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Seventeenth Quarterly Report
Ukraine Pension Reform Implementation
Project
January 1 – March 31, 2005

Submitted to
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by PADCO, Inc.
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LIST OF ACRONYMS

COM	Cabinet of Ministers of Ukraine
GOU	Government of Ukraine
MoLSP	Ministry of Labour and Social Policy
NPF	Non-State Pension Fund
PFU	Pension Fund of Ukraine
PRI	PADCO Pension Reform Implementation Program
SCRFSM	State Commission for the Regulation of the Financial Services Market
SRO	Self Regulatory Organizations
SSMSC	Securities and Stock Market State Commission
USAID	United States Agency for International Development
VR	Verkhovna Rada (Parliament of Ukraine)

GENERAL INFORMATION

PROJECT IDENTIFICATION

Title: Ukraine Pension Reform Implementation Project (PRI)
Contractor: PADCO, Inc.
Subcontractor: Barents/KPMG
Contract No.: 121-C-00-00-00834-00
Delivery Order No.: Not applicable

PROJECT PERFORMANCE DATES

Period of Performance: January 1 to March 31, 2005
Project Start Date: January 1, 2001
Report Date and Number: April 2005, Quarterly Report 17
Anticipated Completion Date: December 31, 2005

PROJECT MANAGEMENT

Project Management

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J. Benn Senior Contracts Officer
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Key Technical Advisors

Greg McTaggart Senior Pension Advisor
Jon Tomar Information Technology Expert
Roger Vaughan - Senior Economic Policy Expert

PROJECT DESCRIPTION

The Pension Reform Implementation (PRI) project has as its major activities assistance to the Government of Ukraine (GOU) in finalizing the development of a new pension policy involving both a compulsory public pension system and voluntary private system and supporting the passage of the necessary legislation.

Once this legislation has been passed, the PRI project will have as its major tasks working with the Government to educate the population about the new pension systems, training the staff in the administrative bodies on the new system, enhancing the administrative capacity of the Pension Fund of Ukraine (PFU) and developing the supervisory body needed to oversee the new systems as well as antecedent activities.

PROJECT QUARTERLY REPORT

1. PUBLIC PENSION SYSTEM

(i) Support for Strengthening the Legislative Framework for Pensions

During the quarter under review the Project assisted to MoLSP in drafting amendments to the Law of Ukraine “On Mandatory State Pension Insurance” in light of the approved amendments to Article 28 of this Law and preparation of amendments to the Law of Ukraine “On State Budget for 2005”. (See Section *Increase in the minimum pension of this report*)

PRI also continued assisting MoLSP to drafting amendments to the Law of Ukraine “On Mandatory State Pension Insurance” that describe aspects of implementing the Law. During the 1st quarter, support continued on reforming compulsory pensions by drafting the Law “On Mandatory Pension Security of Individual Categories through Professional and Corporate Pension Funds” to transfer the liability for paying privileged pensions to private pension funds into which employers will be responsible for paying contributions. Because of the change in government, the draft was returned from the COM to the responsible agencies (MoLSP). Some additional calculations will be necessary to define the amount of tariffs to be paid by employers before the draft is resubmitted. The impact of enacting the Law on the state budget also should be calculated, because several categories of employees subject to the Law are financed from the budget.

PRI provided TA on the approaches to the calculation of the budget cost of financing individual categories of population in accordance with the Draft Law of Ukraine “On Mandatory State Pension Provision to Individual Categories of People through Professional and Corporate Pension Funds”.

(ii) Continued development of computer systems for PFU

Cooperation with PFU has been revived – although some problems remain. As reported earlier, at PFU’s request the PRI prepared specifications to establish web-portal to include 3 web-sites: for the PFU, its newly created Training and Development Centre, and for ‘Pension Courier’ newspaper. These specifications were passed to the PFU for their review. During this quarter we have discussed the issue with the PFU and moved step by step toward finalizing specifications.

(iii) Improving the pension payment process

PFU asked for assistance from PRI in moving from current decentralized pension calculation and payment system to a centralized one. PFU would like PRI to explain international experience with such transfers. PRI experts developed a questionnaire on relevant issues and are developing a list of e-mail addresses of PRU counterparts in other countries to whom PFU will submit this questionnaire.

(iv) Actuarial Modeling

We continue to work on the Ukraine Pension Long-Term Projection Model. W. Schuddeboom, PRI’s actuarial expert has submitted an updated close to final version of the model and we demonstrated it to representatives from the Demography Institute, Ukrainian Center for Social Reforms (UCSR). Labor Institute, MoLSP and the PFU. It will not be possible to complete the model and use it to develop projections until PRI receives data from the PRU. PRI and the Ministry of Finance have both submitted requests to these agencies requesting the necessary data. So far, no data have been received. PRI has begun detailed discussions with UCSR and the World bank on collaboration on actuarial modeling.

PRI also met with the Deputy Minister of Finance who asked for PRI assistance in establishing a Cabinet-level working group to develop modeling capacity on actuarial modeling in order to be able to accurately assess the fiscal status of the pension fund and to evaluate the fiscal impacts of alternative pension policies. The ability to begin activities of the working group will depend on the receipt of requested data from the PFU and other government agencies.

The Minister of Finance has submitted a letter to USAD requesting assistance in a number of areas including strengthening the capacity of the MoF to make fiscal projections and develop performance based budgeting. The PRI provided memoranda to USAID on the resources and activities needed to meet these requests.

(v) Implementation of the Law

Expert advice has been given to the MoLSP and the PFU on issues related to the implementation of the Law of Ukraine “On Mandatory State Pension Insurance” including:

- Procedures for Submitting and Processing Documents for Pension Granting (Recalculation) Pursuant to the Law of Ukraine “On Mandatory State Pension Insurance”;
- Procedures for Actuarial Calculations for Mandatory State Pension Insurance;
- Procedures of Calculating Service Periods for Old Age Privileged Pensions;
- Comments on the Draft Law on changes in the Law “On Mandatory State Pension Insurance” regarding introduction of indexation of pension benefits for the 2nd pillar.

At MoLSP’s request, PRI experts prepared conclusions to the Draft Law of Ukraine “On Amending the Law of Ukraine “On Mandatory State Pension Insurance”, submitted by People’s Deputy Movchan (# 7031, dated 02.02.05) on confirming wage for granting pension via courts and conclusion on the procedure of wage calculation for calculating pension for an incomplete month.

Recommendations were also submitted to the Pension Fund of Ukraine on the procedure of calculating wages when granting pensions in compliance with item 2 of Article 41 of the Law of Ukraine “On Mandatory State Pension Insurance”.

Project experts took part in meetings of the Task Force developing mechanisms for automatic pension recalculation -- necessary because of the amendments to the Law of Ukraine “On State Budget for 2005”. They also met at the MoLSP with representatives of civil aviation air crew and test-pilots on issues related to the correct use and the improvement of norms of the Law of Ukraine “On Mandatory State Pension Insurance”.

TA was given to employees of the Information and Calculation Center on approaches to pension recalculation in connection with amendments to the Law of Ukraine “On Mandatory State Pension Insurance” (to Articles 28 and 42) and to the Fund of Job-Related Accident Insurance on paying insurance contributions to the Pension Fund.

Tables showing the distribution of the number of pensioners by type of granted pensions in accordance with different laws and a table on the amount of minimum pensions and minimum wage were developed at USAID request.

The Review of Major Provisions of the Law of Ukraine “On Mandatory State Pension Insurance”, published on our pension site, was updated. (Information on implementation of the Law is contained also in the section on public education and training.)

(vi) Increases in the minimum pension

On December 23, 2004, the Mandatory State Pension Insurance Law (Art.28) was amended by Parliament, increasing minimum pension benefits up to the subsistence level for not-able-to-work individuals. The new number for the minimum subsistence level for not-able-to-work

individuals (meaning the new number for the minimum pension) was established – 332 UAH for 2005 (incidentally, the Law On State Budget for 2005 stated a lower number -- 300 UAH -- which misrepresented the actual number and additional money needed).

A significant portion of the costs of paying the new minimum pension will have to be met from the state budget – the PFU deficit has been variously estimated at between 7 and 18 billion UAH.¹ Amendments to the 2005 budget law include various changes in taxes intended to raise additional revenues and social insurance contributions. MoLSP was primarily responsible for preparing proposals to be submitted to Parliament by the new government. The Project provided assistance to MoLSP in drafting amendments to individual articles of the Law of Ukraine “On Mandatory State Pension Insurance” in light of the approved amendments to Article 28 of this Law and preparation of amendments to the Law of Ukraine “On State Budget for 2005”.

While drafting the indicated amendments several options of the draft Law were prepared, including amendments to the Law “On Indexation of Population Cash Incomes”. After this issue was considered by the COM only one variant remained, which was used in the passed Law of Ukraine “On Amending the Law of Ukraine ‘On State Budget for 2005’”.

The amount of insurance contributions to be paid by the employer to the Pension Fund has been increased up from 32.0 % to 32.3%. At the same time the amount of unemployment insurance paid by the employer to the Mandatory State Social Insurance Fund decreased from 1.9% to 1.6 % of the actual wage laborers’ cost. The amount of additional insurance contributions, which the PFU will receive, will cover the inclusion of the unemployment benefit to the service record (except for its lump sum payment to organize entrepreneur’s activity by the unemployed).

(vii) Introducing the mandatory accumulation system (2nd pillar)

There has been little active preparation for introducing the mandatory accumulation system in 2007 during this quarter. All attention was focused on the stability of 1st pillar – a necessary precondition for the introduction of the 2nd pillar.² At the same time, reported comments from government officials in the mass media show no intention to postpone introduction of the 2nd pillar after 2007. USAID and PRI met with officials from the Cabinet of Ministers who echoed the desire to accelerate the introduction of the 2nd pillar.

2. PRIVATE PENSION SYSTEM

(i) General Information about the System

During this quarter a few more funds have been registered by the SCRFMS. As of March 31, 2005 there were 23 registered funds – 4 corporate funds, 2 professional funds and the remainder - open funds. There are about 47 NPF Asset Managers who have licenses from SSMSC (3 of them are pure NPF Asset Managers) and 28 NPF administrators licensed by SCRFMS.

By the end of reported period only 9 of the 23 registered NPFs were ready to collect contributions. According to the Law in order to conclude contracts with employers the NPF

¹ The State budget allocated 17.4 billion UAH to the PFU, including 11.9 billion UAH to cover the deficit for paying pensions.

² The increase of the minimum pension up to the minimum subsistence level met one of the pre-conditions for the 2nd pillar.

has to conclude contracts with the administrator, the asset manager, and the custodian, and report on these to the SCRFSM.

(ii) Drafting NPF legislation

Regarding necessary regulations to enforce the NPF Law, the Project submitted comments and suggestions to Methodological Recommendations on Criteria of Defining Financial Status of the NPF and amendments to Licensing Requirements for Administrators of the NPF drafted by SCRFSM.

A task force under the leadership of the SCRFSM has been convened to develop amendments to the Law On Non-state Pension Provision including a representative of PRI. The task force is currently collecting proposals from members but is moving slowly.

At MoLSP's request, PRI provided comments to three draft amendments to the Law On Non-state Pension Provisions. Two drafts aimed to allow NPFs existing prior to enactment of the 2003 Law to continue their functioning without changes in their structure and one would postpone the introduction of pension bank deposits until 2010.

During this quarter, monthly meetings were initiated of a permanent round table consisting of members of NPF Boards, NPF administrators, and asset managers. Meetings are chaired by the head of NPF Department of the SCRFSM, Andrey Rybalchenko, at the Stock Market Development Institute. Draft SCRFSM regulations, amendments to Laws and other NPF related issues are discussed. The Project's expert takes part in the meetings.

The Project also provided comments to the draft Law "On changes in the Law "On personal income tax" with respect to social insurance contributions.

(iii) Establishing the regulator of non-state pension funds (SCRFSM)

During the quarter there has been continuous collaboration with the SCRFSM on a wide number of issues, not just regulating non-state pension funds. PRI continued to support IT development at the Commission – including web-site development and maintenance. In order to respond to the Commission's request at the end of 2004 to develop its web-site, PRI collaborated with the Commission's IT experts in preparing specifications for the web-site. Due to discussions of the potential merger of the two financial sector regulators – SCRFSM and SSMSC as a priority of the new Government (on hold till June 2005), PRI decided to move forward more slowly in order that its work will not be affected by the merger. Therefore, PRI announced a public tender to create an information system that will reflected data from the State Registry on the SCRFSM web-site. PRI is finalizing the contract with FinPort Company, the winner of the tender.

The Project helped the Commission to implement the notification system for financial services market participants, develop the set of unified electronic templates of the Commission's documents (Regulation, Order etc.), advised on the work with MS SQL Server, and also trained IT staff. Purchase and transfer of computer software and hardware for the Commission's 8 regional offices was completed and has already been delivered. During our trip to Kharkiv, we visited regional office and saw 3 computers installed (before USAID purchase there was only 1 computer for 9 employees in the office)

SCRFSM has a World Bank pension reform grant. Through a tender, it has secured consulting services on NPF supervision from PrimAmerica Consultores, a Chilean company. PRI met with their experts during their visit to Kyiv to discuss current NPF activity in Ukraine. According to the grant PrimAmerica Consultores will develop recommendations for Ukraine. In order to facilitate the process of studying SCRFSM NPF Regulations by Chilean experts the Commission asked for PRI help with translation of their documents into English. This work is in a process.

In the reported period, we organized, tested, and selected 31 people for two groups (intermediate and advanced levels) for Business English courses. The course started and the Project provided participants with textbooks.

PRI financed Sergey Romanenko, the unit head of the Commission, to participate in the International Pension Conference “Evolution of Pension Reforms: Bulgaria’s experience and Regional Perspectives” in Sofia in February (see separate report in the attachment).

We continue to involve the staff of the Commission in public education activities through which they further explain the role of the Commission and interact with services providers regulated by the Commission. This included training events in Odessa and Kharkiv.

Following our agreements with the Commission, we also invited representatives from its regional offices to attend our training and educational events in Kharkiv.

(iv) Assistance to the Securities and Stock Market State Commission

Work with the Securities Commission was limited in response to USAID’s instruction not to provide TA until internal conflicts of interests at the Commission were resolved. SSMSC staff were involved only in activities the Project provided to other counterparts. Thus, PRI financed Yevgen Ivanov, the Investment Activity Department head of the Commission, to participate in the International Pension Conference in Bulgaria in February. We also involved SSMSC staff in our regional training and educational events as speakers and attendees.

The Project is close to completing the analyses of what is needed to support electronic digital signature implementation in Ukraine, requested earlier by the SSMSC. When it is complete and reflects the comments of market regulators and describes international practice in this area, the analysis will be submitted to both Commissions. Our international IT expert is actively involved in finalizing the analysis. PRI also assisted the SSMSC in administering of the Docflow system.

(v) Self-Regulatory Organisations (SROs)

The NPF Law provides for self-regulatory organisations (SROs) only in one area – NSP fund administrators. There are two associations of NPF administrators – the Association of Non-State Pension Funds and Pension Fund Administrators (headed by Pyrig) and the Association of Pension Fund Administrators (headed by Sidorenko). Neither meet the requirements for being licensed as the SRO and, until SCRFSM takes a decision on which structure to license as the SRO, we will continue to work with both organisations. There are unconfirmed rumours of creation of another association – with involvement of UkrSotsbank and SigmaBleyzer. Membership in an SRO is not mandatory for NPF administrators, so there is little incentive to join such associations.

During the reported quarter, the Association of NPF Administrators (Sydorenko) asked SCRFSM and MoLSP to stop further development of normative acts regulating SROs. PRI submitted an opinion that SCRFSM should continue this development and encourage competition and higher standards for administrators’ operation.

PRI paid for the participation of Dmytro Pyrig, President of the Association of Non-State Pension Funds and Pension Fund Administrators, in the International Pension Conference in Bulgaria in February. He met and establish contacts with representatives of other associations of NPF market participants from other European countries.

In response to the request from Pyrig’s Association to assist with creation of certification center for issuing keys for electronic signatures, PRI began assisting association in preparing the TOR for developing the key certification center model.

Asset management companies are mandated to be members of an SRO. The SRO for asset managers in Ukraine is the UAIB (Ukrainian Association of Investment Business) and PRI is

working with it also. The financial situation of UAIB is quite good with a budget for 2004 of more than 1 million UAH.

Currently in Ukraine almost all NPF administrators also function as asset managers, which is allowed by the Law. This fact makes cooperation with UAIB as important as cooperation with administrators' associations.

(vi) Work with Trade Unions

Following agreements at the Annual Pension Conference in Sudak, PRI met with Galina Kolosyuk, deputy head of Trade Unions Federation, about future cooperation. As a result of the meeting we provided our recommendations to Trade Unions Federation regarding a workshop with the heads of oblast trade union committees and provided materials for distribution.

A regional workshop on implementing the voluntary accumulation pension provision (3rd pillar) in cooperation with trade unions and Federation of Employers was held in Kharkiv. Representatives of both regulators, as well as an experienced asset manager and PRI staff delivered speeches. 26 representatives from trade unions took part in the workshop.

(vii) The Role of Insurance Companies in Pension Provision.

Recently there were several discussions, including articles in the mass media, on the role of insurance companies and NPF in non-state pension provision. The Law on Non-state Pension Provision provides for the role of insurance companies on the stage of payment of benefits via purchase of annuity. Insurance companies, however, believe they should also have a role in the accumulation stage. Because these issues are not covered by current legislation, insurance companies offer employers a wide range of pension related products that are in the interests of employers rather than employees. According to pension schemes offered by insurance companies, employees are not protected from the early termination of the labour contract, because they do not own pension contributions in this case. There have been several publications in mass media about advantages of insurance companies over NPFs in the 3rd pillar.

MP Morozov submitted draft amendments to the Insurance Law that would have worsened the situation. To prevent this draft Law from passing the SCRFMSM submitted to the COM an alternative draft Law covering the same issues. The Project provided MoLSP with comments on the draft Law, pointing out potential problems. Because the insurance industry has strong lobby in the VR and SCRFMSM would like to follow international best practice in this area, PRI conducted research and assembled relevant information through an international pension expert.

PRI also supported the initiative of one the Association of Non-State Pension Funds & Pension Fund Administrators to sponsor a Round Table in World Bank on the role of insurance companies and NPFs in the non state pension system (scheduled for April 14).

3. TRAINING AND PUBLIC EDUCATION

A large part of PRI activity during this quarter was in the area of training and public education. In this activity, PRI collaborated with not only Government counterparts but also with the National Association of NPF and NPF administrators, Ukrainian Association of Investment Business, All-Ukrainian Association of Pensioners, Ukrainian Society of Deaf, Federation of Employers of Ukraine and Federation of Trade Unions of Ukraine via organizing joint event or supporting their activity, as well as through giving expert advice, methodical literature, booklets, brochures, informational compact discs etc.

The total number of brochures, booklets, other printed materials, and compact discs distributed by PRI during the 1st quarter exceeded 21,000.

The final PSAs on non-state pensions were produced by Internews and transferred to PFU and SCRFSM who coordinated their airing on TV. We still did not receive official approval of PSA from these agencies, but we are trying to keep track.

Senior Pension Expert Greg McTaggart met with MoLSP officials to share the experience of the Russian Federation in pension reform implementation and to outline lessons to be learned.

At the request of MoLSP, PRI printed informational materials, graphs, charts etc. for COM official meetings (up to 500 copies total). We also drafted talking points for new MoLSP minister on Pension Policy of the Ukrainian Government and Further Steps on the Pension Reform Route.

(i) Training

During this quarter the focus of training has been on the voluntary pension system, involving staff of both regulators and market participants. Project experts trained specialists from the MoLSP at a refresher course, including a presentation on the prospects for implementing the professional and accumulation systems. The Pension demo model was also presented there.

Due to the radical legislative changes in the PAYG system that became effective during the 1st quarter, the Project continue working on the demo model that will allow individuals to estimate their future pension benefits. The model was presented to MoLSP and participants in seminars from MoLSP at the local level.

PFU continues to be concerned about the demo model being widely installed for public use, but MoLSP continues to encourage and support further work on the model. We have recommended that MoLSP meet with the PFU to resolve these differences. The meeting, however, was cancelled by the MoLSP at the last minute due to an urgent assignment to MoLSP from the GOU.

According to curriculum prepared at the end of 2004, in this quarter PRI conducted an extensive 45-hour training course on Accounting, Reporting and Taxation of Non-State Pension Funds for specialists of SCRFSM Department for Supervision of Non-State Pension Funds. 24 people attended the full course. The course was evaluated highly by the SCRFSM and its Chairman Victor Suslov acknowledged its value in a letter to the Project.

During the quarter PRI staff also conducted special training courses for SCRFSM staff on the use of various computer programs.

PRI was also involved in preparation for new courses for employers being conducted in conjunction with the Pension Fund's training division later this year.

The quarterly report on training and public education activities is appended to this report. In the 1st quarter 758 people participated in activities sponsored by PRI, bringing the total number of participants in project-sponsored training for more then three years of the Project to over 22,000.

(ii) Public Education

All of the training activities included an element of public education. In addition, specific public education activities included:

- Continued production of the television program on pension reform.
- Participation with CURE in regional Press Club briefings and regional training for journalists.
- Continuous updating of pension reform web site.
- Publishing 10 booklets on various issues of the PAYG system.
- Publishing materials on reforming the pension system prepared by PADCO experts in various professional journals and newspapers.
- Commissioning journalists to write articles on pension reform and to publish interviews with key players in leading local newspapers.
- Conducted 2 seminars in Kharkiv – for employers and lecturers.
- Printing 1,000 copies of updated brochure on the new pension system with data about the system as of January 1, 2005.

The specialist program focussing on the impact of pension reform on young people was recommenced after the winter season.

We continue to work with the Ukrainian Association of Retired Persons and are helping them to establish a call-centre on pension issues.

Project experts prepared presentation on the privileges to the employees who worked in the Far East and placed it on our pension web site. At our counterparts request we also prepared 80 copies of sets of normative acts on granting pensions to individuals who worked at the Far East (the value of these materials is that it is official documents of the former USSR with limited access to them currently in Ukraine).

During the quarter the population extensively used the telephone hotline. During this quarter, the number of calls to the hotline averaged 2,000 per week. This quarter the total number of calls was over 15,000. The MoLSP has asked for PRI to continue its support for the hotline in 2005.

The Pension Website was also extensively used. In the 1st quarter, 78,000 people (compared to 56,000 in previous quarter) visited the site with over 429,000 people having visited the site since its inception. Activity on the Forum section was the strongest. PRI provided more than 300 answers to the question on Forum. The Forum attracted the attention of Financial Services Regulator staff as a means of gathering information.

To explain tax policies in the NPF sphere, the Project introduced a special web-page on its website, dedicated to tax exemptions. Up to 10 different situations with detail samples of tax regime for employee and employer are described.

The Project sponsored Journalists club activity hosted by the Ukrainian Stock Market Development Institute. The 1st seating took place on March 31. It was a seminar followed by the round table on the system of non-state pension provision with representatives of NPF, insurance and banking industry. We are planning to hold such events once a month.

At MoLSP's request, the Project published ten booklets on pensions aimed at selected categories of individuals (2,000 copies of each).

PROJECT ACHIEVEMENTS IN QUARTER 17

Close cooperation with all our counterparts and renewed cooperation with PFU are among main achievements of the Project in the reported period.

We are proud to inform that cooperation with the Project and the need of Project expertise were preserved and highly demanded by the new Government also.

Despite the Project did not have a permanent full-time foreign expert within its staff, as it was before, we keep our high reputation and recognition among governmental agencies and the market.

ISSUES OF IMPORTANCE FROM PREVIOUS REPORT(S) THAT REMAIN UNRESOLVED

The Project continues to require data for its actuarial modeling and the PFU continues to resist providing it – despite formal requests.

Changes/revisions of forecasts from previous report and reason/cause

Nil

ACTIVITIES FOR THE NEXT QUARTER

PRI activities during the next quarter will continue in the areas in which it has concentrated during the last quarter. PRI will attempt to work in collaboration with USAID and the World Bank to secure data for fiscal modeling – not only actuarial models of the pension fund but also modeling the fiscal impacts in the short term of changes in the tax code.

FORECAST OF PROGRESS AGAINST TANGIBLE RESULTS

The tangible results for the project with comments on their development are:

- 1. The 1st pillar's contributions' collection compliance and enforcement activities are increased from 85% in 2000 to 90% in 2003.*

When USAID's senior pension advisor was in Kyiv in June 2003, it was suggested to her that this benchmark be altered.

There is effectively no way this can be measured. When employers pay wages they must make pension contributions, but data have not been supplied either by the PFU or the State Tax Administration.

- 2. The GOU has developed and improved legislation that establishes and regulates mandatory and voluntary private pension funds and their investment activities.*

SCRFSM has adopted all main legislation to regulate NPF activities. As of January 1, 2005 25 Regulations to regulate NPF activity were approved by the SCRFSM and registered with the Ministry of Justice.

There are several regulations the Commission is planning to pass, but the issues to be address are not urgent (e.g. termination of NPF etc.) Amendments to the Law on Non-state Pension Provision are now being drafted, as well as reconsidering NPF Regulations based on NPFs operations. Work is continuing on drafting other legislation, e.g. to introduce the new system of privileged pensions.

PRI is planning to stay in close cooperation with market participants as well as regulators to address issues after the npf system fully starts to operate in 2005.

- 3 *Amendments are drafted in other relevant laws and then submitted to Parliament, which create the conditions, and provide the incentives for individual retirement savings.*

As stated above, some amendments are in the process of being drafted.

The Project considered possible problems for the successful NPF development and prepared amendments to the new Civil Code (enacted January 2004) in order to eliminate obstacles for inheritance of pensions, accumulated at NPF. Next quarter we will take some steps to lobby them.

The Project will trace drafting amendments to the Insurance Law and provide comments to address issues that may negatively effect NPF and give non-reasonable and non-competitive advantages to insurance companies that may be in the interests of employers, but not employees and will not provide them with additional retired benefits.

- 4 *Information technology systems for all GOU pension systems will be in place to ensure the effective and efficient recording, monitoring and regulation of all pensions within Ukraine*

Work continues to help SCRFSM and on some extend SSMSC to develop their IT systems and to create integrated system for information exchange between 2 Commissions and NBU as provided by the COM resolution On Protection of NPF Assets. PRI's IT expert visited Kyiv in March and discussed this issue with SCRFSM. It was agreed that PADCO expert would be included in the interagency working group. To follow up with PFU's request, PRI will continue studying the issue of moving from decentralized pension calculation and payment to centralized one.

- 5 *A regulatory framework that provides for an independent and autonomous regulator, and the rules on reporting, disclosure, conflict of interest, investment standards and limitations, custody and initial and ongoing capital reserve requirements will be functioning.*

Both SCRFSM and SSMSC have progressively drafted and passed subordinate legislation to cover the operation of NPFs. The SCRFSM has already started to amend their Regulations to address practical issues, that appear.

- 6 *A private pension industry that is efficient, responsive to members' interests and transparent will exist.*

23 new funds have been registered for operation. 9 funds are formally ready to collect contributions. Several of them concluded first pension contracts with employers and actually started to collect money. As most of these funds are open pension funds established by financial organisations it will be interesting to see just how responsive and transparent they will be.

PRI will study documents that are prepared by these funds to potential participants and will come up with conclusions and recommendations.

- 7 *Staff of the public pension agency (1st pillar) and the agency or department that shall be responsible for regulating private pension funds (2nd and 3rd pillars) will be trained on PPF's regulation and management, and pension management issues i.e. licensing, enforcement, diversification, asset allocation, performance measurement and attribution.*

Intensive training for staff involved in the 1st pillar on the operation of the new solidarity pension system has been completed.

During the next quarter we are planning to conduct 2-days training on NPF activity for MoLSP employees. We also continue to assist both Commissions on central and regional levels to broaden their experience of the operation of accumulation systems and to help them open up dialogue with the market.

We are planning to send both Commissions' and MoLSP representatives to study-tour to Great Britain and Netherlands also to see the operation and regulation of NPF industry.

- 8 *Public understanding of pension reform, private pension funds and voluntary pension contributions will increase from little or no knowledge about pensions to significant knowledge about pension reform as revealed from two public opinion polls, one at the commencement of the program and one in 30 months.*

Two public opinion surveys have been carried out by the Project and we are planning to carry one more. We conducted a seminar for employers on NPF operation in Kharkiv and are planning to have one in L'viv next quarter.

The demand on the Pension Hotline indicates that the public's understanding of the reform has significantly increased.

PROGRESS AGAINST BENCHMARKS

1. Within six months of the passage and enactment of Non-State Pensions Law and other required legislation, in coordination with relevant USAID/Kyiv projects create and implement a training program for pension fund companies and pension investment managers on how to manage and operate PPF's in an efficient and cost-effective manner that meets the needs of the fund participants;

The law on non-state pensions gave the Regulator 12 months to produce the necessary by-laws and issue licences. In the 1st quarter, several funds already started to collect contributions and obviously to invest them (the Law gives 2 weeks for pension assets to be invested).

PRI is working closely with the market participants and SCRFSM to inform and train them on key issues. We expect that this benchmark will have been met by the end of the 2nd quarter of 2005.

2. By the end of the contract ensure that the Non-Banking Financial Regulator has the capacity to regulate non-state pension funds including, but not limited to development of: a) standards and capabilities; b) administration functions and personnel structure; c) standard methods to impose fees; and d) minimum standards;

Active contact is being maintained with SCRFSM and the Project in this area.

We received Commission's proposals for cooperation in 2005.

The first part of the proposed plan covers technical issues such as preparation of regulatory documents, training and education of staff.

The second part of the plan covers IT issues. It is similar to the 2004 plan and on some issues builds on achievements of 2004.

We are working on its implementation, but activity in a few directions has been slow down due to statements of the new Government on the potential merger of 2 Regulators. Because according to the official statement the decision making has been postponed till June, we can make more active and modify our activity in the mentioned area after June.

3. Within twelve months of the enactment of the Non-State Pensions Law: a) devise regulations for portfolio management; b) develop appropriate standards for asset allocation; c) develop regulations which protect pension assets; and d) advance regulations related to capital adequacy and reserve requirements for private pension fund companies;

The activity on this benchmark has been slow down due to USAID limitations in TA, to be provided to Securities Commission.

4. By the conclusion of the contract, the Contractor will have trained the staff of the private pension regulatory agency (department) on how to conduct private pension scheme financial and management audits. This training should include, but not be limited to, training on pension investment diversification, fiduciary responsibility, investment performance measurement and reporting, avoiding conflicts of interest, compliance and enforcement of pension legislation;

We prepared the curriculum, hand-out materials and conducted 45-hours training course on NPF Accounting and Taxation for SCRFMS officials.

We received positive response from the regulator and the desire to have more training later with focus on practical issues and concrete samples.

5. By the conclusion of the contract, the GOU shall have improved administrative efficiency of its pension related IT systems; and developed a national pensioner database (mandatory pension system); and

PRI believes that the administrative efficiency of its pension related IT systems have significantly improved. PRI's role in this is widely acknowledged in correspondence between the GOU and USAID.

As stated above, the PFU is seeking recommendations from PRI on international experience in moving from decentralized pension calculation and payment system to a centralized one.

6. By the conclusion of the contract, the Contractor will have conducted at least three pension reform conferences (one conference per year) for Ukrainian policy-makers, trade unions, employers and media, which will include sessions focusing on pay-as-you-go system reform; introduction of a mandatory accumulation pillar; and private pension funds regulation, supervision and management

The third international pension conference was held from 21 to 23 October, 2003. The fourth took place in Sudak from October 6 to 8, 2004. The next is scheduled for the end of September 2005.

ANTICIPATED PROBLEMS

The quick merger of 2 regulators- Financial Services and Securities Commissions, accompanied with appointment of new people and changes in staff may slow down our close work with regulators.

The problem of securing the data needed to model pension systems and fiscal impacts are likely to require coordinated effort with USAID and the World Bank and also high level meetings with the Prime Minister's office and the Cabinet of Ministers.

OPEN OR DEVELOPING ISSUES

GoU measures to deal with the large deficit caused by the increase in the minimum pensions are likely to require rapid response by the PRI team to draft legislation.

ANTICIPATED COORDINATION NEEDS WITH OTHER PROJECTS OR COUNTERPARTS

During the 1st quarter, the Project staff had several meetings with the World Bank on policy and coordination issues. We do not see problems in coordination and are planning to combine our efforts in several directions – actuary model development, cooperation with NPF industry etc.

The Project staff took part in the WB round table on providing the stability of pension system (March 3, 2005).

FISCAL INFORMATION

Total Invoiced through December 31, 2005	\$ 6,225,691
Invoices for January 1-March 31, 2005, ³	\$ 331,612
Total Invoiced Through March 31, 2005 ⁴	\$6,557,303
Total Contract Amount	\$ 8,004,736
Contract Balance as of March 31, 2005 ⁵	\$1,447,433

³ Estimated (March 2005 expenditures not final)

⁴ Estimated (March 2005 expenditures not final)

⁵ Estimated (March 2005 expenditures not final)

ATTACHMENT I**SUMMARY OF EDUCATIONAL AND TRAINING ACTIVITIES
FOR 1ST QUARTER OF 2005**

NUMBER OF PARTICIPANTS TO 31 DECEMBER 2004	21,565
TOTAL THIS QUARTER	758
TOTAL FROM INCEPTION TO 31 MARCH 2005	22,323

№	Date	Event	Performers	Number of Participants
1.	January 4-28	Five-day workshop training of specialists in social protection on pension granting control.	MoLSP, PADCO	25
2.	17.01	Youth and Pension Reform Workshop with students of the National University named after Mechnikov (Odessa).	PADCO, CURE, SCRFSM	50
3.	18.01.	Youth and Pension Reform Workshop with students of the Odessa Economic University.	PADCO, CURE, SCRFSM	400
4.	18.01	Press club for the journalists of the city of Odessa.	PADCO, CURE, SCRFSM	30
5.	21.02	Workshop with the heads of oblast trade union committees of the federation of Trade Unions of Ukraine.	Trade Unions Federation of Ukraine, SCRFSM, PADCO	60
6.	24.03.	Regional workshop on implementing accumulation pension provision for employers and trade unions, Kharkiv.	PADCO, Ukrainian Federation of Employers, Trade Unions Federation of Ukraine, SSMSC	65
7.	25.03	Regional workshop for lecturers of higher educational establishments - members of the Methodical Council on Corporative Law, Kharkiv.	PADCO, regional offices, SSMSC	35
8.	31.03	Meeting of the journalists' club on non-state pension provision.	PADCO, UISMD, SCRFSM	30

№	Date	Event	Performers	Number of Participants
9.	During the quarter	Preparing a model for pension calculation for a couple under Mandatory Accumulation.	PADCO	
10.	During the quarter	Preparing a regular (twice a month) monitoring of press, preparing a review and delivering materials to the partners and publishing them on the site.	PADCO	
11.		Preparing a review of international pension news and publishing it in mass media and on the pension site.	PADCO	
12.	February	Supplying necessary materials (legislation, normative and legal documents, public opinion surveys, analytical and statistical documents, brochures and booklets, TV visuals, CDs and the last version of the Demonstration model) to the Methodical Office of MLSP.	PADCO, MoLSP	
13.	January 26 – March 3	Training specialists of SCRFSM Department for Supervision of Non-State Pension Funds in the course on Accounting, Reporting and Taxation of Non-State Pension Funds.	SCRFSM, PADCO	24
14.	March 15 - July 15	Business English courses for 2 groups: intermediate and advanced levels for SCRFSM.	PADCO	31
15.	January–February	Developing and completing TOR, holding a tender and initializing the project Developing a System for Transferring Information from the State Register of Ukrainian Financial Institutions to the SCRFSM Web Site.	SCRFSM, PADCO	
16.	January – March	Training staff responsible for operation and content updating of the SCRFSM official website according to the internal regulations.	PADCO SCRFSM	8

**REPORT ON PARTICIPATION IN THE INTERNATIONAL CONFERENCE
ON “EVOLUTION OF PENSION REFORMS: BULGARIA’S EXPERIENCE AND
REGIONAL PERSPECTIVES”**

Sofia, Bulgaria, February 16-17 2005

**By Sergey Romanenko, Deputy Head of Department for Methodology of Insurance and
Non-State Pension Provision- Head of Division for Methodology of Non-State Pension
Provision and Life Insurance**

The conference was organized on the initiative of the American Agency for International Development (USAID) under Bulgarian President’s patronage in partnership with the Financial Supervision Commission of Bulgaria, Ministry of Labor and Social Policy of Bulgaria, National Social Security Institute and Bulgarian Association of Supplementary Pension Security Companies.

The representatives of USAID, the World Bank, the Ministry of Labor and Social Policy of Bulgaria, Non-State Pension Funds Associations of Bulgaria, Kazakhstan, Russia, Chile and Hungary, and Financial Supervision Commission of Bulgaria spoke at the conference.

The following issues were discussed at the conference:

- Formation and development of the pension reform;
- State regulation of the pension reform in the countries of Europe;
- Disclosing information on the Non-State Pension Funds’ activity;
- Bringing Bulgarian legislation to conformity with EU requirements;
- Pension assets investment;
- Trade unions’ activity in the pension system;
- Activity of Associations of Non-State Pension Funds and Administrators;
- Pension Funds State supervision and control in Bulgaria and other countries of Europe

Conclusions and proposals:

1. State supervision of the non-State pension provision entities in Bulgaria and other countries of Europe is concentrated in one regulatory body. To make regulation of the system of non-State pension provision in Ukraine more efficient it is important to integrate supervision functions related to assets management companies and Non-State Pension Funds administrators in one State agency.
2. The Financial Supervision Commission of Bulgaria focuses special attention to the Non-State Pension Funds prudential supervision. The Commission receives reports on pension assets investment daily.

SCRFSM should initiate making changes in the Law of Ukraine “ On Non-State Pension Provision” on periodicity of submitting reporting on non-state pension provision (assets management companies and administrators should report at least once a month).

3. As of today, in SCRFMS more than 50 Non-State Pension Funds have been registered, 30 administrators have been included in the Register of Financial Institutions and 13 licenses have been issued to administer Pension Funds.

With time efficient supervision over these entities may be a problem, since only 20 specialists work at the Non-State Pension Funds Supervision Department.

Therefore the Bulgarian experience is useful, since 31 specialists, who supervise 24 Pension Funds, work in the respective department of the Financial Supervision Commission of Bulgaria.

4. The experience of many European countries shows that licenses issued by the State bodies for asset management and administering Non-State Pension Funds are without time limit.

Taking into account the above-stated and the fact that accumulation of pension assets and pension payment is a long process, SCRFMS should make respective changes in the Licensing Conditions of Pension Funds Administration.

5. SCRFMS faces today the problem of employee drain to commercial institutions over insufficient financing. Therefore financing of Financial Supervision Commission of Bulgaria is useful, since it is financed from the State budget - 60% and from supervision entities' revenues - 40%.
6. In Russia, Kazakhstan and other countries the number of Non-State Pension Funds reduces due to their integration or amalgamation. Therefore SCRFMS should pay special attention to drafting a respective normative act to regulate reorganization procedure of pension funds and pension assets operations.
7. In many countries attention is focused on establishing and functioning of self-regulative organizations of the non-state pension provision system to which some supervision authorities are delegated.

Taking into account the above stated, SCRFMS should develop a normative act to regulate the activity of Non-State Pension Funds' SRO and identify the authorities to be delegated to them.