



EUROPEAN COMMISSION

**TWINNING PROJECTS**

**INTERIM QUARTERLY REPORT**

<b>Project Title:</b>	<b>Support to the State Social Protection Fund on the introduction of funded element within the insurance – pension system, establishment of non – state pension funds and development of legal framework for regulating their activity</b>
<b>Partners:</b>	<b>Ministry of Welfare of the Republic of Latvia German Federal Ministry of Labour and Social Affairs State Social Protection Fund of the Republic of Azerbaijan</b>  <b>Implementing body: German Association for Social Security Policy and Research</b>
<b>Date:</b>	<b>23<sup>rd</sup> of October, 2014</b>

**Section 1: Project data**

Twinning Contract number:	Twinning Contract 2014/338-674 Twinning Reference No AZ/13/ENP/SO/24
Project Title:	Support to the State Social Protection Fund on the introduction of funded element within the insurance – pension system, establishment of non – state pension funds and development of legal framework for regulating their activity
Twinning partners (MS and BC)	Ministry of Welfare of the Republic of Latvia German Federal Ministry of Labour and Social Affairs State Social Protection Fund of the Republic of Azerbaijan  Implementing body: German Association for Social Security Policy and Research
Report number:	Twinning Interim Quarterly Report No 2
Period covered by the report:	From the 1 <sup>th</sup> of July, 2014 by the 30 <sup>th</sup> of September, 2014
Duration of the project:	Duration of the project is 18 months
Rapporteur:	<b>Ingus Alliks</b> Deputy State secretary of the Ministry of Welfare of the Republic of Latvia Lead Member State project Leader  <b>Nigar Panahova</b> Head of the Personal Accounting Department of the State Social Protection Fund of the Republic of Azerbaijan

Signatures:

Date:

**Mr. Ingus Alliks**  
MS Project Leader

**Ms. Nigar Panahova**  
BC Project Leader

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

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

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**2A – BACKGROUND**

This report covers activities that have been carried out in the second quarter of the project from the 1<sup>st</sup> of July, 2014 to the 30<sup>th</sup> of September, 2014. (According to the of Project Steering Committee Minutes No.1 of 31<sup>st</sup> of July , 2014 decision No.2 – “To change quarter period for the reporting purpose and to define the next period from the 1<sup>st</sup> of July to the 30<sup>th</sup> of September taking into account bookkeeping requirements and making easier the accounting of the expenditure”).

The Quarterly report No.1 was approved by EUD, as stated in the letter of EUD of the 27<sup>th</sup> of August, 2014 (AZE/2014/D/00671/JW/RZ).

**Overall objectives**

Overall Objective and indicators of achievement (as in Log frame)	State of Achievement / problems encountered
<b>Development of the insurance-pension system in Azerbaijan</b>	
<p><i>Indicator of achievement</i></p> <p>Positive assessment of the pension reform by local and international organisations (Commission of the European Union, the World Bank, NGO).</p>	<p>Implementations of project activities were directed to achieving planned objectives and obtaining the positive results.</p> <p>All project activities to be performed in the second quarter of project implementation were successfully completed.</p> <p>In the reporting period, there was published <i>Doing Business 2015: Going Beyond Efficiency</i>, a World Bank Group flagship publication, and Azerbaijan essentially had improved results in part “On paying taxes” by 32 ranks. The reason for this success is that there were developed electronic services of SSPF that allowed insurers to quickly and conveniently make social insurance payments and reports in full automated form.</p> <p>Within the second quarter, the following project activities were realized in the line with the work plan of the second quarter for the implementation of EU funded Twinning Project:</p> <ul style="list-style-type: none"> <li>✓ activity 4.1. “In-depth presentation of state pension system in EU Member States for the relevant SSPF staff and other stakeholders”;</li> <li>✓ activity 1.1. “Carry out the study on demographic and economic situation of Azerbaijan”;</li> <li>✓ activity 4.4. “Study visit of a maximum of three employees of SSPF to EU Member States (Latvia)”- one part of activity.</li> </ul>

**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>	
Positive assessment of the SSPF capacity.	<p>All implemented activities in the second 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, German and Sweden.</p> <p>Two representatives of SPPF were in Study visit to Latvia in which they had directly acquainted with the operation of pension system in practice by visiting the different institutions what were involved in pension issues of the second and the third pillar of pension system.</p> <p>Social insurance payments are registered in the personal accounts as pension capital of the participants. There are more than 2,8 million participants.</p> <p>Complicated is to receive report data of previous years from SPPF- accumulated pension capital, amount of average object of social insurance payments etc., and as well as divisions of these data in different cuts - men and women, age groups.</p>

**Policy Developments**

- No new policy documents related to the pension system adopted during the reporting quarter.
- In August, 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 operation aspects of Polish pension system.
- Today SSPF provides about 20 electronic services and one of them was created in the first half of this year.

This service is the following:

- E-Service online registration of the insured in SSPF.

- SSPF prepared suggestion to consider possibility to reduce a number of reports. Today, payers of social contributions must provide two different Reports with different reporting period – yearly report of personal data of insurers and quarterly report on paid amount of social contribution. Prepared suggestion combines these two reports in one and defines to prepare new report every quarter which must be submitted electronically. These suggestions allow reducing administrative barriers and reducing amount of paid fees for services by payers, thus promoting to improve business environment.
- In September, there are usually published a summary of different statistic data about the first half of year:
  - Number of pensioners now is 1 286 187, compared with the beginning of the year, this number increased by 9,1 thousand or 0,7 per cent. Some 782 581 persons or 60,9% of all pensioners receive old-age pensions, 363 181 persons or 28,2% - disability pensions, and 140 425 persons or 10,9% - survivor's pension. On October 1, 2014, the average pension amount was 172,9 manats per month, the average amount of monthly old-age pensions was 191,5. Currently, replacement rate from previous earnings for old-age pension is 43,4 per cent.  
According the Code of Social Security which is one of the determinants of the Council of Europe standards in the field of social security instruments, replacement rate from previous earnings for old-age pension corresponds to Code's requirements.
  - ⊖ According to the statistics of the October 1, 2014, the number of personal accounts increased by 7,2 per cent as compared to the beginning of the year. During January-August, some 193 885 persons opened personal accounts in the SSPF. At present, in the personal accounting system, 58,9 per cent is men while 41,1 per cent is women.
  - As of August 1, 2014 the number of employees in the enterprises and organizations of Azerbaijan amounted to 1 511 300 - 894 800 of them work in public, and 616 500 - in the private sectors of the economy. Taking into account, that number of working age persons is nearly 4 500 000 persons.
  - In January-July 2014, the average monthly salary of employees amounted to 440,8 manats.
  - Incomes of the population of Azerbaijani in January-August, 2014 is estimated at 24 billion manats for 8 months, which is higher by 5,1% than that of the corresponding period of the last year. Per capita income averaged to 2 559,9 manats. 21,8 billion manats remained available to the population after payment of taxes and contributions for social and other types of insurance, which are higher by 5,6% than the corresponding period of last year. To compare this amount of income of population with revenues of budget of SSPF, probably social contributions are not paid from all incomes.



**Project Assumptions**

	<b>Intervention logic</b>	<b>State of achievement/ problems encountered</b>		
<b>Project Purpose</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.			
	<table border="1" style="width: 100%;"> <tr> <td style="width: 20%;"><b>Assumptions</b></td> <td> <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> </td> </tr> </table>	<b>Assumptions</b>	<ul style="list-style-type: none"> <li>• SSPF establishes appropriate cooperation and information exchange links with other relevant institutions in the administration (e.g. Ministry of Finance, Ministry of Taxes, etc.).</li> </ul>	<p style="text-align: center;"><b>In progress</b></p> <p>Within the activity 1.1. “Carrying out the study on demographical, economic situation of Azerbaijan”, project experts together with BC experts visited 20 different institutions - government, non-government and international institutions, namely Ministry of Labour and Social Protection of Population, Ministry of Finance, Ministry of Taxes, Ministry of Economy and Industry, State Statistical Committee, Central Bank of Azerbaijan, State Committee for Securities, Baku Interbank Currency Exchange, State Insurance Supervision Agency, Central Depository, Ateshgah Sigorta Life Insurance Company, International Bank of Azerbaijan, Baku Stock Exchange, Azerbaijan Mortgage Fund, Kapital Bank, State Oil Fund, World Bank, UNDP, American Chamber of Commerce, which will be directly or indirectly involved and/or will operate within the second and third tier of the pension system in Azerbaijan.</p>
	<b>Assumptions</b>	<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>		

		<ul style="list-style-type: none"> <li>• Adequate financial resources are allocated to ensure solid backing of the pension reform.</li> </ul>	<p align="center"><b>In progress</b></p> <p>In the expenditure part of the Budget of Republic of Azerbaijan for SSPF for 2014, financial resources are planned in amount of 2,93 mil. manats for realization of measures of adopted “State Programme on development of insurance-pension system in Azerbaijan in 2009-2015”.</p>
		<ul style="list-style-type: none"> <li>• Capital market and other relevant financial institutions are further developed in Azerbaijan.</li> </ul>	<p align="center"><b>In progress</b></p> <p>Draft Law "On Capital Markets" was prepared within EU financed Twinning project "Approximation of the legal and regulatory framework for the securities market of 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, but Law has not been adopted yet.</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 align="center"><b>Started</b></p> <p>SSPF informs social contributions payers of the planned developments of pension system, but increase of the number of social contributions payers also shows an increase of trust to SSPF activities.</p>

	<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>			
	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 20%;"><b>Assumptions</b></td> <td> <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> </td> </tr> </table>	<b>Assumptions</b>	<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 align="center"><b>In progress</b></p> <p>SSPF staff who are involved in project implementation have not been changed, and they work to their full potential and participate in the different capacity building measures, including the project activities.</p>
	<b>Assumptions</b>	<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>		
<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 20%;"></td> <td> <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> </td> </tr> </table>		<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 align="center"><b>In progress</b></p> <p>Political will is not lost, pension reform issues continue to be actual. SSPF together with the Ministry of Finance and other government authorities have prepared draft of Concept for further developments of pension reforms and submitted to the Administration of the President for approval.</p>	
	<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>			

<b>Activities</b>	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 20%;"><b>Assumptions</b></td> <td> <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> </td> </tr> </table>	<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 align="center"><b>In progress</b></p> <p>Desire to improve the pension system is not changed, the SSPF works hard to acquire international experience about pension issues in order to continue its reforms.</p>
	<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>		
<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 20%;"></td> <td> <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> </td> </tr> </table>		<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 align="center"><b>In progress</b></p> <p>Sufficiently skilled, knowledgeable and energetic staff is available to the possible extent.</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>			

	<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 align="center"><b>Started</b></p> <p>SSPF has its own proven model in operating of the whole insurance-pension system. But process of progress requires adequate improvements.</p> <p>SSPF-created model is too general which is difficult to apply for calculations of pension reform scenarios, therefore during feasibility study experts built another “model”, which will be used to assess different scenarios of pension reform (make economic calculations).</p>
	<ul style="list-style-type: none"> <li>Interest of public in project, its entity and activities.</li> </ul>	<p align="center"><b>In progress</b></p> <p>Public interest about the implementation of project is regularly promoted, primarily through electronic means, publishing press releases in the SSPF and MoW websites, and through SSPF staff informing public on actual issues, including information about the project.</p>

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

There was **Side Letter No.1** prepared in the 1<sup>st</sup> quarter and submitted to EUD on the July 1, 2014 and entered into force on July 4, 2014. In Side Letter No.1 added one new expert - Mr Markus Maximilian Maria SAILER, Senior Economist / Senior Expert Consultant in the Department for Research and Development of German Pension Insurance-Federal Institute (Deutsche Rentenversicherung Bund), who represents Junior Member State Partner.

This modification was necessary in order to increase the number of experts who can be involved in the implementation of project activities and to provide flexibility in provision of required expertise and ensures timely replacement of experts when necessary, thus it does not hinder the progress of the project.

Expert Mr. Markus Maximilian Maria Sailer was add as additional expert to the following activities - Activity 1.2 – Sub-activities 1.2.1 and 1.2.2; Activity 2.1 – Sub-activities 2.1.1 and 2.1.3; Activity 2.2 – Sub-activity 2.2.1 and Activity 4.1.

There was prepared draft of **Side Letter No.2**, but it took too long time to harmonize it with BC, Side Letter No.2 will be submit to EUD only in October.

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

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

**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				This benchmark will be achieved in the month 12 of the project.
0.3. Closing Conference	<ul style="list-style-type: none"> <li>Stakeholders, media and public are informed about the results of the Project.</li> </ul>	0.3				This benchmark will be achieved in the month 18 of the project.
<b>Result 1.</b> Relevant pieces of legislation elaborated for establishment of the funded component in the state insurance-pension system	<p>Package of legislation for establishment of the funded component of the pension system accepted by the SSPF for use in dialogue with other stakeholders by the end of the project duration. This legislation is expected to provide a legal base for:</p> <p>a) a mechanism for collecting of funds on real funded accounts;</p> <p>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;</p> <p>c) procedures for the selection of managing companies to manage the</p>	1.1.			x	Successfully completed and the result achieved in the <b>second</b> quarter. This activity is designed specifically for achieving objectives of the project and stipulated achievements of Result 3 also. It is base for further implementation of activities. Prepared report contains description and evaluation of current demographical, economic situation, state social insurance system, financial and capital markets developments, supervision

Mandatory Results	Indicators of achievement	Activity	State of achievement			Remarks
			started	in progress	completed	
	funds accumulated on the funded accounts as well as rules on selection of the relevant managing companies by the insured persons;					of financial and capital markets and assessment of gaps for successful funded pension system introduction in Azerbaijan.
	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.	1.2.	x			This benchmark will be achieved in the month 7 of the project. There started preparation work for beginning of development blueprint including all aspects (vision) for funded element of pension system.
		1.2.1.	x			
		1.2.2.	x			
		1.3.				This benchmark will be achieved in the month 11 of the project.
		1.3.1.				This benchmark will be achieved in the month 9 of the project.
		1.3.2.				This benchmark will be achieved in the month 10 of the project.
		1.3.3.				This benchmark will be achieved in the month 11 of the project.

Mandatory Results	Indicators of achievement	Activity	State of achievement			Remarks
			started	in progress	completed	
<b>Result 2.</b> Technical description of the mechanism for accumulations and management of the funds on the individual funded accounts elaborated.	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. There started preparation work for analysis of existing IT systems.
		2.1.1.				This benchmark will be achieved in the month 13 of the project.
		2.1.2.	x			This benchmark will be achieved in the month 12 of the project. There started preparation work for analysis of existing IT systems.
		2.1.3.				This benchmark will be achieved in the month 16 of the project.
		2.2.				This benchmark will be achieved in the month 18 of the project.
		2.2.1.				This benchmark will be achieved in the month 17 of the project.
		2..2.2.				This benchmark will be achieved in the month 18 of the project.



Mandatory Results	Indicators of achievement	Activity	State of achievement			Remarks
			started	in progress	completed	
<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.				This benchmark will be achieved in the month 12 of the project.
		3.1.1.	x			This benchmark will be achieved in the month 10 of the project. There started preparation work for beginning of development blueprint including all aspects (vision) for private pension arrangements.
		3.1.2.	x			This benchmark will be achieved in the month 12 of the project. (Above-mentioned remark 3.1.1.)
		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	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

Mandatory Results	Indicators of achievement	Activity	State of achievement			Remarks
			started	in progress	completed	
implementation of the funded component in the state pension system		4.2.				This benchmark will be achieved in the month 15 of the project.
		4.3.				This benchmark will be achieved in the month 16 of the project.
		4.4.		x		This benchmark will be achieved in the month 8 of the project. There was obtained practical experience on how pension system works in Latvia that will be used for pension system developments in Azerbaijan.
<b>Result 5.</b> A communication strategy elaborated to raise public awareness concerning the new funded component of the state pension system.	Communication strategy to raise awareness on the pension reform accepted by the SSPF management.	5.1.				This benchmark will be achieved in the month 16 of the project.
		5.2.				This benchmark will be achieved in the month 18 of the project.

## 2C – Activities in the Reporting Period

During the second reporting period the works focused on:

- ✓ organization and implementation of two experts missions;
- ✓ organization and implementation the Study visit to Latvia;
- ✓ preparation of the 1st Twinning interim Quarterly Report and organization of the first Project Steering Committee;
- ✓ preparation of the work plan for next quarter and description of assignments for next expert missions;
- ✓ issues addressing visibility of project;
- ✓ recruitment of necessary staff for the project office;
- ✓ procurement procedures.

38 STE expert days were used in the reporting period, there were organized two expert missions and the following project activities were implemented:

- ✓ Activity 4.1 “In-depth presentation of the state pension system of the EU MS to relevant SSPF staff and other stakeholders” was implemented from July 21 to 23, 2014, when there was organized a two-day presentation on pension systems of member states – Latvia, Germany and Sweden and Azerbaijan. 8 STE expert days were used – 6 days for experts of Latvia and 2 days for experts of Germany. Experts prepared report with “lessons learned” and follow-up questions. Presentations of experts of Latvia and Germany and report with “lessons learned” were translated into Azerbaijani. Activity was completed. In presentation there participated only staff of SSPF.
- ✓ Activity 1.1. “Carry out the study on demographic and economic situation of Azerbaijan” was implemented from July 24 to 25 and from August 4 to 8. The first mission was dedicated for research and analyses of documents and available information, for planning visits of institutions and for meeting with SSPR experts. The next experts mission visited various institutions, which will be directly or indirectly, involved in the II and III pension pillars levels and met with experts from these institutions and prepared Study report “On demographical, economic, financial and capital market situation and social insurance system of Azerbaijan”. 30 STE expert days were used – all days for experts of Latvia;
- ✓ Activity 4.4. “Study visit of a maximum of three employees of SSPF to EU Member States (Latvia)” was implemented from September 22 to 26. No STE expert days were used.

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

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

The goal of this study visit is to make discussions less abstract by providing a point of reference, a system that is operating successfully. The Study visit will help show how the pension systems are in reality in Latvia and have actual “hands-on” experience of how the systems operate on a day-to-day basis on working level (*Annex 1*).

Representatives of SSPF visited Ministry of Welfare, Ministry of Finance, State Revenue Service, State Social Insurance Agency (SSIA) and three of its branch offices, the Financial and Capital Market Commission, SEB Open Pension Fund, Swedbank Open Pension Fund and Riga IT Demo centre (*Annex 2*).

Representatives from SSPF had opportunity to see practically how each pillar of pension system of Latvia works, what main tasks and duties of institutions involved in management and execution processes are and how all pension pillars operate.

Experience obtained from study visit will help better understand how pension system works and in future, this knowledge will help develop 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 will prepare a report, and while this report is not approved, it is not submitted to project office. (*Annex 3*).

As a continuation, now, the preparatory work has been started for this activity by organizing the Study visit to Germany which will be carried out in January, 2015.

- ✓ On the 31<sup>st</sup> of July, there was organized the meeting of the first Project Steering Committee (PSC). PSC meeting was organized jointly by the RTA and Azerbaijani partners and prepared the press realise. (*Annex 4*). 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 5*). The PSC discussed the progress of the project, reviewed and approved the first interim quarterly report and took notice of the project Communication plan (*Annex 6*). There were discussions on how to improve visibility issues of the project and it was decided to investigate possibilities for dissemination of presentation and materials (reports) prepared by the Experts of the project for placement in the SSPF and/or Ministry of Welfare home page. EUD can also assist and create banner of the project with the related links to the website of SSPF and/or Ministry of Welfare.

- ✓ By the beginning of the third quarter, the work plan of the project was worked out in which necessary measures and time schedule are planned. (*Annex 7*). In third quarter, the creation of blue prints for both components of projects will start, but before this, there will be carried out feasibility study and organized two-day seminar with participants of SSPF and other stakeholders to discuss different scenarios of development the funded element and non-state pension funds.

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

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

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

- ✓ By the end of July, recruitment of the project team was completed and on the 31st of July, there was signed a service contract with RTA assistant Rafiks Misirovs.
- ✓ RTA assistant participated in Communications Workshop “Communicating an EU-funded Project” on the 22<sup>nd</sup> and 24<sup>th</sup> September, 2014 organized by EU Neighbourhood Info Centre. Within workshop, discussions and studies about EU visibility guidelines, indirect communication tools and media relations, working with different communication exercises and cases were conducted.  
Information of implementation of Communication plan of project is reflected in separate report (*Annex 20*).
- ✓ Procurement procedure was organized to buy travel insurance service for participants of Study visit to Latvia. Insurance companies which are accredited by the Embassy of the Republic of Latvia in the Republic of Azerbaijan were invited to participate in procurement procedure. 7 insurance companies were invited to participate of which only 3 submitted proposals - International Insurance Company, Ateshgah Insurance and Xalq Sigorta. Service contract was signed with insurance company Xalq Sigorta which provided ordered services with the lowest price.  
In September, documentation of procurement procedure was prepared to obtain visibility materials for Twinning project needs and translation services. Invitations to participate in procurement procedure were sent to 5 companies in the end of September.

<b>Activities relating to both components</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 4.1.</b>	<b>In-depth presentation of the state pension system of the EU MS to relevant SSPF staff and other stakeholders</b>
<b>MS Experts</b>	<ol style="list-style-type: none"> <li>1. Ms. Jana <b>Muizniece</b> – Expert, Component 1 Leader, Director of Department of Social Insurance of the Ministry of Welfare of Republic of Latvia – 3 man-days;</li> <li>2. Ms. Dace <b>Brencena</b> - Expert, Component 2 Leader, Head of Private Pension Committee of Latvian Bank Associations - 3 man-days;</li> <li>3. 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> <li>4. Ms. Agrita <b>Groza</b> MS RTA.</li> </ol>

<b>BC Experts</b>	<ol style="list-style-type: none"> <li>1. <u>Ms. Nigar Panahova</u> – BC Project Leader, Head of Personal Accounting Department of the State Social Protection Fund of Republic of Azerbaijan;</li> <li>2. Ms. Aynur <b>Atayeva</b> - Head of the Law and Strategic Research Department of the State Social Protection Fund of Republic of Azerbaijan;</li> <li>3. Mr. Rufat <b>Orujli</b> - Head of sector of centralized accounting of insurers of the Finance-Budget Department of the State Social Protection Fund of Republic of Azerbaijan;</li> <li>4. Mr. Elshan <b>Mammadaliyev</b> - Director of Department of Labour Pensions of the State Social Protection Fund of Republic of Azerbaijan.</li> </ol>
<b>Outputs</b>	Agenda ( <i>Annex 8</i> ), press release ( <i>Annex 9</i> and <i>Annex 10</i> ), evaluation form about presentations of „The state pension system of the EU Member States: Latvia, Germany and Sweden“ ( <i>Annex 11.1</i> ), training materials - presentations 10 pieces ( <i>Annex 12</i> ), pension system description ( <i>Annex 13.1.</i> ), articles of laws of state funded pensions and private pension funds of Latvia ( <i>Annex 13.2. and 13.3.</i> ), experts’ mission report ( <i>Annex 14</i> ).
<b>Benchmark</b>	In presentation, there participated 32 participants ( <i>Annex 15</i> ), Experts’ report with “lessons learned” and follow-up questions ( <i>Annex 16</i> ).
<b>Duration</b>	3 days
<b>Initially planned</b>	Month 2
<b>Implemented</b>	Month 4 (from the 21 <sup>st</sup> of July to 23 <sup>rd</sup> of July)
<b>Description</b>	
<p>For implementation of this activity, a two-day presentation was organized: on the 21<sup>st</sup> and 22<sup>nd</sup> of July. Presentation of the state pension system of the EU Member States: Latvia, Germany and Sweden and insurance-pension system of the Republic of Azerbaijan covered three different EU MS countries – Latvia (experts of Latvia), German (expert of Germany) and Sweden (first and second tier - experts of Latvia, the third tier - expert of Germany) including overall structure and philosophy of these three countries pension system. In this presentation, MS experts introduced all aspects governing the state pension system in EU MS, the principles of operation, management and financing pension system, involved institutions, their duties and responsibilities.</p> <p>Presentation of insurance-pension system of the Republic of Azerbaijan covered information on current pension system, achieved results during the pension reform process, future developments as well as all aspects of mandatory state insurance system.</p> <p>In presentation, there participated 26 participants from the staff of State Social Protection Fund (SSPF) – Labour Pension Department, Law and Strategic Research Department, Finance-Budget department, Personal Accounting Department, Department of Pension Documents and Applications, Department of Accounting of Budget Execution, Information Technologies Department and Department of International and Public Relations.</p>	

During the presentation participants carried out discussions and put questions to the experts, which allowed finding out existing problems - state social security system is not sustainable in long run because of its high dependency on state basic budget, lack of coverage of large groups of occupations by the social insurance - self-employed persons in service sector and farmers in agricultural sector, low public trust to financial institutions, undeveloped long-term savings market etc.

Follow up questions and issues for consideration were elaborated within the project activity 1.1. and were included in Study Report.

Project team created an evaluation form about presentations of „The state pension system of the EU Member States: Latvia, Germany and Sweden“, which had been sent to the participants of presentation in Azerbaijani language. The evaluation form also deals with issues of MS pension systems elements and approaches which could be used in Azerbaijan as well as asked to mention topics of pension systems, which were not clarified during the seminar and any questions, remained unanswered.

In total, the questionnaires were sent by e-mail to 23 respondents in Azerbaijani language and 12 questionnaires were completed. Also the questionnaires were distributed in English language to participants in the event.

Questionnaires consisted of 12 questions. First 4 questions were with answers on a scale from 1 (min) – 5 (max), next 3 questions were with 3 versions of answers and last 3 questions were with written answers.

All 12 respondents answered on first 7 questions. Last 3 questions were not answered by 3 respondents and rest of respondents answered partially.

Totally content of provided presentations is evaluated positively; higher evaluation was received for the question about content of presentation valuable for participant's professional activities (*Annex11.2*).

COMPONENT 1 – Capacity building aimed at implementation of the funded component in the state insurance pension system (“second pillar”)	
Activity 1.1.	Carrying out the study on demographical, economic situation of Azerbaijan
MS Experts	<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 – 7 man-days;</li> <li>2. Ms.Dace <b>Brencena</b> - Expert, Component 2 Leader, Head of Private Pension Committee of Latvian Bank Associations - 7 man-days;</li> <li>3. Sandra <b>Stabina</b> – Expert - Deputy Director of Department of Social Insurance of the Ministry of Welfare of Republic of Latvia - 4 man-days;</li> <li>4. Inese <b>Upite</b> - Expert – Senior Officer of Department of Social Insurance of the Ministry of Welfare of Republic of Latvia - 4 man-days;</li> <li>5. 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 - 4 man-days;</li> <li>6. Harijs <b>Svarcs</b> - Senior Expert of Ministry of Welfare, Chief Executive Officer of the Investment Management division of SWEDBANK - 4 man-days;</li> <li>7. Ms. Agrita <b>Groza</b> MS RTA.</li> </ol>
BC Experts	<p><b><u>I. BC experts from the State Social Protection Fund of Republic of Azerbaijan:</u></b></p> <ol style="list-style-type: none"> <li>1. Mr.Yalchin <b>Muslimov</b> - Counsellor of Chairman;</li> <li>2. <u>Ms. Nigar Panahova</u> – BC Project Leader, Head of Personal Accounts Department;</li> <li>3. Mr.Rufat <b>Orujli</b> - Head of sector of centralized accounting of insurers of the Finance-Budget Department;</li> <li>4. Mr. Elshan <b>Mammadaliyev</b> - Director of Department of Labour;</li> <li>5. Mr. Mammad <b>Nuriyev</b> - Head of Finance-Budget Department of the SSPF;</li> <li>6. Mr. E.<b>Haqverdiyev</b> - Deputy Head of the Finance-Budget Department;</li> <li>7. Ms. N.<b>Ibrahimova</b> - Head of Sector of Budget Forecasting of the Finance-Budget Department;</li> <li>8. Ms. Durdane <b>Muslumova</b> - Deputy Head of the Department of Labour Pensions;</li> <li>9. Mr. Eyvaz <b>Ismayilov</b> - Head of Retirement destination Sector of the Department of Labour Pensions;</li> <li>10. Mr. Elvin <b>Abdulayev</b> - Senior consultant of the Department of Labour Pensions;</li> <li>11. Mr. Ufug <b>Hakhiyev</b> – Leader of Component I Head of Division of the Law and Strategic Research Department.</li> </ol> <p><b><u>II. BC expert from Central Bank of the Republic of Azerbaijan:</u></b></p> <ol style="list-style-type: none"> <li>12. Ms. Rena <b>Melinova</b> - Director of Legal Department.</li> </ol>



BC experts	<p>III. <b><u>BC expert from Ministry of Labor and Social Protection of Population of the Republic of Azerbaijan:</u></b></p> <p>13. Mr. Idris <b>Isayev</b> - Deputy Minister;  14. Mr. Matin <b>Karimli</b> - Deputy Minister;  15. Mr. Arif <b>Heseynov</b> - Head of Labor policy department;  16. Ms. Sabina <b>Jafarova</b> - Head of Social protection policy department;  17. Ms. Irada <b>Ustubova</b> - Head of International relations department;  18. Ms. Rena <b>Abdullayeva</b> - Deputy Head of Employment policy department.</p> <p>IV. <b><u>BC expert from Ministry of Finance of the Republic of Azerbaijan:</u></b></p> <p>19. Mr. <b>A.J.Nabiali</b> - Head of the Tax Police and Revenue Department.</p> <p>V. <b><u>BC experts from Ministry of Taxes of the Republic of Azerbaijan:</u></b></p> <p>20. Mr. <b>M.Namazov</b> - Deputy Head of Main Department of Tax Policy and Strategic Research;  21. Mr. <b>U.Yusifov</b> - Head of International Treaties Division International Relations Department.</p> <p>VI. <b><u>BC experts from the State Statistical Committee of the Republic of Azerbaijan:</u></b></p> <p>22. Mr. Elcin <b>Haci</b> - Head of Statistics and Service Department;  23. Mr. Rza <b>Allahvediev</b> - Head of Department of Population and Gender Statistics;  24. Mr. Nuru <b>Suleimanov</b> - Director of National Accounts and Statistics Division of the macroeconomic indicators;  25. Ms. Natella <b>Gulieva</b> - Head of Department of Labour statistics.</p> <p>VII. <b><u>BC expert from the State Insurance Supervision Service of the Republic of Azerbaijan:</u></b></p> <p>26. Mr. <b>N.Khalilov</b> – Director.</p> <p>VIII. <b><u>BC experts from the State Committee of Securities of the Republic of Azerbaijan:</u></b></p> <p>27. Mr. Nurlan <b>Fatullayev</b> - Director Research and Market Development Department;  28. Mr. Shaninn <b>Jafarov</b> - Senior Economist Research and Market Development Department.</p> <p>IX. <b><u>BC expert from the Baku Interbank Currency Exchange of the Republic of Azerbaijan:</u></b></p> <p>29. Mr. Farkhad <b>Amirbekov</b> - General Manager.</p> <p>X. <b><u>BC experts from Atesgah Life Insurance Company of the Republic of Azerbaijan:</u></b></p> <p>30. Mr. Azer <b>Aliyev</b> - Head of Finance Department;  31. Mr. Akbar <b>Madatli</b> - Chairman of the Executive Board.</p>
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BC experts	<p><b>XI. <u>BC experts from International Bank of the Republic of Azerbaijan:</u></b>  32. Mr. V.M.Gardashbayov - Deputy director;  33. Mr. Ilham Q.Qafarov - Head of Project Management Department.</p> <p><b>XII. <u>BC expert from State Mortgage Fund of the Republic of Azerbaijan:</u></b>  34. Mr. Rahman Hummatov - Deputy Executive Director.</p> <p><b>XIII. <u>BC expert from Ministry of Economy and Industry of the Republic of Azerbaijan:</u></b>  35. Mr. Guliyev Jamaladdin Alibala - Head of Economic Policy, Analysis &amp; Forecasting Department.</p> <p><b>XIV. <u>BC expert from National Depository Centre of the Republic of Azerbaijan:</u></b>  36. Ms. L. Garalova - Director of Business Development Department.</p> <p><b>XV. <u>BC expert from Kapital Bank of the Republic of Azerbaijan:</u></b>  37. Mr. Emin Mammadov - Director Financial Management Department.</p> <p><b>XVI. <u>BC expert from Baku Stock Exchange of the Republic of Azerbaijan:</u></b>  38. Mr. Fariz Azizov - Chairman of the Executive Board.</p> <p><b>XV. <u>BC expert from of State Oil Fund of the Republic of Azerbaijan:</u></b>  39. Mr. Ziya Kangarli - Advisor to Deputy Executive Director.</p> <p><b>XVI. <u>BC experts from American Chamber of Commerce:</u></b>  40. Mr. Orkhan Jafarli - Legal &amp; Policy Officer;  41. Ms. Arzu Hajiyeva - Partner, Tax and Law, Ernst&amp;Young Holdings;  42. Mr. Arif Guliyev - Director, PricewaterhouseCoopers Central Asia&amp;Caucasus;  43. Mr. Mushfig Aliyev - Director, Head of Tax and Legal Department, KPMG.</p> <p><b>XVII. <u>BC expert from United Nations Development Program (UNDP):</u></b>  44. Mr. Elnur Khalilov - UNDP Adviser.</p> <p><b>XVIII. <u>BC expert from World Bank:</u></b>  45. Ms. Elvira Anadolu - Senior Health Specialist.</p>
<b>Outputs</b>	Press Release ( <i>Annex 17</i> ), Study Report on demographical, economic situation of Azerbaijan, Mission report.
<b>Benchmark</b>	A Study Report on demographical, economic situation of Azerbaijan.
<b>Duration</b>	30 days
<b>Initially planned</b>	Month 3 and 4
<b>Implemented</b>	Month 4 and 5 (from July 24-25 and from August 4-8).

### Description

Beginning of implementation of the activity 1.1. “Carrying out the study on demographical, economic situation of Azerbaijan” covered July 24 - 25. Within that time, experts had meetings with two departments of SPPF – Labour Pension Department and Finance-Budget Department, analysed laws of field and other relevant documents of SSPPF, statistical data, information from different state institutions of Azerbaijan, international organizations report on related sphere, agreed on the structure of Study and on responsibilities of each expert on related area (chapter of the Study) (*Annex 18*), planned the measures for continuation of activity 1.1.

The continuation of activity 1.1. covered August 4-8. All six experts visited institutions that would be directly or indirectly involved and/or would operate within the second and third tier of the pension system in Azerbaijan. The main objective was to get clear picture on demographical, economic situation of Azerbaijan in order to research and evaluate current situation in Azerbaijan as well as meet relevant representatives of state and private institutions which should be involved in the “future” pension system, as key players.

The most important issues what were discussed during institutions visits were current economic and demographic situation, preparedness and preliminary acknowledgements to create the second and third tier of pension system in the Republic of Azerbaijan, existing business environment and infrastructure for that, supervision for potential assets managers, custodian banks, as well as existing legislation in related sphere of institution.

As result of this activity, experts prepared Study report “On demographical, economic, financial and capital market situation and social insurance system of Azerbaijan” (*Annex 19*).

Report is designed specifically for achieving objectives of the project - to enhance capacity of the State Social Protection Fund to establish the regulatory, legal and administrative framework for the introduction of a funded element in the state insurance-pension system and the establishment of non-state pension funds.

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.

Report was translated into Azerbaijani language, and submitted to the beneficiary country project Leader.

## 2D – Timing and Delays

	Activity/action Planned
X	Activity/action Performed
C	Activity/action Completed
	Activity/action Delayed by more than 3 months

Years	Year 2014										Year 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	
<b>Component 0: General activities</b>																			
Activity 0.1.			c																
Activity 0.2.																			
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.			c																
Activity 1.2.					x														
Sub-activity 1.2.1.					x														
Sub-activity 1.2.2.					x														
Activity 1.3.																			
Sub-activity 1.3.1.																			
Sub-activity 1.3.2.																			
Sub-activity 1.3.3.																			
Activity 2.1.																			
Sub-activity 2.1.1.																			
Sub-activity 2.1.2.							x												
Sub-activity 2.1.3.																			



Activity 4.4. “Study visit of a maximum of three employees of SSPF to EU Member States (Latvia)” according the schedule was initially planned to be implemented in month 4 (July), but postponed to the sixth month and therefore deviation is less than 3 months. A slight deviation from the planned schedule due to the "self-evident" deviations and due to summer vacation time exists, because, this activity involved great number of experts from different institutions of Latvia and it was not possible to quickly find and choose the date when all experts are available.

## **2E – Assessment**

### **Overall Assessment of progress**

The project and the implementation of activities within the second project quarter went smoothly, but with slight deviations, which are necessary to gradually reduce.

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

Within the second quarter, two activities were completed:

- ✓ There was organized activity 1.1. “Carry out the study on demographic and economic situation of Azerbaijan”, prepared Study report “On demographical, economic, financial and capital market situation and social insurance system of Azerbaijan” and report was translated into Azerbaijani language, and submitted to the beneficiary country project Leader. Benchmark was achieved in the month 5 of the project.
- ✓ activity 4.1. “In-depth presentation of state pension system in EU Member States for the relevant SSPF staff and other stakeholders” was organized, training event for 26 participants from the staff of SSPF was conducted, report with “lessons learned” and follow-up questions was developed. Report was translated into Azerbaijani language, and submitted to the beneficiary country project Leader. This benchmark was achieved in the month 4 of the project.  
Project team created an evaluation form about presentations of „The state pension system of the EU Member States: Latvia, Germany and Sweden” which had been sent to the participants of presentation.

Within the second quarter, there was completed one part of activity 4.4. “Study visit of a maximum of three employees of SSPF to EU Member States”. There was Study visit to Latvia in which two persons from SSPF participated. They obtained practical experience on how pension system works in Latvia and they will use this experience for pension system development in Azerbaijan.

Preparatory work for the next experts' mission of project activity 1.2. “Development of blueprint of the funded component in a multi-level pension system” and 3.1. “Development of a blueprint to facilitate and regulate the development of private, voluntary, pension arrangements” started in the reporting period. Experts prepared information on what kind of statistic data regarding current demographic situation and projections data, macroeconomic prognoses and social

insurance data are necessary to be received from SSPF, State Statistical Committee, Ministry of Economy and Industry, Ministry of Labour and Social protection of Population. This information is necessary for calculations and development of the possible scenarios for funded pension component. At same time experts also asked SSPF to find and submit materials regarding the pension reform in Azerbaijan, including World Bank, UNDP and SSPF.

As a result, it turns out that the preparation of the information and statistical data on the acquisition of social insurance payers and recipients of pensions in different dimensions - distribution of gender and age for at least 3 years of age, is extremely difficult, time consuming and is not even collected. We just do not get information from any other institutions - from Statistical Committee, Ministry of Economy and Industry, Ministry of Labour and Social Protection of Population.

If experts do not receive necessary data and will be unable to make calculations of proposal, it creates risks that there will be proposed without estimates, unreasonable suggestions that may not provide the expected results.

According to the drafted Side Letter No. 2, it is suggested to prolong activities related to Component 1 of original work plan: activity 1.2. – sub-activities 1.2.1. and 1.2.2. and activity 1.3. – sub-activities 1.3.1., 1.3.2. and 1.3.3., because the pension system's further developments regarding development of funded element and creation of private pension funds will be comparably similar in the both pension levels – the real funded component in the frame of the state insurance pension system (second pillar) and the non-state Pension funds (third pillar), therefore mechanisms and approaches related to both pension pillars are essentially common and will be built at the same time. Therefore, it is proposed to start earlier the activities related to the third pension pillar and both pieces of legislation will be finished almost simultaneously.

Project Team prepared Report on implementation of Communication plan from the beginning of Project to 30<sup>th</sup> of September (*Annex 20*).

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

During reporting period, there were produced and published press realises before every project event – 8 press realises in English, but SSPF project significance was stressed in 6 different information pages in website of SSPF.

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

### **Issues**

If experts will get all the required statistics and the necessary forecasts, there are no issues threatening the continuation of the project.

### **Recommendations**

Expert missions to be planned for next year 4-5 months ahead, in order to ensure the involvement of experts.

BC to comply with the project requirements and the relevant documents and information filed in due time.

Not to retreat from mild critical advice and try to solve them with understanding.

Provide necessary documents and data related to the business of SSPF according to the experts request.

## **Section 3: Expenditures**

The total cost of the Action eligible for financing is 749 994,41 EUR. Execution in the second quarter amounts to 91 139,56 EUR or 12,15% of total estimated cost, but from the beginning of project, the amount expended is 116 989,65 EUR or 15,60% of total cost (*Annex 21 and Annex 22*).





