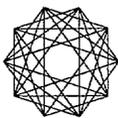


PN-ACC-908 92248

SUMMARY REPORT No. 4

**USAID
Social
Sector
Reform
Program in
Ukraine**

**SUMMARY
REPORTS
MARCH 1998**



**PADCO / USAID
Kyiv, Ukraine
Tel (044) 229 3264
FAX (044) 229 5322
e-mail
rvaughan@padco kiev ua**

FINAL REPORT OF THE PENSION REFORM PROGRAM

Prepared by Edward Koos, Pension Manager

**Bancroft/PADCO
ENI/PER Task Order Reference 03-00134-BANC-09
and
Chemonics/PADCO
ENI/PER Task Order Reference EPE-0014-1-00-5075-00-05**

PREFACE

Under Contract No EPE-0014-1-00-5075-00, Task Order No 5, Chemonics International (as prime contractor) and PADCO (as subcontractor) provided assistance to the Government of Ukraine (GOU) on issues related to the reform of Ukraine's pension system. This report describes the work that was completed under the Pension Reform section of this Task Order.

PENSION REFORM DELIVERABLES

The Pension Reform section of the revised Task Order requires six deliverables to be completed. A description of each deliverable, along with a brief summary of the work performed on each deliverable, is as follows:

- 1 Deliverable As requested by the GOU and the United States Agency for International Development, prepare option papers and financial analyses for members of the Pension Reform Task Force.
Work Performed In March 1997, Chemonics/PADCO submitted a paper to the Pension Reform Task Force that listed various pension reform options for the Task Force to consider. Chemonics/PADCO submitted comments on draft pension laws, discussed pension options with members of the Task Force, and worked with other organizations to provide financial analyses for the Task Force.
- 2 Deliverable An analysis of the current status of the private pension fund development in Ukraine and government legislation and regulation issues.
Work Performed Edward Koos wrote a report entitled "The Private Pension System in Ukraine," which provided a critical analysis of Ukraine's private pension system. The report was submitted to USAID in November 1997.
- 3 Deliverable Completion, in collaboration with the GOU, of draft laws and other normative acts as requested by the Task Force and other GOU counterparts.
Work Performed Chemonics/PADCO participated in numerous meetings held by the Pension Reform Task Force and submitted both oral and written comments on provisions contained in pension laws drafted by the Task Force.
- 4 Deliverable Completion, in collaboration with the GOU, of a manual that analyzes and explains
 - a the ways in which the GOU needs to improve its administrative regulation of the pension system and regulatory procedures needed to regulate nongovernmental pensions, and
 - b how to understand different types of financial transactions and needed regulatory capabilities to prevent fraud and abuse.Work Performed Two consultants were retained to draft this manual. The USAID Project Officer granted the consultants an extension in order to complete this manual.
- 5 Deliverable Recommendations for additional training of GOU and other appropriate staff.
Work Performed A recommendation for the design of a two-week statistical training program was prepared and sent to USAID in June 1997. A two-week statistics and computer training seminar was held in October 1997.
- 6 Deliverable The implementation of a pilot program to improve enterprise payroll tax reporting, particularly pension fund tax reporting, and upon completion of the pilot prepare a report that details the benefits in management and operation of the state pension system.
Work Performed The project was completed, on schedule, and the reporting program developed by Chemonics/PADCO was accepted by the Pension Fund in November 1997. (See this report.)

CONTENTS

PREFACE		i
CONTENTS		ii
SUMMARY OF THE PENSION REFORM PROJECT		1
1 DELIVERABLE AS REQUESTED BY THE GOVERNMENT OF UKRAINE AND THE UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT, PREPARE OPTION PAPERS AND FINANCIAL ANALYSES FOR MEMBERS OF THE PENSION REFORM TASK FORCE		2
1 1 Introduction		2
1 2 Chemonics/PADCO Accomplishments		2
1 2 1 Policy Paper and Comments on Draft Pension Laws		2
1 2 2 Participation in Task Force Meetings		2
1 2 3 Review of Pension Models and Data		2
1 2 4 Preparation of Background Reports		2
1 2 5 Services and Equipment Provided at Koncha Zaspa		3
1 2 6 Computer Support and Technical Training for the Pension Department of the MSP		3
2 DELIVERABLE AN ANALYSIS OF THE CURRENT STATUS OF THE PRIVATE PENSION FUND DEVELOPMENT IN UKRAINE AND GOVERNMENT LEGISLATION AND REGULATION ISSUES		3
2 1 Introduction		3
2 2 Chemonics/PADCO Accomplishments		3
3 DELIVERABLE COMPLETION, IN COLLABORATION WITH THE GOU, OF DRAFT LAWS AND OTHER NORMATIVE ACTS AS REQUESTED BY THE TASK FORCE AND OTHER GOU COUNTERPARTS		3
3 1 Introduction		3
3 2 Chemonics/PADCO Accomplishments		4
4 DELIVERABLE COMPLETION, IN COLLABORATION WITH THE GOU, OF A MANUAL THAT ANALYZES AND EXPLAINS ADMINISTRATIVE REGULATION OF THE PENSION SYSTEM AND REGULATORY PROCEDURES		4
4 1 Introduction		4
4 2 Chemonics/PADCO Actions		4
5 DELIVERABLE RECOMMENDATIONS FOR ADDITIONAL TRAINING OF GOU AND OTHER APPROPRIATE STAFF		4
5 1 Introduction		4
5 2 Chemonics/PADCO Accomplishments		4
6 DELIVERABLE THE IMPLEMENTATION OF A PILOT PROGRAM TO IMPROVE ENTERPRISE PAYROLL TAX REPORTING		5
6 1 Introduction		5
6 2 Chemonics/PADCO Accomplishments		5

ATTACHMENTS

- Attachment 1 1 Pension Reporting Project Matrix of Tasks Conducted
- Attachment 1 2 Final Report of the Pension Pilot Reporting Project
- Attachment 1 3 Proposals Database Structure and Organization for Pilot Reporting Project
- Attachment 1 4 Request from Pension Fund of Ukraine to USAID for Equipment to Implement Pilot Reporting Project
- Attachment 1 5 Protocol of Cooperation between the Pension Fund of Ukraine and PADCO/USAID
- Attachment 1 6 Report on Implementing APM-P Reporting System at Test Enterprises
- Attachment 1 7 Certificate of Transfer of Reporting Software
- Attachment 1 8 Individual Reporting Project Recommended Future Actions to Be Undertaken by the Pension Fund
- Attachment 1 9 Presentation for Pension Fund of Ukraine on Pilot Pension Reporting Project

SUMMARY OF THE PENSION REFORM PROJECT

In February 1997, the Government of Ukraine (GOU) created a Pension Reform Task Force (Task Force) to analyze the present pension system and to make recommendations on how the present system could be improved. The World Bank was prepared to offer a US\$200 million dollar loan to Ukraine if certain pension reform measures were undertaken. The Task Force held few open discussions on pension issues during February and March, but the frequency of Task Force meetings gradually increased, culminating in a 10-day retreat at the end of May devoted to discussing provisions to be included in draft pension laws drafted by the Task Force. Draft state and non-state pension laws, as well as a draft pension reform program, were revised at this time. A representative of Chemonics/PADCO participated in all of the open Task Force meetings (some meetings were restricted to Ukrainian members of the Task Force) and submitted oral and/or written comments on various provisions in the draft laws. The draft laws were submitted to the Cabinet of Ministers and later (on September 17th) to the Supreme Rada, where they are currently awaiting consideration. The draft laws did not contain certain elements desired by the World Bank, which contributed to its decision to suspend its pension activities indefinitely.

In addition to assisting the Task Force, Chemonics/PADCO also developed a plan to modify the payroll reports employers must submit to the Pension Fund. Unlike the existing reports, which require employers to provide only aggregate wages and payroll taxes paid to the Pension Fund, the modified reports would require employers to provide wage and payroll information for each of their employees. This information would allow the Pension Fund to tie pension contributions to pension benefits and to reduce the fraud that exists in the present system. Chemonics/PADCO proposed developing reporting software for enterprises and testing the feasibility of the proposed system. Initial reaction to the pilot program was unenthusiastic, particularly from the Tax Administration, as the project was seen to create additional work for government agencies. However, with persistence, Chemonics/PADCO developed working relationships with representatives of the State and Kyiv Pension Funds. Chemonics/PADCO succeeded in developing the reporting program, hiring an independent third party, and testing the program at two test enterprises and one test raion Pension Fund office. Chemonics/PADCO completed all tasks within its control on schedule and prepared a final report on the project for USAID.

In other tasks, Chemonics/PADCO prepared two pension reports — “Options for Pension Reform in Ukraine” and “The Private Pension System in Ukraine.” Two consultants received an extension from USAID to complete their work on a “Pension Regulatory Manual.” In addition, in November 1997, Chemonics/PADCO organized and held a two-week statistics and computer training seminar for GOU staff.

Additional information on the work completed under each of the deliverables is provided below.

1 DELIVERABLE. AS REQUESTED BY THE GOVERNMENT OF UKRAINE AND THE UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT, PREPARE OPTION PAPERS AND FINANCIAL ANALYSES FOR MEMBERS OF THE PENSION REFORM TASK FORCE

1 1 INTRODUCTION

In February 1997, the Cabinet of Ministers of Ukraine created a Pension Reform Task Force (Task Force) to develop draft legislation for the Cabinet that would reform the existing state pension system of Ukraine. The Task Force was created under the leadership of then-Minister of Social Protection (MSP)¹ Piotr Pavelovich Ovcharenko. Fourteen Ukrainian experts worked on the Task Force, while technical support was provided by the World Bank, TACIS, the Harvard Institute for International Development (HIID), the United States Agency for International Development (USAID), and Chemonics/PADCO. Deputy Minister of the Ministry of Social Protection Elena Garacha was the coordinator of the Task Force. The Task Force submitted draft State and Non-State Pension Laws to the Cabinet of Ministers in June 1997. The draft laws were submitted to the Supreme Rada on September 17th, where they are currently awaiting consideration.

1 2 CHEMONICS/PADCO ACCOMPLISHMENTS

1 2 1 Policy Paper and Comments on Draft Pension Laws

In February 1997, PADCO Social Sector Restructuring Project Manager Roger Vaughan prepared a policy paper — “Options for Pension Reform in Ukraine” — which describes options for reforming the state pension system in Ukraine. This paper was distributed to staff within the Ministry of Social Protection, members of the Pension Reform Task Force, and international pension experts.

In conjunction with USAID, Roger Vaughan and Chemonics/PADCO Pension Reform Project Manager Edward Koos prepared comments on the draft law on the Pension Reform Program in Ukraine and, in conjunction with USAID, submitted comments on the draft law on Personal Record-Keeping. Comments were also submitted on the draft law on Compulsory State Pension Insurance. Edward Koos provided USAID with updates on the status of draft pension laws. Per USAID’s request, explanations of annuities were also furnished.

1 2 2 Participation in Task Force Meetings

Edward Koos participated in meetings of the Task Force from February through May 1997, including the 10-day retreat at Koncha Zaspá in May.

1 2 3 Review of Pension Models and Data

Roger Vaughan and Edward Koos participated in meetings with the World Bank and HIID to discuss issues related to the development of databases and models that could be used to analyze pension options.

1 2 4 Preparation of Background Reports

Chemonics/PADCO translated numerous documents prepared by the Task Force, including successive versions of draft State and Non-State Pension Laws and related background material.

¹ The Ministry of Social Protection was later combined with the Ministry of Labor to form the Ministry of Labor and Social Policy (MLSP).

1 2 5 Services and Equipment Provided at Koncha Zaspa

During the retreat at Koncha Zaspa, Chemonics/PADCO provided interpretation and translation services and, at the request of Deputy Minister Garacha, typed changes to the draft laws. In addition, Chemonics/PADCO provided the Task Force with computer equipment (two computers, a printer, and supplies).

1 2 6 Computer Support and Technical Training for the Pension Department of the MSP

Chemonics/PADCO installed computers and printers (purchased by USAID) for Deputy Minister Garacha and her staff and installed a local area network (LAN) system to connect this equipment. In addition, two other computers that are now in the Deputy Minister's department were upgraded.

Chemonics/PADCO also provided technical training in the use of computers and basic software (Windows, Word, Excel) to the staff in Deputy Minister Garacha's office. Previously, Chemonics/PADCO provided computer technical support to Deputy Minister Noshchenko (of the Housing Subsidy Department) and Deputy Chairman Rul of the State Committee for Housing and Municipal Economy. As a result of this training, these officials are now able to analyze budget issues, prepare spreadsheets, and write reports and other documents using computers and can also use e-mail to contact oblast departments.

2 DELIVERABLE AN ANALYSIS OF THE CURRENT STATUS OF THE PRIVATE PENSION FUND DEVELOPMENT IN UKRAINE AND GOVERNMENT LEGISLATION AND REGULATION ISSUES

2 1 INTRODUCTION

The role and viability of the private pension system in Ukraine was discussed at meetings throughout the pension reform process. Little comprehensive information was available on this topic, so Chemonics/PADCO undertook to research and write a report on the current status of the private pension system in Ukraine.

2 2 CHEMONICS/PADCO ACCOMPLISHMENTS

Chemonics/PADCO hired individuals to research this topic. Based on the information received from researchers and his knowledge of the private pension system, Edward Koos drafted a report entitled "The Private Pension System in Ukraine." This report describes the history of the private pension system in Ukraine, lists legislation and regulations that affect private pension funds, and considers the future of the private pension system. This report was submitted to USAID.

3 DELIVERABLE COMPLETION, IN COLLABORATION WITH THE GOU, OF DRAFT LAWS AND OTHER NORMATIVE ACTS AS REQUESTED BY THE TASK FORCE AND OTHER GOU COUNTERPARTS

3 1 INTRODUCTION

As discussed in the first deliverable, Chemonics/PADCO participated in meetings and discussions held by the Pension Reform Task Force. During this period, the Task Force completed draft State and Non-State Pension Laws.

3 2 CHEMONICS/PADCO ACCOMPLISHMENTS

Chemonics/PADCO offered comments, in both oral and written form, to the Task Force on draft State and Non-State Pension Laws. In addition, Chemonics/PADCO provided translation and interpreting services to the Task Force.

4 DELIVERABLE COMPLETION, IN COLLABORATION WITH THE GOU, OF A MANUAL THAT ANALYZES AND EXPLAINS ADMINISTRATIVE REGULATION OF THE PENSION SYSTEM AND REGULATORY PROCEDURES

4 1 INTRODUCTION

USAID requested Chemonics/PADCO to work with the GOU to write a manual that analyzes and explains

- 1 the ways in which the GOU needs to improve its administrative regulation of the pension system and regulatory procedures needed to regulate governmental pensions, and
- 2 how to understand different types of financial transactions and needed regulatory capabilities to prevent fraud and abuse

4 2 CHEMONICS/PADCO ACTIONS

Two outside consultants have been retained to draft a pension regulatory manual. In November, the USAID Project Officer extended the due date of this deliverable to give the consultants additional time to complete this manual.

5 DELIVERABLE RECOMMENDATIONS FOR ADDITIONAL TRAINING OF GOU AND OTHER APPROPRIATE STAFF

5 1 INTRODUCTION

Chemonics/PADCO was required to offer recommendations to USAID on areas relating to pension reform, where staff of the GOU could benefit from additional training. Statistical modeling and computer training were two areas recommended for additional training.

5 2 CHEMONICS/PADCO ACCOMPLISHMENTS

Chemonics/PADCO prepared a detailed plan for a two-week statistical training program that could be offered to staff of the Social Protection Monitoring Program, the Ministry of Labor and Social Policy, and Oblast Departments of Social Protection. This plan was submitted to USAID in June 1997. From October 20th through 31st, Chemonics/PADCO held a two-week seminar on Social Program Data Collection Systems at Puscha Ozernaya, a sanitarium located outside of Kyiv. The seminar was divided into modules that included laws of statistics and information, theoretical statistics, practical statistics, management, MIS and management of statistics, software used with statistics, and reporting and dissemination of statistics.

6 DELIVERABLE THE IMPLEMENTATION OF A PILOT PROGRAM TO IMPROVE ENTERPRISE PAYROLL TAX REPORTING

6.1 INTRODUCTION

The current payroll tax reporting system results in a relatively low rate of payroll tax collection. High payroll taxes (47.5 percent for employers, 1.5 percent for employees) and inadequate audit and control mechanisms contribute to the high rate of tax noncompliance and the burgeoning informal business sector of the economy. Another factor is the lack of correlation between pension taxes paid and pension benefits received. Due to the lack of control over the workbook (or “laborbook”) system, workbooks maintained by employers often bear little correlation to the period worked by the employee or to the pension taxes paid, if any, by the employer. Under the current system, there is room for a great deal of fraud, and the state ultimately assumes the responsibility for paying pensions to employees regardless of whether their employers have paid payroll taxes on their behalf.

In order to increase payroll tax collections, establish a higher correlation between payroll tax collections and disbursements on an individual — not aggregate — basis, and link tax data to government targeted assistance programs (including the Housing Subsidy Program), Chemonics/PADCO developed a new payroll reporting system based on Pension Fund design specifications. While the new reporting system will benefit a number of agencies, it will have the greatest initial impact on the following four agencies:

- **For the Pension Fund of Ukraine**, the reporting program will provide the basis for a new record-keeping system, based on taxpayer identification numbers (TINs) assigned to individuals, which will be used to collect information on an individual’s wages and payroll taxes. This information can be used by the Pension Fund to calculate pension benefits and to increase the rate of payroll tax collections.
- **For the State Tax Administration**, the reporting program will provide a database that can be accessed to verify income information reported to the Tax Administration.
- **For the Ministry of Labor and Social Policy**, the reporting program will provide information on the payroll taxes paid by or on behalf of each individual, enabling the Ministry to calculate pension benefits based on payroll taxes paid.
- **For the Housing Subsidy Program**, the reporting program will allow the verification of incomes declared by families applying for housing subsidies, thereby eliminating fraudulent applications and reducing the cost of the Housing Subsidy Program.

6.2 CHEMONICS/PADCO ACCOMPLISHMENTS

Chemonics/PADCO, under the guidance of Project Manager Edward Koos and MIS Expert Susan McGee, succeeded in developing a new reporting program to be used by enterprises and the Pension Fund to record wage and payroll contributions (taxes) on an individual basis. This program represents a significant improvement over the current system which does not provide easily accessible information on individual contributions. Chemonics/PADCO also wrote an “Installations and Users Manual” to accompany its software. To further improve the program, Chemonics/PADCO sought out and retained an independent third party to review the reporting program and make comments. With no assistance from the Pension Fund, Chemonics/PADCO located a raion Pension Fund office and two enterprises who agreed to participate in testing the reporting program. Despite numerous obstacles, Chemonics/PADCO completed all of the tasks within its control (and some that were outside its control) professionally and timely.

ATTACHMENT 1 1
PENSION REPORTING PROJECT MATRIX OF TASKS CONDUCTED

Description of Tasks	Projected Date	Date of Completion
1 PROJECT DEVELOPMENT STAGE		
Draft initial report describing the goals of the individual reporting system and the possible means for accomplishing these goals	February 21 1997	February 21, 1997
Meet with representatives of the State Tax Administration (Mr Houck from the U S Treasury and others) to discuss implementing the individual reporting system in Kyiv	February 26, 1997	February 26, 1997
Meet with representatives of the Kyiv City Tax Administration (Mr Brezven and others) to discuss implementing the individual reporting system in Kyiv	February 27, 1997	February 27, 1997
Redraft initial proposal to place the primary role in the Pension Fund rather than the Tax Administration because the individual reporting project is a component of the pension reform measures being developed	March 18, 1997	March 18, 1997
Establish contacts with discuss with and receive comments from the Head of the Kyiv Pension Fund on the proposed reporting project	March 18, 1997 to November 30, 1997	March 18, 1997 to November 30, 1997
Meet with representatives of the Darnitsa Raion Tax Administration office to discuss the reporting tax project that was conducted in that raion	April 1, 1997	April 1, 1997
Meet with representatives of the Darnitsa Raion Pension Fund office to obtain information on raion Pension Fund procedures	April 1, 1997	April 1 1997
Establish contacts with discuss with, and receive comments from the Head of the Computer Department at the Pension Fund of Ukraine on the proposed reporting project	May 20, 1997 to November 30, 1997	May 20, 1997 to November 30 1997
2 WORKPLAN DEVELOPMENT STAGE		
Draft, with input from the Pension Fund, an implementation plan for the individual reporting project	June 10 1997	June 10, 1997
Select and visit raion in Kyiv where the individual reporting project will be conducted	June 12 1997	June 12 1997 (Moskovsky Raion) ¹

¹ As mentioned in the accompanying text the test raion was later changed to Bela Tsrkva

Description of Tasks	Projected Date	Date of Completion
Select one or more enterprises located within the raion to participate in the initial testing of the reporting system	July 29, 1997	July 29, 1997 (subject to the inclusion of additional enterprises) ²
Visit the test enterprise to discuss the project with enterprises directors	August 12, 1997	August 12, 1997 (subject to the inclusion of additional enterprises) ³
Review the computer hardware capabilities of the test enterprise to discuss the project with enterprises computer personnel	August 12, 1997	August 12, 1997 (ongoing discussions) ⁴
Draft a Protocol of Cooperation between the Pension Fund and the SSRT formalizing the existing working relationship between the two parties on the individual reporting project	August 13 1997	August 13 1997
Send to USAID for comments a draft Protocol of Cooperation between the Pension Fund and the SSRT formalizing the existing working relationship between the two parties on the individual reporting project	August 13 1997	August 13 1997 (USAID comments received August 14, 1997)
Send to the Pension Fund for signature a draft Protocol of Cooperation between the Pension Fund and the SSRT formalizing the existing working relationship between the two parties on the individual reporting project	August 15, 1997	August 15, 1997 (signed August 19 1997)
Form a team to work on software development	July 1, 1997	July 1, 1997
Obtain and provide Visual FoxPro software (to be used in software development) for the Pension Fund's Computer Department and for SSRT programmers	July 30, 1997	July 30 1997 (delivered)
Review computer capabilities of the Pension Fund raion office and discuss with representatives of the Pension Fund's Computer Department the computer equipment needed to develop and implement the reporting project	July 1997	July 1997
Based on information obtained in previous task draft request for computer equipment and submit (from the SSRT) to USAID	August 1, 1997	August 1, 1997
Draft a request for computer equipment to be signed by the Pension Fund	August 19, 1997	August 19, 1997

² As mentioned in the accompanying text the test enterprise provided by the Pension Fund later chose not to participate. The Pension Fund was unable to provide any test enterprises so the SSRT without assistance from the Pension Fund found two test enterprises willing to participate in testing the reporting software

³ See footnote 1

⁴ See footnote 1

Description of Tasks	Projected Date	Date of Completion
3 SYSTEM DEVELOPMENT STAGE		
3 1 Analysis of Proposed System of Automated Pension Activities		
Review reporting design system being developed by the Pension Fund	July 1997	July 1997 (additional design information was reviewed as it was received)
Review database structure proposed by the Pension Fund	July 1997	July 1997
Study the interaction of software at various levels of the automated system proposed by the Pension Fund system	July 31, 1997	July 31, 1997
Study inter-level information flows in the automated system proposed by the Pension Fund system	July 31, 1997	July 31, 1997
3 2 Study of Existing Accounting System at the Test Enterprise		
Study structures of accounting databases used at the test enterprise	August 15, 1997	August 15, 1997
Study structures of personnel databases used at the test enterprise	August 15, 1997	August 15, 1997
3 3 Design of Functions and Structures of APM-P Databases		
Develop structures and logical schemes of APM-P databases	July 31, 1997	July 31, 1997
Provide written comments to the Pension Fund on its proposed design and database structure	July 29, 1997	July 29, 1997
Discuss with Pension Fund comments submitted on its proposed design and database structure	July 30, 1997	July 30, 1997
Compile a list of forms and personal data on insured persons to be generated by an enterprise and submitted to the Pension Fund	July 31, 1997	July 31, 1997
Compile a list of forms and reporting data on wages and payroll taxes paid to the Pension Fund by employers and insured persons	July 31, 1997	July 31, 1997
Compile lists and develop structures of dictionaries necessary for APM-P	July 31, 1997	July 31, 1997
4 SOFTWARE DEVELOPMENT STAGE		
4 1 Development of APM-P Interface		
Develop software needed for APM-P interface	August 11 1997	August 11 1997
4 2 Development of APM-P Control Subsystem		
Develop routines to check fullness, correctness, and consistency of data	August 21, 1997	August 21, 1997
Develop routines to protect APM-P from unauthorized access	August 21, 1997	August 21 1997

Description of Tasks	Projected Date	Date of Completion
Develop routines to compile and maintain dictionaries	August 21, 1997	August 21 1997
4 3 Development of a Subsystem to Generate APM-P Databases		
Develop routines to generate a database to store personal data on insured persons	September 20, 1997	September 20 1997
Develop routines to generate a database to store data on work history, wages due, and payroll taxes paid by an employer and an insured person to the Pension Fund	September 20, 1997	September 20, 1997
Develop routines to input data to APM-P databases from paper documents	September 20 1997	September 20, 1997
Develop routines to correct information in APM-P databases	September 20, 1997	September 20, 1997
Develop routines to view records (all or individual fields) in APM-P databases	September 20, 1997	September 20, 1997
Develop a utility to convert data from enterprise databases into APM-P database format	September 20 1997	September 20, 1997
Develop a utility to convert data from enterprise personnel database format into APM-P database format	September 20 1997	September 20, 1997
4 4 Development of a Subsystem of Service Functions		
Develop utilities to archive information (archivers)	September 10, 1997	September 10, 1997
Develop a set of service utilities	September 10, 1997	September 10, 1997
Develop a help system	September 10, 1997	September 10, 1997
4 5 Development of a Report Generation System		
Develop routines to generate reports (lists of insured persons data on payroll taxes paid to the Pension Fund etc)	September 20 1997	September 20, 1997
Develop utilities to encode/decode information to be sent to the Pension Fund	September 20 1997	not completed ⁵
Develop programs to generate report files to be sent to the Pension Fund either on floppy disks or through e-mail	September 20, 1997	September 20, 1997
4 6 Documentation of Operations		
Prepare a report documenting operations	September 20 1997	September 20 1997
4 7 Standalone Testing of APM-P Subsystems		
Conduct standalone tests of APM-P Subsystems	September 20, 1997	September 20 1997
5 TEST IMPLEMENTATION STAGE		
Test APM-P interface system	September 30 1997	September 30, 1997

⁵ Information necessary to design this utility was never received from the Pension Fund

Description of Tasks	Projected Date	Date of Completion
Test the APM-P control subsystem	September 30 1997	September 30 1997
Test the subsystem to generate APM-P databases	September 30, 1997	September 30 1997
Test the subsystem of service functions	September 30, 1997	September 30, 1997
Test the report generation subsystem	September 30, 1997	September 30, 1997
Test all APM-P subsystems in a comprehensive manner	September 30, 1997	September 30, 1997
Revise and complete documentation on operations	September 30, 1997	September 30, 1997
6 IMPLEMENTATION STAGE⁶		
Obtain computer equipment (previously requested from USAID by the Pension Fund) and install in Pension Fund offices and test enterprise	October 1 1997	As of November 30th, equipment has not been delivered by USAID
Install and initialize APM-P at selected test enterprise	October 1 1997	November 12, 1997
Transfer documentation on operations	October 6, 1997	November 12 1997
Train operators of the accounting department at the test enterprises to operate APM-P	October 10, 1997	November 12 1997
Develop utilities to convert test enterprise databases to APM-P intermediary format	October 15, 1997	November 10 1997
Convert accounting and personnel databases of the test enterprise within APM-P	October 15, 1997	November 10, 1997
Check completeness correctness, and consistency of databases generated within APM-P	October 16, 1997	November 10 1997
Append necessary data and edit data in APM-P databases	October 24, 1997	November 10, 1997
Prepare tests in paper and in machine-readable format using APM-P	October 27, 1997	November 12 1997
Encode data to be sent to the Pension Fund	October 30 1997	November 15 1997
Check correctness of the procedure for generating reporting data at the test enterprises	October 30, 1997	November 15, 1997
Generate report files to be sent to the Pension Fund on floppy disks	October 30, 1997	November 15, 1997
7 REPORT PREPARATION STAGE		
Prepare a report on the implementation of the APM-P at the test enterprises and offer recommendations on further improvements of the APM-P	November 15, 1997	November 15 1997
Prepare a report describing all of the activities conducted and the results of the individual reporting project conducted jointly by the SSRT and the Pension Fund (to meet SOW deliverable)	November 30 1997	November 27, 1997

⁶ Delays on tasks in this stage were due solely to the Pension Fund's inability to provide enterprises where the reporting software could be tested

Description of Tasks	Projected Date	Date of Completion
8 PENSION FUND PROJECT STAGE		
Prepare and provide workplan for follow-on work to be conducted by the Pension Fund	November 30, 1997	November 27, 1997
Provide Pension Fund with all reporting software and related work-products developed by the SSRT that may be used by the Pension Fund when it undertakes its expanded reporting project	November 30 1997	November 27, 1997

ATTACHMENT 1 2

FINAL REPORT OF THE PENSION PILOT REPORTING PROJECT

1 GOALS

The proposed Pension Reporting Project advances five separate yet interrelated goals. The first goal is to compile a database that will enable the Pension Fund to accurately record payroll taxes paid by each individual and by his/her employer. This will provide the basis for a pension system that correlates payroll tax payments with pension benefits. The second goal is to increase the collection rate for payroll taxes owed to the Pension Fund. The third goal is to compile and maintain a database that includes income information on individuals. This database can be accessed by the Tax Administration to verify income information reported directly to the Tax Administration. The fourth goal of this project is to use the database to verify incomes reported by individuals who apply for housing subsidies and other means-tested benefits. The final goal of the project is to provide pension information to the Ministry of Labor and Social Policy, which is responsible for distributing pensions. Incorporated into all of these goals is the development a new system that will provide an efficient data link among the Pension Fund, the State Tax Administration, the Ministry of Labor and Social Policy, and the Housing Subsidy Program. As a result, this system would benefit four agencies:

- For the Pension Fund of Ukraine, the reporting project will provide the basis for a new record-keeping system, based on taxpayer identification numbers (TINs) assigned to individuals, which will be used to collect information on an individual's employment history, income, and payroll taxes paid. This information can be used by the Pension Fund to calculate pension benefits and to increase the rate of payroll tax collections.
- For the State Tax Administration, the reporting project will provide a database that can be accessed to verify income information reported to the Tax Administration.
- For the Ministry of Labor and Social Policy, the reporting project will provide information on payroll taxes paid by or on behalf of each individual, enabling the Ministry to calculate pension benefits based on payroll taxes paid.
- For the Housing Subsidy Program, the reporting project will allow the verification of incomes declared by families applying for housing subsidies, thereby eliminating fraudulent applications and reducing the cost of the housing subsidy program.

2 THE CURRENT PAYROLL TAX REPORTING AND COLLECTION SYSTEM

Before describing changes envisioned under the Pension Reporting Project, it is necessary to provide a brief summary of the current payroll tax reporting and payment system to show how the proposed changes will comport with the current system and to identify the changes that must be made. This summary is included to provide a general description of the current system, it is beyond the scope of this report to describe the many exceptions that may apply. For purposes of this summary, enterprises, foundations and organizations (regardless of the form of ownership and activities conducted) are referred to as either "enterprises" or "employers" while individual workers are referred to as "employees." Specific issues related to self-employed individuals (who pay payroll taxes at a different rate than enterprises) are not addressed.

Under the current payroll tax reporting system, by the eighth day following every calendar quarter (but by the 15th day following the last calendar quarter), employers must submit a report to the local (raion) office of the Pension Fund. This report lists the aggregate wages and some other forms of compensation (for this report, total compensation will be referred to as "wages") paid to employees, along with the

aggregate payments made and total liability to the Pension Fund. For enterprises, payroll taxes allocated to the Pension Fund total 32 percent of wages. Employers also withhold the employee's direct share of pension taxes (totaling 1 percent of wages), and transfer both taxes to the Pension Fund.

At the conclusion of each calendar quarter, employers also must submit reports to the Chernobyl Fund, the Employment Fund, and the Social Insurance Fund. (Although due dates vary slightly, all reports must be submitted within 15 days of the end of the calendar quarter.) Payroll taxes allocated to the Social Insurance Fund, the Chernobyl Fund, and the Unemployment Fund equal 4 percent, 10 percent, and 1.5 percent (plus .5 percent paid by employees) of wages, respectively. (Note, however, that wages for Employment Fund tax purposes are computed differently than wages for the Social Insurance and Chernobyl Funds.) Again, in each quarterly report, the employer lists the aggregate wages paid to employees along with the aggregate payroll taxes paid to each fund.

Employers do not list the names of their employees (or any personal employee identification number) on any of the quarterly payroll reports. Payments made by the employer to the funds normally occur when the employer withdraws money from the enterprise's bank account. In order to withdraw money for payroll purposes (as opposed to withdrawing money for other business purposes), employers must submit forms directing the bank to transfer payroll taxes (as computed by the employer) to the various payroll funds. Payroll taxes are transferred directly to each of these funds.

In addition to submitting the various payroll reports described above, employers must maintain workbooks for each employee listing the period of time the employee has worked for the employer. These workbooks are used to satisfy pension eligibility requirements and to compute the amount of pension benefits to be granted to the pension recipient.

3 DEFICIENCIES IN THE CURRENT PAYROLL TAX REPORTING SYSTEM

The current payroll tax reporting system results in a relatively low rate of payroll tax collection. High payroll taxes (47.5 percent for employers, 1.5 percent for employees) and inadequate audit and control mechanisms contribute to the high rate of tax noncompliance and to the burgeoning informal business sector of the economy. Another factor is the lack of correlation between pension taxes paid and pension benefits received. Due to the lack of control over the workbook system, workbooks maintained by employers may bear little correlation to the period worked by the employee or to the pension taxes paid, if any, by the employer. Indeed, today entities may maintain workbooks for individuals who are actually or effectively not employed by the entity, allowing the individual to accumulate the employment time needed to qualify for a pension. Moreover, employers may artificially increase the amount of wages paid to an employee during the last year of employment, thus allowing the employee to qualify for a higher pension. Under the current system, there is room for a great deal of fraud, and the state ultimately assumes the responsibility for paying pensions to employees regardless of whether their employers have paid payroll taxes on their behalf.

The following proposed system is intended to reduce the level of noncompliance in the payroll tax system. While this project will focus on the collection of payroll taxes designated for the Pension Fund, the system may be expanded to cover the collection of payroll taxes collected for other funds (mentioned above) and income taxes. (Unless otherwise noted, all future reference to payroll taxes will refer only to those payroll taxes designated for the Pension Fund.) While decreasing the payroll tax rate is not expressly included in the proposed system, a reduction in such rates, combined with increasing the correlation between payroll taxes paid and benefits received, may prompt many enterprises to move from the informal to the formal sector.

4 DESCRIPTION OF THE PROPOSED REPORTING SYSTEM

To increase payroll tax collections, establish a higher correlation between payroll tax collections and disbursements on an individual — not aggregate — basis, and link tax data to government targeted assistance programs (including the housing subsidy program), the following reporting system is proposed for a trial period (see Figure 1). Initially, the project will be conducted in one raion, but the project should later be expanded to cover additional raions. If the new system proves successful, all or portions of the system may be adopted on a national level. While the proposed system allows for wage information of individuals and entities to be used by different government entities, the system is designed to provide only limited access to this information in order to maintain the integrity and confidentiality of the information.

The proposed reporting system would include the following steps:

Step 1 Within 15 days of the conclusion of every calendar quarter, all enterprises (and self-employed individuals) will submit a report to the local (raion) office of the Pension Fund, which will list the wages paid to and corresponding payroll taxes paid on behalf of each employee. The reports will include both the name and TIN of the employer and of each employee. Information included in the form shown in will be incorporated into the existing reporting form or included in an additional form.

Step 2 By the 20th day of the month following the end of every calendar quarter, every raion Pension Fund office will send the quarterly reports mentioned in Step 1 above to the Wage Reporting Office, where all records pertaining to pension payroll taxes will be maintained on a single computer.

Step 3 The Wage Reporting Office will compile a database for the Pension Fund and the Ministry of Labor and Social Policy (which is responsible for computing and distributing pensions and other social payments). This database will enable both the Pension Fund and the Ministry of Labor and Social Policy to implement future changes in the pension system.

Step 4 The Wage Reporting Office also will provide income data contained in the database to the Tax Administration to be used to verify income information enterprises report directly to the Tax Administration.

Step 5 At the conclusion of each month, each raion Housing Subsidy Office will send to the Wage Reporting Office a list (in computer-readable format) of all families that applied for housing subsidies, along with the name and TIN of each family member and the income declared by each family member during the preceding calendar quarter. (The housing subsidy reporting requirements must be changed to require family members to report income earned during the preceding calendar quarter rather than the preceding three months.)

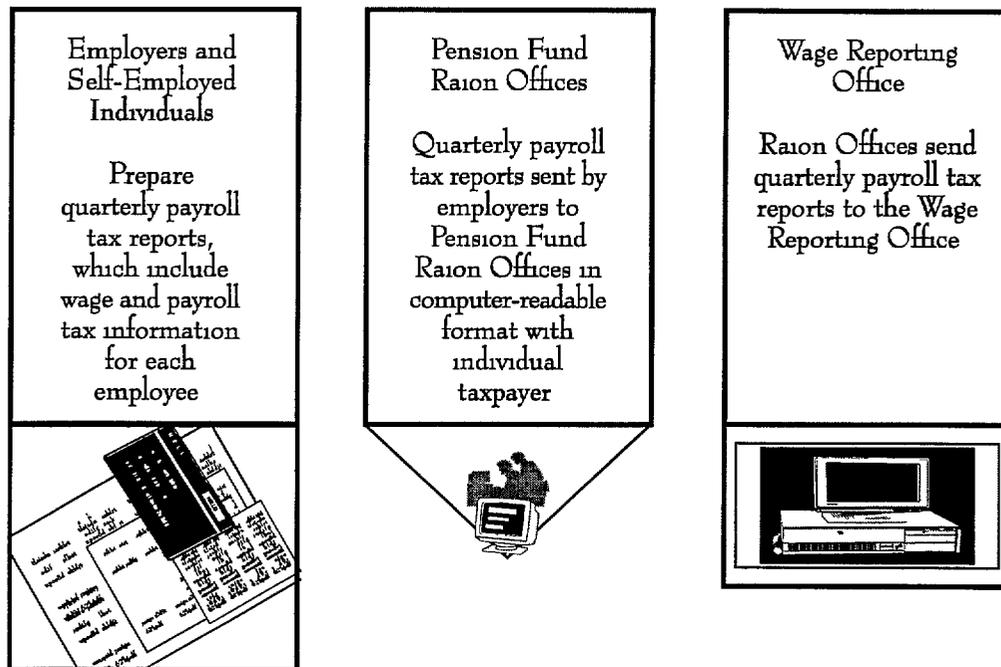
Step 6 The Wage Reporting Office will verify, using information in its database, the income reported by housing subsidy applicants and family members. Income discrepancies of less than 5 percent or discrepancies of less than 10 Hrn (whichever is greater) will be reported as confirmed, whereas those that do not satisfy these criteria will be reported as unconfirmed.

Step 7 The Wage Reporting Office will return to each Housing Subsidy Office the list of applicants and state whether the income reported by the applicants and family members was confirmed or not. If a discrepancy is not contested by the applicant or family member, the Housing Subsidy Office will deny the applicant's housing subsidy application and may also impose sanctions.

5 TASKS REQUIRED TO IMPLEMENT THE PENSION REPORTING PROJECT

The major tasks that must be completed in order to implement the Pension Reporting Project are as follows

- 1 The Cabinet of Ministers must issue all normative documents needed to create the Pension Reporting Project, including authorization of changes in the payroll reporting system, and the parties involved must execute a Memorandum of Understanding defining the responsibilities of each party
- 2 The State Tax Administration must issue TINs to all individuals working in the test raion. The Tax Administration has already begun this process. If the Tax Administration's current database does not include this information, it may have to update (or create) its database to include all individuals in the test raion.

FIGURE 1 PROPOSED PAYROLL TAX REPORTING SYSTEM**INFORMATION TO BE PROVIDED IN A QUARTERLY PAYROLL TAX REPORTING FORM****ENTERPRISE INFORMATION**

- ComStat/MinJus Identification Number
- Name of enterprise
- Address (street, raion, city, zip code)
- Raion where enterprise is registered
- Raion Pension Fund Office

EMPLOYEE INFORMATION

- Taxpayer Identification Number (TIN)
- Name (surname, first, patronymic)
- Address (street, raion, city, zip code)
- Primary or secondary employment

EMPLOYEE PAYROLL INFORMATION (IN HRIVNYA)

- Total wages, bonuses and other compensation paid to each employee during quarter for Pension Fund purposes
- Taxes paid by or on behalf of employee to
 - ▶ Pension Fund
 - ▶ Paid by enterprise
 - ▶ Paid by employee
 - ▶ Total taxes paid to Pension Fund during quarter

- 1 The Pension Fund, with donor assistance, must provide equipment to the Wage Reporting Office
- 2 The Wage Reporting Office must design a system to receive and maintain the quarterly transfer of payroll reports from raion offices

The Pension Fund, in conjunction with raion offices, must design a new Quarterly Payroll Tax Report (and accompanying instructions), which includes the name, TIN, and wages and payroll tax information of each employee

- 1 The Pension Fund and donor organizations must prepare a computer software program to input data from the new Quarterly Payroll Tax Report, and must prepare and make available software for enterprises to use to submit payroll reports based on the new form
- 2 The raion Pension Fund offices must distribute the new Quarterly Payroll Tax Reports, accompanying instructions, and software to enterprises, and begin a program to train enterprise accountants to comply with the new reporting requirements
- 3 The Pension Fund and the Tax Administration must design a system whereby income data held by the Wage Reporting Office can be verified against income data held by the Tax Administration
- 4 Housing Subsidy Program Offices must develop a program and train office staff to transfer to the Wage Reporting Office information incomes reported by applicants and to receive verification reports from the Wage Reporting Office The Housing Subsidy Program Offices also must design an appeal procedure for those applicants whose reported incomes were not confirmed by the Wage Reporting Office, and must develop appropriate sanctions to be imposed against those who reported false incomes

ATTACHMENT 1 3
PROPOSALS DATABASE STRUCTURE AND
ORGANIZATION FOR PILOT REPORTING PROJECT

To Anatoliy Vatslavovich Bonislavsky, Head, Computer Department, Fund
From Edward Koos, Susan McGee, Anton Levistsky
Date 29 July 1997

ABBREVIATIONS

SPF — State Pension Fund

SKPR — System of keeping personal records of payroll tax to the State Pension Fund

SKPR is supposed to be a three-level informational and analytical system consisting of

- at the national level, an integrated database of insured individuals with uniform personal record-keeping cards containing all necessary information to keep track of those who have moved and changed employers,
- at the regional level, tools to process data collected/generated at the local level and carry out transactions on the information-reference system of insured individuals (transactions will use updated copies of data in the integrated database and dictionaries), and
- at the local level, tools to collect and audit initial data on insured individuals

IMPORTANT ISSUES OF LOGICAL ORGANIZATION AND STRUCTURE OF DATABASES

The Conceptual Design includes a general list of database tables based on information to be submitted to the SPF by

- employers (it is necessary to improve a procedure of registering and processing changes in personal data of employees, for example, dismissal, shifting to another job), this involves a personal card (questionnaire) that must be submitted one time when hiring an employee (or at the initial registration of enterprise employees) and personal data on wages to be paid which should be submitted on a regular basis,
- birth, marriage, and death registration departments — death certificates, and
- raion SPF departments — certificate of insurance, personal cards containing data on work history, incomes, payroll taxes, and pension benefit

The drawback of the Conceptual Design is that most SKPR databases will be generated from data in documents to be submitted to the SPF. Documents should be only a basis to create and “fill” databases. Information in databases should be generated with due regard to not only efficiency of data processing and the current status of a specific individual but also behavior of personal data registered in the SPF during the whole period under review.

Some elements of personal data may change while an individual is registered in the SPF database, for instance, family name, address, place of work, etc. It is impossible to maintain all variants in one database. It is not expedient to have two variants, since it is necessary to have accurate information about any period of persons’ work. It seems reasonable to maintain, in addition to the main ANKETA database, a number of subordinate databases and use them to keep track of all changes in corresponding records.

SKPR DATABASES

The ANKETA database should include only permanent information for an insured individual or updated information stored in the array of variable data, namely

- code and full name of an insured individual,
- sex, data, and place of birth,
- address and place of work (these data can be stored in the database of addresses and database of places of work, where the complete history of places of residence and places of work, respectively, will be kept),
- data on the document being an original source of information, and
- date of completing the questionnaire

Every record of the ANKETA database may also contain the code of an operator who inputs or registers information. It will enable auditing and evaluating system operators.

It also seems reasonable to include in the ANKETA database unavailable information that is stored in the SVIDOC database (insured individual's certificate of insurance)

- code of a SPF body (it may be chosen in the database of characteristics of a SPF body rather than be inputted), and
- certificate series, number, and the date of issuance

The rest of fields in the SVIDOC database duplicate the ANKETA database fields and, thus, are redundant (can be deleted). So, it is possible not to create a separate — SVIDOC — database. Data on an insurance certificate will be generated when issuing the certificate.

All general data on individuals available in the ANKETA database can be deleted from the DPS database (Death Certificate), since any individual can be identified by the content of the Insured Individual Code field. This field should be added to the DPS database. It is also necessary to establish feedback between the DPS and ANKETA databases. This means that the ANKETA database should contain a field referring a corresponding record in the DPS database.

Data on an individual that may vary while this individual is registered in the SKPR should be stored in separate databases subordinate to the ANKETA database, namely

- database of prior last name, first name, and patronymic,
- database of prior places of residence (places of registration of payroll taxes paid to the SPF earlier), and
- database of prior places of work with possible options — several places of work at a time

These databases should contain the code of an insured individual to enable setting relations with and identifying a corresponding record in the ANKETA database as well as either the date of change or the period of staying.

It is advisable to complement the SKPR with the following three auxiliary (system) databases

- database to store information on a Pension Fund office — address of the office, names of its head and chief accountant, legal address, telephone numbers,

- database of system operators to store names, passwords, internal codes, and authorities (priorities) of system operators, and
- database to keep track of system operators' actions — this database is supposed to store operators' codes, operations performed, and number of records in the main database used in operations, a list of operations may be used not only to keep track of the system but also to evaluate efficiency and quality of operators' work

The personal card of an insured individual to be generated by the central body of the SPF consists of three parallel databases

- personal card of an insured individual (work history) — STAG,
- personal card of an insured individual (income) — DOHOD, and
- personal card of an insured individual (payroll taxes) — VNESKI

It would be reasonable not to duplicate Insured Individual's Code, Period Under Review, Employer's Code, and Place of Work fields in three databases but integrate them into one database and complement it with such new fields as Number of Days When an Individual Actually Worked, Wages (Income), and Payroll Tax to Be Paid

The way information is stored in databases affects the size of databases, access efficiency, and data processing time significantly. A number of text fields that can assume standard values limited in number can be replaced with code fields related with dictionaries. Fields duplicated in related databases may be deleted, since relations with the main database will be set through the Insured Individual's Code. Separate fields for days, months, and years in all databases may be replaced with a standard Date field. A subsystem of keeping track of individuals changing their places of residence and work status needs improving.

GENERAL ISSUES OF THE PROJECT IMPLEMENTATION

An automated working place (APM-R) to be used to input personal data on work history, wages, and individuals' payroll taxes will become a basis to generate arrays of information.

Composition of the Automated Working Place APM-R

At the initial phase of implementing Employer's Automated Working Place it is necessary to compile a list of data to be submitted by enterprises to the SPF, sources of these data, and their structures. It is mandatory to define a list of all directories and dictionaries, particularly dictionaries of external ones (for example, directories of towns, regions, countries, etc.) and have their descriptions (formats and structures) available.

The APM-R must include the following software modules:

- module to generate and maintain system dictionaries and directories,
- module to generate a database to store personal data of insured individuals (such as name, address, etc. — INDANI),
- module to generate a database to store data on work history, wages, and payroll taxes of insured individuals, and
- database administrator

Each of the above listed modules should have a context-sensitive help system.

Module to Generate and Maintain System Dictionaries and Directories

This module will be developed to generate and maintain the following dictionaries

- dictionary of types of forms of documents to be used within the personal record-keeping system,
- dictionary of reasons for submitting forms,
- categories of taxpayers,
- names of months in various cases according to reporting forms,
- names of numbers in words to be used in aggregated reports,
- dictionary of grounds for privileges,
- dictionary of currencies,
- directory of rates of payroll taxes, and
- directory of types of payments subject to taxation

The dictionaries will be generated in the centralized way and should come with APM-R. The module must ensure viewing (browsing), printing, updating dictionaries and, perhaps, editing by the system administrator

It is necessary to strictly formalize input of information that is crucial for identifying an individual and his/her personal data (for instance, place of residence and work). For this reason additional dictionaries — dictionaries of populated area units (countries, regions, oblasts, towns) and a dictionary of state codes assigned to enterprises must be added to the system

Dictionaries of grounds for privileges, rates of payroll taxes, and kinds of payments subject to taxation must contain, in addition to predefined fields, a data of inputting a corresponding norm and the number of a document establishing this norm. In the event of canceling norms, they must be stored in the database while records in which these norms have been applied are active

Module to Generate a Database to Store Personal Data of Insured Individuals This module is supposed to ensure generation of a database of insured individuals automatically — on the basis of a fragment of the database of the State Register of Physical Entities maintained by the State Tax Administration and the database of enterprise employees and — manually — through inputting data from paper documents

The module must feature the following functions

- generating and complementing the ANKETA database on the basis of the database of enterprise employees,
- complementing the ANKETA database on the basis of a fragment of the database of the State Register of Physical Entities maintained by the State Tax Administration,
- processing and inputting data not available in the ANKETA database,
- preparing, on the basis of data in paper documents, records to be entered to the ANKETA database,
- viewing records (either all or specific fields) by various keys, and
- generating and outputting lists of insured individuals, questionnaires, and other reporting and reference forms

The module must ensure checking input and update of information, registration of operations with records performed by operators and generation of protocols of operations performed, and protection of information from unauthorized access

Module to Generate a Database to Store Data on Work History, Wages, and Payroll Taxes of Insured Individuals This module is supposed to ensure input of information to the INDANI database automatically — on the basis of data in the wages database included in enterprise accountant's automated working place and — manually — on the basis of data in paper documents

The module must feature the following functions

- selecting data on work history, wages due, and payroll taxes stored in the enterprise accountant database and entering these data to the INDANI database,
- inputting data on work history, wages due, and payroll taxes from the paper documents manually,
- calculating required indicators on the basis of directories of kinds of payments and tax rates,
- checking correctness of file generation and setting indicators (flags) to confirm correctness of data,
- updating and viewing (browsing) records (all or specific fields) by various keys,
- generating and printing description of the INDANI file as an accompanying document together with check sums, and
- generating and outputting lists of monthly, quarterly, and yearly reports and other reporting and reference documents (forms)

System Administrator Module This module is supposed to ensure organization, management, maintenance, and protection of data stored in the APM-R

The module must feature the following functions

- generating and processing system and auxiliary databases where system parameters and preferences are stored and directory of system operators and other staff,
- regular archiving and copying databases and retrieving data from archives,
- generating and printing general statistics and reference data on the basis of information in APM-R databases,
- entering a record and printing an application for a duplicate of a certificate of insurance,
- entering a record and printing a certificate of verification of data in the certificate of insurance when an individual moves to another raion (to be submitted to the SPF), and
- viewing and printing the description of the ANKETA and INDANI files structure file

WHAT SHOULD BE DONE BEFORE THE BEGINNING OF DEVELOPMENT OF THE APM-R

Before the beginning of development of the APM-R it is necessary

- to obtain all dictionaries in either machine-readable or paper form,
- to come to agreement on a list of main, system and auxiliary databases,
- to come to agreement on a logic structure and formats of databases and definition of fields in databases, and
- to work out requirements to databases not included in a main list of databases (application for a duplicate of a certificate of insurance, certificate of verification of data on a new employee, etc)

ATTACHMENT 1 4
REQUEST FROM PENSION FUND OF UKRAINE TO USAID FOR
EQUIPMENT TO IMPLEMENT PILOT REPORTING PROJECT

To Ms Varnhagen

As requested, attached is a request for computer equipment needed to develop and test an individual reporting system to be used by the Pension Fund. Please refer to the attached Protocol of Cooperation entered into between the Pension Fund and PADCO, a USAID contractor, for additional information. We plan to use Hewlett-Packard (HP) computer equipment in our system, and therefore have specified HP in our request. However, if it is not possible to provide HP equipment, other equipment with equivalent specifications will suffice.

Please call me if you need additional information on our computer request or on any other issues.

We look forward to working with USAID and PADCO.

Sincerely,

Boris Zaichuk
Chairman, Pension Fund of Ukraine

attachments Computer Request
Protocol of Cooperation (English version)

EQUIPMENT REQUESTED FOR INDIVIDUAL REPORTING PROJECT

Quantity	Equipment	Specification	Est Cost \$
1	D4934A Server	HP Netserver E 40 6/200 Model 2100 including Processor Intel Pentium Pro 200 MHz Memory 16MB ECC memory, expandable to 192MB Cache 256KB write-back cache Video 1MB standard video memory, up to 1024*768, 256-color, noninterlaced Integrated L HP DeskDirect PC 100Base-T/10Base-2 adapter Disk Control Single-channel bus master PCI Fast SCSI- 2 controller (Adaptec 2910A1) Hard Disks 4500RPM 2 1 GB Fast SCSI-2 hard disk, 16 8 maximum (4*4 2GB) internal CD Drive One quad-speed IDE CD-ROM drive Slots Two PCI, two shared PCI/ISA, two ISA Ports One 24-pin parallel two 9-pin serial, video, mini- DIN keyboard and mouse Bays Five half-height three front-accessible shelves (one with CD-ROM), two internal, supporting one-inch high other devices	3,285
1	C1526G Tape Unit	HP SureStore Tape 5000i 4GB internal DAT	1,017
1	D2813A Color Display	HP 1024 14" Color Display (13 2" V I)	360
1	227-00025 Network	Windows NT Server 4 0 English Int'l CD-ROM 5 Client	950
		Total for Server Equipment	5 612
1	J3200A Switch Hub	HP AdvanceStack 10BT Switch Hub-12R	659
2@580	C3990A Printer	HP LaserJet 6L Printer	1,160
1	SU700INET APC	APC Smart UPS 700iNET	310
6@1,405	D4093B Hard drive	HP Vectra VE 5/166 series 3 M1600/16 including Intel Pentium 166 MHz Processor Memory-16MB, 60 ns EDO 1 6GB HDD Desktop Package Type Video RAM-1 MB 3 5" Floppy Disk Drive Preinstalled Microsoft Windows 95 (rus)	8,430
6@479	D2825A Monitors	HP Ultra VGA 1024 15' Display (13 7 VI)	2,874
6@101	J3171A Adapters	HP DeskDirect 10/100 TX PCI LAN Adapter	606
2@250	Scanners	Primax 4800 Direct	500
		Total for Other Equipment	13 880
		Total Estimated Cost for All Equipment	19,492

ATTACHMENT 1 5
PROTOCOL OF COOPERATION BETWEEN THE
PENSION FUND OF UKRAINE AND PADCO/USAID

August 19, 1997

Kyiv, Ukraine

Taking into consideration that

- The Government of the United States of America, acting through USAID, and the Government of Ukraine have been working together on the introduction of new approaches and the implementation of new programs of social protection and pension maintenance for the Ukrainian population as specified in the Agreement between the Government of Ukraine and the Government of the USA Regarding Humanitarian and Technical Economic Cooperation dated May 7, 1992
- The Pension Fund of Ukraine is the primary developer of a new system of keeping personal records of payroll taxes paid to the Pension Fund of Ukraine

The Pension Fund of Ukraine and PADCO Inc , a USAID contractor, enter into this Protocol of Cooperation with the purpose of developing and implementing a new reporting system to keep records of data on employees' wages and payroll taxes paid to the Pension Fund, and specifically to develop a component of this system called the "EMPLOYER'S AWP" (Employer's Automated Working Place)

The new reporting system will collect and maintain personal records of payroll taxes paid to the Pension Fund by both employees and employers, and will ensure that information on insured individuals is full and reliable. The new system also will benefit the payroll tax collection process.

1 GOAL OF COOPERATION AND PHASES OF COOPERATION

As agreed by both parties, PADCO will focus its activities on developing software for enterprises — the EMPLOYER'S AWP — which will become a part of the new automated reporting system. This software will be tested on a phased-in basis in Moskovsky raion in Kyiv and will be implemented in at least one enterprise during the period covering September through November 1997.

After testing EMPLOYER'S AWP in one enterprise in Moskovsky raion, the Pension Fund of Ukraine, on obtaining the consent of other Ukrainian ministries and departments, will gradually expand the new reporting system to cover the territory of Moskovsky raion for the fourth quarter of 1997.

PADCO will collaborate with the Pension Fund to develop and test software to be used by raion Pension Fund offices to collect and maintain data received from enterprises, and to provide assistance in areas related to the development and implementation of the new system of keeping personal records of payroll taxes paid to the Pension Fund.

The Pension Fund shall provide PADCO with organizational support to ensure that all activities planned by the Parties may be conducted.

2 DUTIES OF PARTIES

2.1 PADCO UNDERTAKES

- To provide programmers and other specialists to develop EMPLOYER'S AWP, which will become a part of the new system of keeping personal records of payroll taxes paid to the Pension Fund,
- Not to disclose information obtained if not otherwise specified by separate agreements with the Pension Fund,
- To delegate to the Pension Fund legal rights for all software developed under the project as well as to transfer this software to the Pension Fund, transfer of the software shall be certified by a certificate signed by representatives of both Parties,
- To participate in the training of officers of the Pension Fund and its local bodies on how to operate EMPLOYER'S AWP, and
- To provide other kinds of assistance to the Pension Fund at all levels in the development and implementation of the new system of keeping personal records of payroll taxes during the entire period of cooperation

2.2 THE PENSION FUND UNDERTAKES

- To cooperate with PADCO in the development and implementation of the new system of keeping personal records of payroll taxes paid to the Pension Fund,
- To provide PADCO with all necessary information so that PADCO is able to fulfill the tasks it is responsible for under the project,
- To secure cooperation from other government agencies to conduct planned activities,
- To assign experts who will be responsible for conducting planned activities and communicating with PADCO, and
- To submit to USAID and PADCO requests for computer equipment needed for the successful implementation of the activities specified by this Protocol and to provide information on all issues related to implementation of the activities specified by this Protocol

3 PROPERTY RIGHT AND TERMS OF USING PROPERTY

The Pension Fund of Ukraine shall be the owner of all property and software that may be transferred by USAID through its contractor PADCO. Any property transferred to the Pension Fund shall be used effectively during the period of implementation and further operation (at the conclusion of the Protocol period) so that the objectives specified by this Protocol are achieved.

The Pension Fund of Ukraine shall report on the assistance it receives and uses under this Protocol or shall ensure that such reports are prepared. Should property transferred to the Pension Fund under this Protocol be used for purposes not specified by Parties under circumstances that the Pension Fund could have prevented, the Pension Fund, on demand by USAID, will return the property to USAID or pay its initial cost.

4 OTHER PROVISIONS

Should

- a) Any Party fail to comply with any provision of this Protocol,

- b) Any Party believe that there is extraordinary situation under which the goal of the Protocol is likely not to be achieved or should one or both Parties be unable to comply with provisions of this Protocol, or
- c) Any Party believe than continuation of collaboration will lead to violation of laws and other normative acts of Ukraine,

then any Party may take steps to suspend cooperation, either in part or in full, under this Protocol and to notify the other Party of its actions. In the event of partial suspension such notification shall specify what activities will be suspended.

Termination of cooperation under this Protocol will cancel commitments of the Parties to provide financial or other resources under this Protocol except for payments to be effected under contracts or grants.

Pension Fund commitments specified in Item 3 concerning the use of property and software transferred to it will remain in effect at the end of the period of cooperation.

5 PERIOD OF COOPERATION

Cooperation on the development and implementation of EMPLOYER'S AWP will start on the date this Protocol is signed by both Parties and will end on November 30, 1997.

The cooperation period may be extended by mutual agreement of the Parties.

Boris Zaichuk,
Head of the Pension Fund of Ukraine

Roger Vaughan,
PADCO Resident Advisor,
Social Sector Restructuring Program

ATTACHMENT 1 6

REPORT ON IMPLEMENTING APM-P REPORTING SYSTEM AT TEST ENTERPRISES

November 15, 1997

During the period of October-November 1997, the software reporting program (APM-P), which enables enterprises to maintain records on payroll taxes paid for employees to the Pension Fund of Ukraine, was tested at two enterprises by the Chemonics/PADCO Social Sector Restructuring Team (SSRT). Both enterprises employ computerized bookkeeping systems that differ from each other by function, design, and database structure. This allows the Pension Fund to import (through a conversion program) most information needed to generate reports on individual pension contributions from the test enterprises databases. In the course of implementing APM-P, the following tasks were accomplished:

- local programmers, in collaboration with SSRT programmers, developed utilities to convert information stored in enterprises databases in the established intermediary text format,
- data on both enterprises in the intermediary text format were imported into APM-P databases,
- operators of enterprise bookkeeping and personnel departments, assisted by SSRT programmers, edited APM-P information stored in the databases in the "Update" operation mode,
- reports to be submitted to the Pension Fund were generated for both test enterprises in machine-readable and paper forms, and
- reports in paper form mentioned in the preceding item were verified in the local raion Pension Fund office

The following sections describe the results of implementing APM-P at each test enterprise:

1 RESULTS OF IMPLEMENTING APM-P AT TEST ENTERPRISE #

1 1 CONTENT OF ACCOUNTING SYSTEM DATABASES

There are four databases in the automated accounting system at test enterprise #1:

- PERSON — stores personal data on individuals, including full name, sex, and date of birth
- MONEY — stores the breakdown of wages data for a reported year as well as 1 percent contributions to the Pension Fund
- WORK_DAY — stores month-by-month information on number of working days
- OP — stores types of compensations paid to employees and taxes

No database contains the following information: Taxpayer Identification Number (TIN), family name at birth, place of birth, place of residence, telephone number, or source document data. Enterprise accountants do not need this data to calculate wages and other compensations, and the Pension Fund currently does not require this data.

One percent pension contributions paid by employees are available. However, data on pension taxes paid by the enterprise (4 percent for invalids and 32 percent for the other employees) is not available. Accountants explained that the payroll tax to be paid by the enterprise is collected when it receives funds from the bank for payroll purposes. Currently the bookkeeping department does not keep records of contributions paid by the enterprise for each employee. However, since these contributions are collected simultaneously with receipt of funds from the bank, they can be considered as paid to the Pension Fund.

There is no separate field for the taxable amount. For this reason, it had to be calculated by the converter as the total of all taxable compensations.

1 2 DEVELOPING CONVERTER

The utility to convert personal, wages, and payroll tax data in the intermediary text format (converter) was developed by local programmers with SSRT assistance. The development took three days to complete.

1 3 GENERATING REPORT TO THE PENSION FUND

Converted personal, wage, and payroll tax data was automatically imported to APM-P databases. It was decided to add to the databases only those missing data that was needed to generate the required report. Complementing the databases with all missing data would have required additional data from all enterprise employees. The full databases will be formed by the Personnel Department when shifting to a new system of pension insurance. The SSRT generated a report on wages and pension contributions for the third quarter of 1997 in both machine-readable and paper form. In so doing, enterprise pension contributions were calculated automatically.

1 4 CONCLUSIONS

- Databases of the accounting system at Test Enterprise #1 are not completely prepared to calculate pension contributions and to generate required reports, primarily because TINs are not available.
- Development of converters turned out to be an easy task for programmers who were familiar with structures of enterprise databases.
- The APM-P streamlined and sped up generation of the report to the Pension Fund.

2 RESULTS OF IMPLEMENTING APM-P AT TEST ENTERPRISE #2

2 1 CONTENT OF ACCOUNTING SYSTEM DATABASES

There are three databases in the automated accounting system at Test Enterprise # 2.

- SLS — stores personal data on individuals, including name, sex, and date of birth.
- NUA — stores the breakdown of wages data for a reported year, 1 percent contributions to the Pension Fund, and month-by-month information on numbers of working days.
- OP — stores types of compensations paid to employees and taxes.

The content and structures of Test Enterprise #2 are databases are similar to those of Enterprise #1. The same data are not available at both enterprises. The design of both accounting systems is also similar.

2 2 DEVELOPING CONVERTER

The utility to convert personal, wage and payroll tax data in the intermediary text format (converter) was developed by local programmers with SSRT assistance. Although the structure of the databases at Enterprise #2 was more complicated than that of Enterprise #1, the converter was also developed within three days.

2 3 GENERATING REPORT TO THE PENSION FUND

Converted personal, wage, and payroll tax data was automatically imported to APM-P databases. As with Enterprise #1, it was decided to include only data needed to generate the report on wages and pension

contributions for the third quarter of 1997 in both machine-readable and paper form. In so doing, enterprise contributions were calculated automatically.

2.4 CONCLUSIONS

- Accounting system databases at Enterprise #2 are not completely prepared to calculate pension contributions and generate required reports
- Development of converters turned out to be an easy task for programmers and was accomplished within a short time
- APM-P streamlined and sped up the generation of the report to the Pension Fund

3 RESULTS OF IMPLEMENTING APM-P AT TEST ENTERPRISE #2

APM-P was provided to the local raion Pension Fund Office together with third quarter reports for Enterprises #1 and #2. Pension Fund officers verified the reports and indicated that APM-P was easy to operate and the format for reports was optimal.

On studying the application program features, the Pension Fund offices proposed

- to ensure that a specific record may be sought for not only by family name or TIN, but also by internal tab number, and
- to streamline the procedure of shifting from processing a group of records of one enterprise to processing that of another enterprise (for the program to be installed at Pension Fund offices)

4 SUMMARY

- Because of introduction of TINs, all Ukrainian employers must modify their accounting and personnel databases so they contain the TINs and other fields needed to store required reporting data
- APM-P allows for importing data needed to generate reports to the Pension Fund automatically or inputting it manually
- A utility to convert employer data in the intermediary text format may be developed for any employer within a short period of time
- Using APM-P substantially speeds up preparation of reports to the Pension Fund
- APM-P is easy to operate
- The test raion Pension Fund officer is eager to implement APM-P. However, it is not quite clear where the reported data will be processed and stored since the new personal record-keeping system software for raion, oblast, and national levels has not yet been developed by the Pension Fund

ATTACHMENT 1 7
CERTIFICATE OF TRANSFER OF REPORTING SOFTWARE

November 21, 1997

Kyiv, Ukraine

This Certificate of Transfer evidences the transfer of reporting software developed by PADCO, a contractor of the United States Agency for International Development (USAID), to the Pension Fund of Ukraine. The reporting software referred to in this Certificate was developed for installation at enterprises and Pension Fund offices in order to allow the Pension Fund to receive data and prepare reports on payroll taxes paid to the Pension Fund of Ukraine by enterprises and individuals. Development of the reporting software was undertaken, in part, pursuant to the Protocol of Cooperation entered into by the Pension Fund of Ukraine and PADCO on August 19, 1997. Under this Certificate of Transfer

- 1 PADCO transfers to the Pension Fund of Ukraine the reporting software, referred to as Automated Working Place of Employer (APM-P), developed by PADCO. The reporting software is provided on floppy disks in the form of source code in FoxPro programming language and executable files, together with accompanying installation and operation manuals.
- 2 The Pension Fund of Ukraine warrants that the reporting software developed and transferred by PADCO meets or exceeds design specifications and all other requirements specified by the Pension Fund.
- 3 The reporting software was developed and transferred without charge to the Pension Fund of Ukraine.
- 4 Two original certificates in Ukrainian are provided, both being authentic.

On behalf on PADCO the reporting software is transferred by

On behalf of the Pension Fund of Ukraine the reporting software is accepted by

Roger Vaughan

Boris Zaichuk

ATTACHMENT 1 8
INDIVIDUAL REPORTING PROJECT
RECOMMENDED FUTURE ACTIONS TO BE UNDERTAKEN BY THE PENSION FUND

November 15, 1997

Based on the experience Chemonics/PADCO acquired during the development of the individual reporting program (APM-P), we offer the follow recommendations for future actions the Pension Fund should consider undertaking as it begins to implement and ultimately expand the reporting program

1 LEGAL BASIS AND COLLABORATION

In order to provide a legal basis for the individual reporting project, the Pension Fund, using the Instruction drafted by Chemonics/PADCO, should

- continue and expand its efforts to obtain a legal basis for implementing the reporting project on a test basis and ultimately to implement the project on a nationwide basis, and
- continue to monitor and, if feasible, assist the Tax Administration's issuance of Taxpayer Identification Numbers (TINs)

2 CONTINUED SOFTWARE DEVELOPMENT

In order to continue to refine the reporting software, the Pension Fund should

- test the reporting software at various types and sizes of enterprises,
- test the reporting software at various types (e g , rural vs urban) and sizes of raion Pension Fund offices,
- encourage developers of accounting software programs to incorporate the reporting software (APM-P) into their accounting program software or design a data conversion program that will easily transfer data to APM-P, which will reduce chances of data entry or data conversion error and make it easier for enterprises to comply with reporting requirements, and
- continue efforts to develop a program that will enable the Pension Fund to scan all reports (particularly the INDANI report), which may entail modification of some of the reports

3 CREATION OF DATABASE

In order to begin to establish a complete database of workers, the Pension Fund should

- distribute Certificate of Insurance (ANKETA) paper forms, reporting software, and user manuals to all raion (and city) Pension Fund offices for distribution to enterprises,
- require enterprises to complete and return the forms to the raion Pension Fund office by a specified date, and
- whenever possible, encourage enterprises to submit ANKETA forms in both paper and machine-readable form, Pension Fund offices should be willing to assist enterprises in completing reports and submitting them in a proper format

In addition, it is recommended that employers who maintain computerized personnel and bookkeeping systems

- modify their databases to include new fields that include information necessary to prepare required reports for the Pension Fund,
- develop a utility to convert information stored in their accounting and personnel databases to the established intermediary text format, and
- develop a utility to convert information stored in their wage and payroll tax databases to the established intermediary text format

4 EDUCATION PROGRAM

In order to assist enterprises and to increase enterprise compliance, the Pension Fund should

- hold training seminars to instruct enterprise accountants on how to use the individual reporting software,
- develop a public education campaign through both private and government organizations to inform enterprises of the benefits of this reporting project, and
- develop a public education campaign to inform individuals what is required of their employers

5 SANCTIONS

While initially the emphasis should be placed on education and instruction, in order to decrease enterprise and individual noncompliance the Pension Fund should

- set a timetable for implementation and mandatory enterprise compliance of the individual reporting program, and
- establish sanctions for those enterprises that fail to comply with the reporting requirements, and for individuals that provide false information to their employers

6 EXPANSION OF PROGRAM WITHIN PENSION FUND AND LINK TO OTHER GOVERNMENT AGENCIES

In order to develop a comprehensive database structure that is compatible with other agencies the Pension Fund should

- develop additional modules in the Pension Fund program that will link raion, oblast, and national offices,
- reevaluate how data is collected from enterprises and reported to the Pension Fund in order to find more efficient methods of collecting and storing information on individual contributions, one avenue to explore would require enterprises to send information to regional data collection centers, which would share information with raion level Pension Fund offices,
- collaborate with other government agencies (such as the Tax Administration) to insure that the Pension Fund's reporting program and database structure will be compatible with programs designed, or being designed, by other government agencies and
- link the Pension Fund reporting program and database with programs and databases maintained by other government agencies, including the Tax Administration, the State Committee on Statistics, the Ministry of Finance, and the Ministry of Labor and Social Policy

ATTACHMENT 1 9
PRESENTATION FOR PENSION FUND OF UKRAINE ON
PILOT PENSION REPORTING PROJECT

DESCRIPTION OF REPORTING SYSTEM

- All enterprises and self-employed individuals in Ukraine provide the Pension Fund with data on wages paid and payroll contributions for each employee
- Reports are collected by Pension Fund offices and stored in a centralized database
- Database is updated automatically at regular intervals
- Record-keeping system is used by all developed countries

ADVANTAGES TO THE PENSION FUND OF UKRAINE

- Pension benefits will be based on accurate records of pension contributions
- Collection of pension contributions will increase as
 - ▶ reporting program provides timely data on enterprise nonpayment,
 - ▶ enterprises are forced out of the shadow economy, and
 - ▶ employees encourage their employers to make pension contributions
- Projections of pension revenues and expenditures are made more accurately
- Impacts of proposed changes in minimum pension benefits are computed quickly and accurately
- A foundation is laid for the regulation and recording of non-state pension funds

ADVANTAGES TO THE GOVERNMENT OF UKRAINE

- Tax Administration can use data to identify enterprises and individuals who underreport income
- Housing Subsidy Offices can use data to verify income reported by housing subsidy applicants
- The Ministry of Labor and Social Policy can use data in the efficient administration of other social sector programs
- Strain on state budget caused by noncontributing enterprises will be reduced
- Enterprises will find it harder to operate in the gray economy

FUTURE PLAN OF ACTION

Stage 1 Expansion of Record-Keeping Program at Enterprise Level

- Legal act enabling program to be implemented at additional enterprises and Pension Fund offices
- Public awareness and instructions seminars held to assist businesses in the use of the reporting program
- Expansion and adoption of program nationwide

Stage 2 Development and Maintenance of Nationwide Pension Database

- Request to donor organizations to provide form of funding for equipment needed to create and maintain centralized database
- Development of software needed at oblast and national Pension Fund levels
- Development of software needed to interface Pension Fund software and database with other government agencies