex 2).</p> <p>Experts’ mission from February 09 to 14, 2015 - press release (Annex 3), experts’ mission report (Annex 5), Draft Blueprint Licensing rules for private pension funds (Annex 7), Draft Blueprint Organization of pension plan asset management (Annex 8).</p> <p>Expert’s mission from March 09 to March 12, 2015 - press release (Annex 10), expert’s mission report (Annex 11), Presentation in Press briefing of German expert (Annex 12), Presentation in Press briefing of RTA (Annex13).</p> <p>Experts’ mission from March 30 to April 03, 2015 - press release (Annex 14), experts’ mission report (Annex 15), Blueprint of establishment non-state pension institutions and development of legal framework in Azerbaijan (Annex 18).</p>
<p><b>Benchmark</b></p>	<p>A blueprint, providing a detailed description of the market for private, voluntary, pension arrangements is developed and validated by SSPF</p>
<p><b>Duration</b></p>	<p>From the 08th of December, 2014 to 03rd of April, 2015 (42 experts man-days)</p>

<b>Initially planned</b>	Month 10-12
<b>Implemented</b>	<p>Month 9-13.</p> <p>There were organized 5 experts' missions:</p> <p>From December 08 to 09, 2014</p> <p>From January 05 to 09, 2015</p> <p>From February 09 to 14, 2015</p> <p>From March 09 to March 12, 2015</p> <p>From March 30 to April 03, 2015</p>
<b>Description</b>	
<p>Sub-activity “Development of a blueprint” started in December in same time with the preparation and implementation of workshop “Possible solutions for development of multi-level pension system in the Republic of Azerbaijan (beginning of development of blueprint)”. Experts were discussed probably content of blueprint what have covered all necessary aspects of detailed description of non-state pension institutions - organization, administration, financing, supervision, divided responsibilities between themselves and created time schedule for development of blueprint for non-state pension institutions in which was planned to finish elaboration of blueprint by beginning of April.</p> <p>Experts were prepared possible solutions for the non-state pension funds taking into account international experience, Azerbaijani circumstances derived from the Study report “On demographic, economic, financial and capital market situation and social insurance system of Azerbaijan” and results of feasibility study.</p> <p>In January experts present updated possible solutions for non-state pension funds - voluntary participation on the part of employee (person) and/or employer with defined amount of individual contributions, inheritance principles, types of possible pension plans, pay-out solutions, etc., and each of these key characteristics can comprise more than one solution, presented it to staff of SSPF with objective to receive feedback on proposed solutions.</p> <p>Within experts’ missions, meetings with the SSPF staff were organized to explore views on possible solutions which were integrated in the content of blueprint and will be used for drawing up legislation as well - motivation measures for participation and participation rules, necessary amount of contributions, possible income tax relief for employers and employees, rights and obligations of participants, types of pension plans, assets management and custodian functions, licensing rules and supervision of system as well as the main differences between the state funded component.</p> <p>Within expert’s mission in March, the first press briefing was organized to inform the public on results of the project and the experts’ work on developing the additional elements to the existing pension system, which was attended by BC project leader, RTA and the expert from Germany.</p> <p>Blueprint on establishment non-state pension institutions and development of legal framework in Azerbaijan was finished in the last experts’ mission of sub-activity 3.1.2. from the March 30, 2015 and submitted to SSPF (Annex 18).</p>	

<b>Activities relating to both component</b>	
<b>Mandatory Result 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 and to play a role (which role remains to be decided) in creating a market for non-state pension funds</b>	
<b>Activity 4.4.</b>	The Activity title “ <b>Study visit of a maximum of three employees of SSPF to EU Member States</b> ” has been changed and now its title is: <b>Activity 4.4. “Study visits for a maximum of six SSPF staff to the both EU MS”</b>
	<p><b><u>Experts from Latvia:</u></b></p> <p><b>I. Member States experts from the Ministry of Welfare of Republic of Latvia</b></p> <ol style="list-style-type: none"> <li>1. Mr.I.Alliks – Deputy State Secretary</li> <li>2. Ms. Jana <b>Muizniece</b> – Director of Department of Social Insurance</li> <li>3. Ms. Sandra <b>Stabina</b> – Deputy Director of Department of Social Insurance;</li> <li>4. Ms. Inese <b>Upite</b> - Senior Officer of Department of Social Insurance;</li> <li>5. Ms. Aija <b>Jaunmuktane</b> – Senior Officer of the EU Structural Funds Department;</li> <li>6. Ms. Agrita <b>Groza</b> MS RTA.</li> </ol> <p><b>II. Member States experts from the State Social Insurance Agency of Republic of Latvia</b></p> <ol style="list-style-type: none"> <li>7. Ms. I.<b>Dege</b> – Head of Division of Funded pension Scheme;</li> <li>8. Ms.I.<b>Vindele</b> – Division of Funded pension;</li> <li>9. Ms. G.<b>Broka</b> - Head of Processing Unit;</li> <li>10. Ms. J.<b>Gaile</b> – Senior Officer of Processing Unit;</li> <li>11. Ms. D.<b>Skrastina</b> - Senior Officer of Processing Unit;</li> <li>12. Ms. Diana <b>Djackova</b> - Head of Riga’s Latgale Unit;</li> <li>13. Ms.S.<b>Ergle</b> – Pension consultant of Riga’s Latgale Unit;</li> <li>14. Ms. Ligita <b>Glazniece</b> – Head of Sigulda’s Regional Office;</li> <li>15. Ms. S.<b>Blumere</b> – Head of Pension division of Sigulda’s Regional Office;</li> <li>16. Ms. V.<b>Vilcane</b> – Head of Benefit division of Sigulda’s Regional Office;</li> <li>17. Ms. Dz.<b>Puzule</b> –Head of Cesis’s Clients Service Office.</li> </ol> <p><b>III. Member States experts from State Revenue Service of Republic of Latvia</b></p> <ol style="list-style-type: none"> <li>18. Ms. Arta <b>Seglina</b> – Deputy Director General in Tax Area.</li> </ol> <p><b>IV. Member States experts from Financial and Capital Market Commission of Republic of Latvia</b></p> <ol style="list-style-type: none"> <li>19. Ms. Ieva <b>Ose</b> - Head of Pensions and Investment Funds Division;</li> <li>20. Ms. Inga <b>Spule</b> – Senior Supervision Expert of Pensions and Investment Funds.</li> </ol>

MS Experts	<p><b>V. Member States experts from Ministry of Finance of Republic of Latvia</b></p> <p>21. Ms. Aija <b>Zitcere</b> - Deputy Director of Financial Market Policy Department;</p> <p>22. Ms. Dina <b>Buse</b> - Senior expert of Financial Market Policy Department.</p> <p><b>VI. Member States experts from SEB Open Pension Fund of Republic of Latvia</b></p> <p>23. Ms. Dace <b>Brencena</b> – Head of the SEB Open Pension Fund and Head of Private Pension Committee of Latvian Bank Associations;</p> <p>24. Mr. Jānis <b>Rozenfelds</b> – CEO of SEB;</p> <p>25. Mr. Valdis <b>Bernāns</b> – Deputy of CEO, Head of Division of Corporative business;</p> <p>26. Ms. Natālija <b>Daņilova</b> – Manager of projects of Sales Support.</p> <p><b>VII. Member States expert from Swedbank Open Pension Fund of Republic of Latvia</b></p> <p>27. Mr. Harijs <b>Svarcs</b> - Chief Executive Officer of the Investment Management Division.</p> <p><b>VIII. Member States experts from Riga IT Demo centre of Republic of Latvia</b></p> <p>28. Ms. Katrin <b>Gulbis-Vekmane</b> - Riga IT Demo Center Manager;</p> <p>29. Ms. Ivonna <b>Bibika</b> – Director of Business Development of AS Exigen Services;</p> <p>30. Ms. Zane <b>Vitolina</b> – Product Development Project manager of Datacom.</p>
	<p><b><u>Experts from Germany:</u></b></p> <p><b>I. Member States experts from the Federal Ministry of Labour and Social Affairs of the of the Federal Republic of Germany</b> (<i>Bundesministerium für Arbeit und Soziales</i>)</p> <p>1. Mr. Peter <b>Görgen</b> - Head of Unit IVb4 “Supplementary Pension Provision”;</p> <p>2. Mr. Marcus <b>Leven</b> – expert of Division “Supplementary Pension Provision” .;</p> <p>3. Ms. Bettina <b>Scwindt</b> - expert of Division “Supplementary Pension Provision”.</p> <p><b>II. Member States experts from the Federal Financial Supervisory Authority of the Federal Republic of Germany</b> (<i>Bundesanstalt für Finanzdienstleistungsaufsicht – BaFin</i>)</p> <p>4. Mr. Peter <b>Baier</b> – Head of Unit for Technical Cooperation, Department of International Policy/Affairs;</p> <p>5. Mr. Bernd <b>Schulte-Brinker</b> - Regulatory Officer of the Unit VA 42, Department for Supervision of International Holdings, Insurance and Pension Fund Supervision.</p>

	<p><b>III. Member States expert from the Association for Social Security Policy and Research of the Federal Republic of Germany</b> (<i>Gesellschaft für Versicherungswissenschaft und –gestaltung e.V.</i>)</p> <p>6. Ms. Nathalie Bélorgey - Head of Section Social Protection/Pensions, Co-project Leader of Twining Project.</p> <p><b>IV. Member States expert from the Confederation of German Employer’s Associations (BDA) of the Federal Republic of Germany</b> (<i>Pensions-Sicherungs-Verein-PSVaG</i>)</p> <p>7. Mr. Florian <b>Swyter</b> – Lawyer of the Department for Social Security. Member of the Advisory Board of the Association for Pension Security.</p> <p><b>V. Member States experts from the Pension Insurance Fund (DRV), Regional Office Hesse of the Federal Republic of Germany</b> (<i>Deutsche Rentenversicherung Hessen</i>)</p> <p>8. Ms. Scarlet <b>Anderson-Hauth</b> - Head of Department for Insurance Benefits;</p> <p>9. Mr. Erik <b>Röhr</b> - Head of the District Control Authority West Hessen of the Department for Control Services;</p> <p>10. Mr. Roger <b>Eckardt</b> - Adviser of the Information and Counselling Office Bad Nauheim, Department for Insurance Benefits.</p> <p><b>VI. Member States expert from the European Insurance and Occupational Pensions Authority (EIOPA)</b></p> <p>11. Ms. Sandra <b>Hack</b> – Senior Expert – Accounting and Solvency II, Coordinator Pensions Policy Team.</p> <p><b>VII. Member States experts from the SOKA-Bau Pension Fund of the Federal Republic of Germany</b> (<i>SOKA-Bau Pensionskasse</i>)</p> <p>12. Mr. Peter <b>Gramke</b> - Director of Audit Department;</p> <p>13. Ms. Michaela <b>Jakobs</b> - Senior Expert of Audit Department.</p>
<p><b>BC Experts</b></p>	<p><b><u>Experts from Azerbaijan:</u></b></p> <p><b>BC Experts from State Social Protection Fund of the Republic of Azerbaijan</b></p> <p>1. <u>Ms. Nigar Panahova</u> – BC Project Leader, Head of Personal Accounting Department – participated in Study visits to Latvia and Germany;</p> <p>2. Mr. Yalchin <b>Muslimov</b> - Counsellor of Chairman - participated in Study visit to Germany;</p> <p>3. Mr. Farid <b>Bakhshiyev</b> - Head of Forecasting Department - participated in Study visit to Germany;</p> <p>4. Mr. Farid <b>Garayev</b> - Head of Sector International Relationship of Department of International and Public Relations - participated in Study visit to Latvia and Germany.</p>

<b>Outputs</b>	<p>Two separate Study visits to Latvia and Germany for maximum of six SSPF were organised.</p> <p>In the Study visit to Latvia participated two representatives of SSPF. There are following material from Study visit - press release, agenda, Latvian experts presentations during the meetings – 9 presentations (<i>see Quarterly Report No2</i>)</p> <p>In the Study visit to Germany participated four representatives of SSPF. There are following material from Study visit - press release (<i>Annex 19</i>), agenda (<i>Annex 20</i>, German experts presentations during the meetings – 12 presentations (<i>Annexes 22 - 33</i>).</p>
<b>Benchmark</b>	EU MS (Latvia and Germany) experience related to pension systems’ actual situation reflected in two BC prepared two reports on Study visits ( <i>see Quarterly Report No2 and Annex 21</i> ).
<b>Duration</b>	Five days in each country Latvia and Germany.
<b>Initially planned</b>	The activity was planned carried out in the months 4 and 8.
<b>Implemented</b>	<p>The activity was carried out in the months 6 and 10:</p> <ul style="list-style-type: none"> <li>✓ Study visit to Latvia was from September 22 – 26, 2014;</li> <li>✓ Study visit to Germany was from January 26 – 30, 2015.</li> </ul>
<b>Description</b>	
<p>Activity 4.4. “Study visits for a maximum of six SSPF staff to the both EU MS” was implemented in two parts. <b>The first part</b> was from September 22 to 26, 2014 to Latvia. No STE expert days were used.</p> <p>In Study visit to Latvia, the following representatives of SSPF participated:</p> <ul style="list-style-type: none"> <li>▪ Ms. Nigar <b>Panahova</b> - Head of Personal Accounting Department, BC project Leader;</li> <li>▪ Mr. Farid <b>Garayev</b> – Head of Sector of International Relationship of Department of International and Public Relations.</li> </ul> <p>The goal of this study visit was to make discussions less abstract by providing a point of reference, a system that is operating successfully. The Study visit helped to demonstrate as to how the pension systems were in reality in Latvia and had an actual “hands-on” experience of how the systems operated on a day-to-day basis on working level.</p> <p>Representatives of SSPF visited Ministry of Welfare, Ministry of Finance, State Revenue Service, State Social Insurance Agency (SSIA) and three of its branch offices – Latgale’s district of Riga and two cities - Sigulda and Cesis, the Financial and Capital Market Commission, SEB Open Pension Fund, Swedbank Open Pension Fund and Riga IT Demo centre.</p> <p>Representatives from SSPF had an opportunity to practically see how each pillar of pension system in Latvia works, what main tasks and duties of institutions involved in management and execution processes were and how all pension pillars operated.</p>	

Experience obtained from study visit helped to better understand how the pension system may work future, this knowledge enabled to develop the two pension pillars - the real funded component in the frame of state insurance-pension system and non-state pension funds in Azerbaijan. Participants of Study visit to Latvia prepared a report.

The **second part** of activity was implemented from January 26 to 30, 2015 to Germany. No STE expert days were used.

In Study visit to Germany, the following representatives of SSPF participated:

- 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 the Study visit was to show how the pension system worked and operated on a day-to-day basis on working level in Germany.

Study visit to Germany was carried out in the three cities – Bonn, Cologne and Frankfurt.

Representatives of SSPF visited Federal Ministry of Labour and Social Affairs, Federal Financial Supervisory Authority, Association for Social Security Policy and Research, Regional Office of German Pension Insurance Fund (Hessen/Frankfurt on Main), European Insurance and Occupational Pensions Authority (EIOPA) and SOKA – Bau Pension Fund and meet representative of Confederation of German Employer’s Associations (BDA).

Representatives from SSPF had an opportunity to see the main tasks and duties of institutions involved in management and execution processes to secure policy developments and operations of pension system, as well as, the supervision of system.

The study visit experience helped to better understand how pension system worked and this knowledge will be used to develop two pension pillars - the real funded component in the frame of state insurance-pension system and non-state pension funds in Azerbaijan within project.

## 2D – Timing and Delays

	Activity Planned (with sub-activities)
	Activity/sub-activity/action Planned
x	Activity/sub-activity/action Performed
c	Activity/sub-activity/action Completed
	Activity/sub-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>			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>						C													
<b>Activity 1.2.</b>																			
<i>Sub-activity 1.2.1.</i>								C											
<i>Sub-activity 1.2.2.</i>									X	X	X	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>													X						
<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	X	X	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>																			C	
<b>Activity 5.1</b>																				
<b>Activity 5.2</b>																				



## Recuperation of delays

As the project activities are monitored according to the date of notification of the project (07.04.2014), rather than the actual project start date (from the date when RTA started operations in Azerbaijan (08.05.2014)), the deviations in project activities by one month are "self-evident".

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

In December, 2014, all necessary experts' missions were planned for implementation of activities related to the development of blueprints for funded component (*sub-activity 1.2.2. "Development of a detailed blueprint of the funded system"*) and non-state private pension funds (*sub-activity 3.1.2. "Development of a blueprint"*).

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 and implemented in the last experts' mission in March. As this experts' mission was held in period between two months, the actual month of implementation of activity was month 13.

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"* was started in the month 9 and implemented in the last experts' mission in March. As this experts' mission was in period between two months, the actual month of implementation of activity was month 13, but not month 12 as planned.

In this reporting period, the activity 2.1 "Thorough assessment of management processes and IT systems of the SSPF" was initiated earlier than planned (in month 11, instead of the month 13): taking into account, that Latvia in the first half of 2015 is the presiding state of the European Union *and* due to Latvian experts availability *sub-activity 2.1.1 "Analysis of management processes of the SSPF"* launched, but the *sub-activity 2.1.2. "Analysis of the IT systems"* was not finished due to non-availability of experts from both side – Latvian and Azerbaijani and completion of this sub-activity has been postponed to June. In planning time schedules of activities in this reporting period for March, it was necessary to take into account the situation that due to holidays in March, there were only 16 working days and only one full working week (the 10<sup>th</sup> week).

This was also one of reasons to postpone the activity 02. "Thematic mid-term project visibility event" from the month 12 to month 13.

In the reporting period, the beginning of activity 1.3. was planned on "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"*. As the activity 1.2. was not completed on "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"*, the next following activity was not initiated. Therefore, a Side Letter will be prepared to change the time schedule for this activity 1.3.

## 2E – Assessment

### Overall Assessment of progress

The project and the implementation of activities within the fourth project quarter went smoothly, but with slight deviations and according to the project's Work plan of the fourth quarter.

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

The most important activities in the reporting period were creation of blueprints for the funded component (*sub-activity 1.2.2.*) and non-state pension institutions (*sub-activity 3.1.2.*) which are almost to be completed (last experts' mission was in the end of March and it was transitive and completed in the next quarter). For this measures, in reporting period according to the agreed time schedule, four separate experts' missions were organized, 3 of them were common for the both sub-activities, but one expert's mission was for sub-activity 3.1.2. Implementation of these sub-activities proceeded intensively based on agreed time schedule without any changes.

As it was decided that within the activity 02. "Thematic mid-term project visibility event" the main issues will be presentations of blueprints, accordingly the implementation of this activity is planned in April, which was a reason to postpone the implementation of this activity one month later than was planned before in the work plan of contract. The mid-term event will be attended by representatives from different institutions whose duties are closely related to the developments of multi-level pension system, which will directly or indirectly be involved and/or will operate within the second and third tier of the pension system in Azerbaijan. At this event, the widest audience will receive information about the achieved results during project implementation period and experts' solutions and outlines on proposed additional components of pension system in Azerbaijan.

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 December of last year and was continued during the entire reporting period and was almost finalized. Experts proposed five possible solutions for the development of funded component of the multi-level pension system and SSPF should choose at least two options for more detailed further elaborations within the blueprint.

In the end of February, the experts received recommendations from SSPF based on approved Concept of reforms of pension provision system in the Republic of Azerbaijan in 2014 -2020 by the President of Republic of Azerbaijan dated 4 November, as the first priority, SSPF supports the 5th option - voluntary participation with increased voluntary social insurance contributions of employees (system features is similar with Portuguese funded component) and as next the 1st option - voluntary participation with increased voluntary social insurance contributions of employees and redistribution of collected social insurance contributions and the 2nd option - voluntary participation with increased voluntary social insurance contributions of employees and defined additional payments as motivation instrument.

During the experts' missions, meetings were organized with the responsible staff of SSPF pertaining to experts' questions and uncertainties and hearing and/or receiving opinions from

SSPF staff to better understand the national context and existing circumstances.

In the end of each expert mission, the experts submitted mission reports with annexes which comprise the work done. SSPF did not provide comments on elaborated parts of blueprint, but promised to give feedback on fully developed and completed blueprint of the funded element which has been submitted to SSPF after the last expert mission.

Similar implementation process took place for 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”*. The main difference between funded component and private pension funds was that here was not necessary to choose and decide on the design of the system in terms of participation and social security contributions, as was offered only one overall design that have allowed already from the beginning to focus on the content of blueprint.

One option was proposed for non-state pension funds - voluntary participation on the part of employee (person) and/or employer with defined amount of individual contributions, inheritance principles, types of possible pension plans, pay-out solutions, etc., and each of these key characteristics can comprise more than one solution.

Project Partners agree that the approach to provide a feedback on the substance of the developed documents only after its completion will make the process of legislation development almost impossible. In order to secure reasonable quality of outputs and timely implementation of activities, SSPF will provide its feedback on blueprints with clear position on supported options and solutions before the legislation phase starts and will ensure day-to-day work of its staff with MS experts during the legislative drafting.

SSPF carries on its cooperation with experts continuously and in the working process they are also provided with necessary appropriate information. Also acquaintance of the experts with the information/relevant legislative acts presented and grounding on them in the process of elaboration of legislation play an important role.

During the reporting period, the activity 2.1. was initiated on “Thorough assessment of management processes and IT systems of the SSPF” *sub-activity 2.1.1 „Analysis of management processes of the SSPF”*. Within the expert missions, the experts had meetings with the core departments of SSPF, acquainted with the main business processes of SSPF, assessed the main tasks and duties of core departments and its subordinated units to carry out analyses of current management processes of SSPF and created Assessment report on the management processes at the SSPF in the end of this sub-activity 2.1.1.

During the reporting period experts meetings have been organized with relevant departments of SSPF with the aim of becoming acquainted with their functions. Taking into account the non-availability of a translator for that period, responses to the issues that experts were interested in were provided during the meetings. At the next stage more detailed information was presented by SSPF regarding the content of each department and functions of each unit arising from their positions entailed in them according to relevant spheres where the experts were interested in. Therefore, it has to be noted that the information about the number of staff was not requested during the reporting period.

As for analyses is important acquainted with existing documents, experts received information only on the statute of the Forecasting Department in which are described following items – general provisions (including the main aim of department), duties, functions, rights, organization of department.

SSPF opinion is that presented information by being more comprehensive and detailed and reflecting the positional functions in relevant structural units in current condition is not different from the document as a statute requested by experts from SSPF in its quality and essence. Based on this information presented in more detail it is possible to continue the work without an obstacle.

Within the fourth quarter, the entire activity 4.4. was completed on “Study visits for a maximum of six SSPF staff to the both EU MS”. There was a Study visit to Germany in which four persons from SSPF participated. Study visit included the visits of different institutions and meetings with responsible staff dealing with comprehensive range of issues in the three cities – Bonn, Cologne and Frankfurt.

The Study visit experience helped to better understand how pension system works, how the system are supervised and this knowledge will be used to develop two pension pillars - the real funded component in the frame of state insurance-pension system and non-state pension funds in Azerbaijan within project.

In the reporting period, again there was a very long delay and slow work with Quarterly report No.3 on proposals of improvement from SSPF which included proposal on text revision in report. The three references were prepared on objections regarding the report (*Annex 42, Annex 43 and Annex 44*). As a result, the Quarterly report No3 was submitted to the EUD on 18 March, 2014 and approved by the EUD on 8 April, 2015.

The Project Team prepared the Report No3 on implementation of Communication plan from 1 January, 2015 to 31 December which is enclosed to the report. The communication activities were organised in the framework of the project and focused on all target groups of project. All-rounded information on project implementation can be found on the website of Ministry of Welfare: <http://www.lm.gov.lv/text/2757>, home page of EUD and the website of SSPF.

In March, the first press briefing was organized to inform the public on results of the project which was attended by BC project leader, RTA and the expert from Germany. This event was broadcasted in TV news channels and 10 press releases were published on different websites of news in Azerbaijan.

After the RTA assistant meeting with EUD Project Communication Coordinator on recommendations on the EU visibility, the visibility issues of project were assessed in accordance with the recommendations of visibility and improvement has been made.

On 18 March, 2015, new per diem rates were published applicable to missions started from the 1st of April, 2015 onwards in the twinning projects. For Azerbaijan, the per diem rates reduced from 311 EUR to 218 EUR. As a result of this change, the surplus of the financial resources of project was appeared (approximately more than 20 thousand *euro*) and of project activities have to be analysed, additional needs and requests investigated and proposals for necessary changes elaborated.

At this stage of the project implementation, there are no other risks that the next activities (sub-activities) will not be started as planned and that they will be delayed for more than three months, because a time schedule was developed for implementation of activities 1.3. “Development of the legislation in relation to the funded component in the multi-level state pension system” and 3.2 “Drafting of legislation to facilitate and regulate private, voluntary pension arrangements” and related to activities (sub-activities) to achieve mandatory result 2

“Technical description of the mechanism for accumulations and management of the funds on the individual funded accounts elaborated”.

### **Issues**

There are no issues threatening the continuation of the project.

Due to the planned surplus of financial resources, it is necessary to carry out the needs analysis and elaborate on proposals and continue to make necessary changes in the work plan of contract project.

### **Recommendations**

To carry out planning of time schedules for all project activities till the end of the project.

To improve the mutual cooperation and successfully achieve the results of project, that would satisfy all partners and taking into account the lessons learned from implementation of different activities, it is necessary:

1. to submit feedback on prepared draft documents and project proposals in due time;
2. to change approach of work organization during the phase of elaboration of the legislation, ensuring that feedback from the SSPF side is provided in the frame of the drafting process and not only after submission of the completed documents/draft laws;
3. to provide experts with full information on business processes of SSPF and other necessary documents upon request.

## **Section 3: Expenditures**

The total cost of the action eligible for financing is 749 994,41 EUR. Execution in the fourth quarter amounts to 97 905,02 EUR or 13,05 % of total estimated cost, but from the beginning of project, the amount expended is 330 598,94 EUR or 44,08 % of total cost (*Annex 48 and Annex 49*).