



Twinning Fiche

Project title: Support to pension reform in Azerbaijan – Phase 2

Beneficiary administration: Ministry of Labour and Social Protection of Population (MLSPP), Republic of Azerbaijan

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TWINNING TOOL

1. Basic Information

1.1 Programme: Multiannual Action Programme 2019-2020 “Partnership Priorities Facility” - CRIS number: ENI/2019/041-968; ENI2020/042-185 – direct management

For UK applicants: Please be aware that following the entry into force of the EU-UK Withdrawal Agreement¹ on 1 February 2020 and in particular Articles 127(6), 137 and 138, the references to natural or legal persons residing or established in a Member State of the European Union and to goods originating from an eligible country, as defined under Regulation (EU) No 236/2014² and Annex IV of the ACP-EU Partnership Agreement³, are to be understood as including natural or legal persons residing or established in, and to goods originating from, the United Kingdom⁴. Those persons and goods are therefore eligible under this call.

1.2 Twinning Sector: Social affairs and Employment

1.3 EU funded budget: EUR 1,500,000

1.4 Sustainable Development Goals (SDGs): Goal 1. End poverty in all its forms everywhere; SDG 16: Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels.

2. Objectives

2.1 Overall Objective(s):

To contribute to strengthening resilience of the pension system in Azerbaijan

2.2 Specific objective:

To support the Government of Azerbaijan in improvement adequacy, efficiency and sustainability of the pension system in line with European best practices

2.3 The elements targeted in strategic documents i.e. National Development Plan/Cooperation agreement/Association Agreement/Sector reform strategy and related Action Plans

EU-Azerbaijan Partnership and Cooperation Agreement (PCA) - Partnership Priorities

The framework for EU-Azerbaijan relations is based on the Partnership and Cooperation Agreement (PCA) in force since 1999. The EU-Azerbaijan Partnership and Cooperation Agreement enables gradual approximation of Azerbaijan’s legislation and procedures with EU and international trade-related laws and standards. As regards social cooperation, pursuant to Article 62 of the Agreement, “the Parties shall pay special attention to cooperation in the sphere of social protection which, inter alia, shall include cooperation in planning and implementing social protection reforms in the Republic of Azerbaijan. These reforms shall aim to develop in the Republic of Azerbaijan methods of protection intrinsic to market economies and shall comprise all forms of social protection”. In February 2017, the EU and Azerbaijan began negotiations on a new framework agreement designed to give new impetus to political dialogue and mutually beneficial cooperation.

¹ Agreement on the withdrawal of the United Kingdom of Great Britain and Northern Ireland from the European Union and the European Atomic Energy Community.

² Regulation (EU) No 236/2014 of the European Parliament and of the Council of 11 March 2014 laying down common rules and procedures for the implementation of the Union's instruments for financing external action.

³ Annex IV to the ACP-EU Partnership Agreement, as revised by Decision 1/2014 of the ACP-EU Council of Ministers (OJ L196/40, 3.7.2014).

⁴ Including the Overseas Countries and Territories having special relations with the United Kingdom, as laid down in Part Four and Annex II of the TFEU.

The EU-Azerbaijan Partnership Priorities, which aim to focus cooperation on commonly identified shared objectives, have been endorsed by both sides on 28 September 2018. They set the joint policy priorities that will guide and enhance the partnership over the coming years, namely: Strengthening institutions and good governance; Economic development and market opportunities; Connectivity, energy efficiency, environment and climate action; Mobility and people-to-people contacts. The EU assistance to Azerbaijan aims at improving the quality of life its citizens in a tangible and visible manner, by supporting the policy objectives outlined in the Partnership Priorities. According to the Partnership Priorities, in the context of diversification of economy, employment and social measures will ensure that the population and especially vulnerable groups can adapt to the changes in the labour market. The EU will share its experience in improving social assistance provisions in order to protect the unemployed and the socially vulnerable groups and their inclusion into society.

EU – Azerbaijan Cooperation

The EU support is funded through the **European Neighbourhood Instrument (ENI)** for the period 2014-2020. The **Single Support Framework (SSF) for EU support to Azerbaijan for the period 2018-2020** stipulates: "...despite progress made by the country in reducing poverty levels and advancing the reform agenda, **social protection**, education and health reforms must be continued to unlock Azerbaijan's full growth potential".

The objectives pursued by the **Multiannual Action Programme 2019-2020** to be financed under the European Neighbourhood Instrument are to support Azerbaijan in the implementation of the recently concluded EU-Azerbaijan Partnership Priorities. A facility has been setup allowing the EU to accompany the reform efforts undertaken by Azerbaijan in the four broad priority sectors. In particular priority 1 (Stronger Economy) stands for: promoting non-oil sector development and the country's economic diversification through trade facilitation, tourism and Small and Medium-Sized Enterprises (SME) development, support to the digital, green and circular economy, **promoting social protection systems**.

Azerbaijan 2030: National Priorities for socio-economic development

"Azerbaijan 2030: National Priorities for socio-economic development" approved by the Order of the President of the Republic of Azerbaijan dated February 2, 2021, highlights developing of high and fair social security system as one of the main priorities for the country development in its paragraph 2.2: "the country must achieve a **decent minimum level of pensions**, benefits, allowances and other social benefits. For the long-term development of the **pension system**, its financial stability must be strengthened and the proportion of the amount of pensions to insurance premiums paid must be increased".

Paragraph 3.2 refers to building a creative and innovative society with broad-scale digitalization, active application of new technologies and rapid development of the most modern fields without human intervention.

Concept on the Pension Provision System Reform in 2014-2020

Concept on the Pension Provision Reform in Azerbaijan in 2014–2020, which was approved by the Presidential Decree of 4 November 2014, aims to ensure long-term financial sustainability of the pension system by considering international development tendencies and accommodating the pension provision to regularly updated modern requirements, benefiting from appropriate experience of the developed countries.

The Concept makes it clear, that it is vital to establish pension system through:

- strengthening insurance principles and establishing balancing mechanisms between the obtained pension rights and paid contributions;
- ensuring commensurate of assigned pensions with paid contributions in pension provision system;

- establishing mechanisms based on actuarial analyses for the long-term development of pension provision system;
- improving regulatory mechanisms for non-contributory payment, as well as differentiating state obligations.

Strategic Plan of the Ministry of Labour and Social Protection of Population for 2021-2025

The Strategic Plan of the Ministry of Labour and Social Protection of Population for 2021-2025, which has been approved by the Order of the Minister of Labour and Social Protection of Population of 21 January 2021, aims to identify the most important directions for planning and implementing of development activities in the labour relations and social protection fields.

The Strategic Plan identifies key areas and priorities, as well as regulates the implementation mechanisms and timing, monitoring, reporting and evaluation planned to achieve the goals. The Strategic Plan is designed to increase the development directions and priorities contained in the relevant documents of the Ministry's subordinate bodies and serves as an important reference source for all employees, defining the vision and goals of the Ministry for 2021-2025.

The Strategic Plan sets out the following priority to be pursued (priority area 3.8.):

- Development of an insurance-pension system.

Azerbaijan's COVID 19 Response

Global events related to the COVID-19 pandemic have affected all countries in the world, with many experiencing signs of recession in late 2020. The forced quarantine regimes and economic downturns challenged or accelerated the downfall of governance systems, revealing long-standing structural problems.

The social protection system was one of the hardest-hit areas. On 1 April 2020, the Ministry of Economy announced the key headlines and directions of a support package to cope with the adverse socio-economic consequences of the coronavirus pandemic in Azerbaijan. The anti-crisis program, worth AZN 2.5 billion (\$1.5 billion), which is 3.1% of GDP, contained measures aimed at saving jobs, supporting income, guaranteeing credits as well as social measures to support the most vulnerable categories of the population.

As a part of the support package, the mandatory state social insurance fees, which constitute the main part of the pension budget in Azerbaijan, were deferred for a certain period. The social insurance burden of a number of business entities was reduced. The rates of mandatory state social insurance for insured persons earning income from non-employment activities were changed. Such as mandatory state social insurance premium from 1 April, 2020 to 1 January, 2021 for entrepreneurial activity – 25% of the minimum monthly wage in construction and trade, 15% in other areas and the application of differential interest rates by region. Calculation of mandatory state social insurance premiums from 1 January, 2021 to 1 January, 2026 at the rate of 50% of the minimum monthly wage in the construction sector and 25% in other sectors and application of differential interest rates by regions. The social insurance burden of employees with a fixed receipt and badge was reduced.

By the relevant order of the President of the Republic of Azerbaijan, cash allowance (190 AZN) was given to 600,000 unemployed people in connection with the COVID-19 pandemic. The amount of 159 million AZN from the State Social Protection Fund's (SSPF) reserve (197.18 million AZN) was directed to cash allowance payment.

3. Description

3.1 Background and justification:

The analysis of the pension system of the Republic of Azerbaijan shows that for the last 30 years the country has undergone considerable reforms in the field of social protection and the pension system. It should be noted that during the first years of independence, the main problem for the Azerbaijani pension system was the serious incompatibility of the Soviet-era non-social pension system with the market economy. Consequently, the reconstruction of the country's pension system in accordance with

best international practice has been identified as one of the strategic directions of social policy.

The reforms implemented over the past years have led to the creation of a modern and socially oriented pension system in Azerbaijan. The SSPF was established in 1992, the individual accounts system was introduced in 2006, relevant legal framework was continuously strengthened, and three pension reform concepts were adopted and implemented. As a result, the social welfare of the population of retirees has significantly improved, and poverty in this group has been almost eliminated.

The beginning of fundamental changes in social protection system of population was marked with the implementation of a three-tier ‘Pension Reform Concept’ (2001-2005), approved by the Decree of 17 July 2001. The main essence of this concept to undertake changes was to separate the pension insurance and social assistance systems and at the same time to establish a pension system that is based on insurance principles. This concept reinforced basic pay-as-you-go component and introduced additional mandatory insurance part, and funded component.

Introduction of the Law of the Republic of Azerbaijan “On personal accounts in the state social insurance system” of 27 November 2001, laid the foundation of the personal accounting system within the mandatory part of state social insurance system of the country. The key objective of the personal accounting system is to maintain the automated database for pension assignments based on the application of information technologies. The personal accounting system has been in implementation since 1 January 2006.

Note: The total number of personal (individual) accounts opened until the end of 2020, within the state social insurance system, constituted approximately 4.3 million people.

In 2006, the new law “On the Labour Pensions” adopted and the calculation rules for pensions changed.

The government made the preliminary views on prospective criteria of new pension coverage mechanisms public with approval of the concept on reforming the pension system in 2014. Thus, analysis of the concept indicated that the government tried to reduce the social obligations of state by all means. Equally, it was attempted to shift the responsibility for prospective pension coverage level upon the citizens by means of increasing the dependence between real pension amount and economic environment.

Reducing the budget dependence, assuring proportionality between the insurance fee and pension payments (increase of optimality) and augmentation of sustainability by way of improving the mechanisms for financing pension coverage system as stipulated in the pension reform concept formed the essence of the amendments to the Law of the Republic of Azerbaijan “On Labour Pensions”. On 10 March 2017, the Parliament of Azerbaijan adopted, in total, 98 changes to 22 articles of this law.

The aim of the new pension reform, started in 2017, was to eliminate non-contributory liabilities in the pension system, to set-up pension rights on the basis of adequate insurance provision, to optimize the financial burden of the system, to eliminate the definition of basic part of labour pension (pay-as-you-go component), to introduce a new term of “minimum amount of labour pension”, to fix the pension age into compliance with demographic indicators, to create opportunities for the application of a voluntary savings component to the insurance and to create opportunities for the establishment of non-state pension funds (institutions).

To achieve these goals, the base part of labour pensions has been cancelled, the minimum age for the right to receive an old age pension has been increased, the “minimum pension capital” criterion has been introduced, and the requirement of minimum work experience to obtain the right to labour pension has been abolished.

On 1 July 2017, the amendments to the law “On the Labour Pensions” came into the force. Consequently, the transition from a three-tier system to *a two-tier system of labour pensions* consisting of a mandatory insurance part and a funded component, was initiated in Azerbaijan.

The first component - mandatory insurance part - is the amount calculated as the proportion of the pension capital recorded in the insurance part of an individual account to the number of months in expected pension payment period.

Note: Insurance part is credited with a notional increase each year equal to the consumer price index.

The second component - funded part - is the amount calculated as the proportion of the pension capital recorded in the funded part of an individual account to the number of months in expected pension payment period.

Note: This element is not implemented in practice.

Pension age is set at 65 for men and is gradually increasing for women till reaching 65 years by 2027. While calculating pension amount the life expectancy of people is set at 77 years, thus the difference between life expectancy and pension age constitutes 12 years or 144 months. Therefore, expected pension payment period is 144 months (12 years) subject to the Decree of the President of the Azerbaijan Republic on application of the Law of the Azerbaijan Republic on Labour Pensions of 6 March 2016.

Minimum amount of labour pension

One of the important elements applied in the new pension system is a definition of “*the minimum amount of labour pension*”.

Minimum amount of labour pension plays the role of one of the criteria of the pension coverage system.

According to the Amendments to the Law of the Republic of Azerbaijan “On Labour Pensions” of 12 July 2019, the minimum amount of labour pension is defined at 200 AZN since 1 October 2019.

If the amount of the labour pension established in accordance with this Law is below the minimum pension amount, it shall be paid by bringing it to that amount.

Pension capital

According to the legislation, *the pension capital* - is amount of the means recorded in the insurance part of an individual account and the means accumulated in the funded part of an individual account.

The individual account – is an account with permanent (invariable) social security number opened during the accounting period for a person insured by the relevant executive body performing the personified accounting in the national social insurance system.

Accounting of the whole contributions made to the system by the same contributor is carried out on a single individual personal account of the insured on an on-going basis.

It consists of insurance and funded parts.

Insurance part of the individual account - the sub-account where 90% of mandatory social contributions paid by insured person is accrued.

Note: To all insured persons, excluding the person to whom a pension is already granted, have to be calculated a notional pension capital in their individual personal accounts at the amount of 306 AZN (the initial amount was set as 170 AZN) in proportion to each completed year of work experience for the date before 1 January 2006. The pension capital accrued in the insurance part of individual accounts of all insureds’, including working labour pensioners’ that had not been considered when calculating the insurance part of labour pension had been increased by 80% and registered in the insurance part of individual personal accounts as of 1 January 2017.

Other 10% of mandatory social contributions are designated to cover the administrative expenses of the SSPF (2.5%) and the reserve fund (7.5%).

Administrative expenses - are expenses directed to the management of the systems of mandatory state social insurance, personal (individual accounting), labour pension and other social payments (social benefits of insurance character)

Social insurance reserve aimed at financing the costs needed to increase pensions up to the minimum level of labour pensions established by the Law, the rules of use of which are determined by the relevant executive authority and unused balance at the end of the year is transferred to the next year.

Note: The insurance part of labour pension which formed upon the pension capital earned till 1 January 1992 and also several supplements to the pensions of some category of insured defined by the Labour Pensions Law, are financed at the expense of the state budget but all other amounts will be financed owing to mandatory state social contributions and social insurance reserve.

Funded part - the sub-account on which voluntary payment of insured person as well as income gained from turnover of these means accumulate.

Note: Persons can contribute voluntarily to funded part of their individual accounts in order to get minimum social insurance pension or to get higher labour pension (there is no limits for the maximum pension).

The minimum pension capital is defined by multiplying the minimum amount of labour pension by expected pension payment period.

Within current terms and conditions, the minimum pension capital amount equals to 200 AZN (minimum labour pension amount) * 144 months (12 annuity insurance years) = 28,800 AZN.

The minimum pension capital is not a constant figure and is recalculated (increased) in accordance with the statutory minimum pension defined (reconsidered or increased) by Law.

Types and structure of a labour pension

According to Azerbaijani legislation, there are 3 types of pensions:

- old-age;
- disability;
- survivor's/loss of breadwinner.

Only one type of pension shall be granted, at their will, to individuals, who have the right to different pensions.

Insured persons, in addition to the labour pension granted to them by the legislation, have the right to non-state pension.

The retirement age

Amendments to the law on Labour Pensions have reflected the issues, such as adjustment of costs and conformity to income most against new economic conjuncture. The goal was to increase the number of citizen making insurance contributions against one holder of pension by way of reducing the number of persons, who have acquired the entitlement to pension coverage for subsequent years, shortening the average pension coverage period and at the same time, increasing the number of mandatory social contribution payers.

The retirement age prior to amendments was 63 years for men and 60 years for women. The new pension reform stipulates increase of retirement age for upcoming years by 6 months annually until 1 July 2026 and will be 65 years for both men and women. The Government explains these changes by increase in life expectancy period.

Note: Some special category is entitled to early retirement.

According to the latest WHO data published in 2018, the life expectancy in Azerbaijan stands at 73.1 years (70.3 years for men and 75.7 years for women) which gives Azerbaijan a **World Life Expectancy ranking** of 96.

In accordance with Article 45 of the Law of the Republic of Azerbaijan "On Labour Pensions", expected period of pension payments is set at 144 months (i.e.12 years). According to comprehensive analysis as of 1st of January, approximately 54% of labour pensioners in Azerbaijan have been receiving pensions for more than expected period. Especially, 66.3% of those who have been receiving a pension for more than 12 years are old-age pensioners, 29.7% of them receive disability pensions, and remaining 4% are survivor pensioners. Therefore, for the majority of those who receive their pensions for more than expected period usual entitlement period falls between 12-20 years.

Indexation rules

According to the Article 29 of the Labour Pensions Law, pensions shall be indexed annually according to the annual average monthly nominal wage growth, while the pension capital registered in the insurance part of individual account (future pensioners) is indexed in accordance with the annual growth of

consumption price index.

Old-age labour pension

According to Article 7 of the Labour Pensions Law, a person who has reached the retirement age has the right to old-age labour pension if the pension capital accrued in his/her individual account allows for a pension at an amount not less than the minimum pension (currently at least 28,800 AZN), or shall have an insurance record of minimum 25 years.

The amount of an old-age pension shall be brought to the level of the minimum amount of a labour pension, in case it is less than the latter.

There are different exceptions regarding retirement age for some categories of population:

- Women who have given birth to five or more children and brought them up to the age of eight are entitled to an old age pension with a one-year reduction for each child.
- Mothers of children with disability who brought them up to the age of eight, as well as fathers and guardians who raised children alone, are entitled to an old-age pension with a 5-year reduction. (Labour Pensions Law, Article 8).
- People in underground working environment (e.g. mining, subway and others), in harmful and arduous working conditions as well as special fields of art (according to the list of professions and positions, approved by the Government authorities). (Labour Pensions Law, Article 9.1);
- Persons with hypo vascular disease (midgets) and with dysfunction. (Labour Pensions Law, Article 9.2).
- Civil aviation flight crew. (Labour Pensions Law, Article 9.3);
- Special ranked employees of the Justice, Migration, Emergency, Prosecutor's Office. (Labour Pensions Law, Article 9.4; 9.7);
- Military personnel. (Labour Pensions Law, Article 9.5).

Once the pension is prescribed, the pensioner can continue to work and after 6 years he/she can apply (considering covered social insurance amount by 6 years) for re-calculation of the pension amount.

Special ranked categories not relying on the insurance principle

The pensions of some people of specific categories defined by the Labour Pensions Law (mostly given within the Articles 19-20) are calculated on specific bases and these privileges are characterised by non-reliance on the insurance principle (social contributions made), as well as by supplements to the pensions.

Full list of special ranked pensioners and old-age pension calculation rules of those categories are specified in the table below:

Category	Calculation rule
Members of Parliaments of the Republic of Azerbaijan and Nakhichevan Autonomous Republic	In case of full term of office – average monthly salary X 80% In case of unexpired term of office - average monthly salary X 80% / required duration of term of office (60 months or 5 years ¹) X activity duration
Members of Central Election Commission of the Republic of Azerbaijan and Nakhichevan Autonomous Republic	average monthly salary X 80%
Human Rights Commissioners of the Republic of Azerbaijan and Nakhichevan Autonomous Republic	average monthly salary X 80%

¹ Required term for pension entitlement is 5 years

Members of Chamber of Accounts of the Republic of Azerbaijan	In case of full term of office – average monthly salary X 80% In case of unexpired term of office - average monthly salary X 80% / required duration of term of office (84 months or 7 years) ² X activity duration
Judges	In case of 15 years of activity duration – average monthly salary X 50% In case of exceeding 15 years of activity duration – average monthly salary X 50% + <u>3%</u> ³ for each year above 15 years (not exceeding 80% in total)
Civil servants	In case of 15 years of activity duration – average monthly salary X 50% In case of exceeding 15 years of activity duration – average monthly salary X 50% + 3% for each year above 15 years (not exceeding 80% in total)
Prime Ministers of the Republic of Azerbaijan and Nakhichevan Autonomous Republic and their deputies/ Heads and deputy heads of Central Executive Power bodies / Members of the National TV and Radio-broadcasting Board of the Republic of Azerbaijan and Nakhichevan Autonomous Republic/ Heads of local Executive Power bodies	In case of 15 years of activity duration – average monthly salary X 50% In case of exceeding 15 years of activity duration – average monthly salary X 50% + 3% for each year above 15 years (not exceeding 80% in total)
Staff of Prosecutor’s Office	In case of 15 years of activity duration – average monthly salary X 50% In case of exceeding 15 years of activity duration – average monthly salary X 50% + 3% for each year above 15 years (not exceeding 80% in total)
Military servants with disability resulting from military service	I group of disability – Last salary X 100% II group of disability – Last salary X 80% III group of disability – Last salary X 55%
Military servants (other reasons)	In case of 20 years of activity duration – last maintenance cost X 50% In case of exceeding ⁴ 20 years of activity duration –last maintenance cost X 50% + 2%* for each year above 20 years (not exceeding 100% in total)
Judicial staff	In case of 15 years of activity duration – average monthly salary X 50% In case of exceeding 15 years of activity duration – average monthly salary X 50% + 3% for each year above 15 years (not exceeding 80% in total)

² Required term for pension entitlement is 7 years

³ In case of pensioners from the Ministry of Defense the percentage constitutes 3%

⁴ Maintenance cost of military servants includes the base salary and the value of any bonuses and benefits received in addition to salary

Staff of Migration office	<p>In case of 15 years of activity duration – average monthly salary X 50%</p> <p>In case of exceeding 15 years of activity duration – average monthly salary X 50% + 3% for each year above 15 years (not exceeding 80% in total)</p>
Emergency Situations staff	<p>In case of 15 years of activity duration – average monthly salary X 50%</p> <p>In case of exceeding 15 years of activity duration – average monthly salary X 50% + 3% for each year above 15 years (not exceeding 80% in total)</p>

Note: According to the last statistical data (2020), nearly 20% of old-age pensioners belong to a special category. Detailed information about other two pension types (disability and survivor's) is included in Annex 2.

Automated pensions assignment mechanism

Under the Decree of the President of the Republic of Azerbaijan of 5 September 2018, an automated mechanism for assignment of pensions was created and started to operate from 1 January 2019. Consequently, as a first proactive service in Azerbaijan's pension system, the practice of assignment of pensions electronically without any further (personal) application has been applied, and even without submission of the documents, the pension is granted on the day when the right arises.

The person who is entitled to a pension does not need to provide the necessary documents in paper format to prove his/her working experience data (accrued pension capital, insurance record, service years and others). The pensions are calculated on the basis of data concentrated on person's individual (personal) account collected up until the date of entitlement (because the member data of all periods until 2006 - the date of the launch of personal accounting system within pension provision system - have been automatically identified and included into the accounts by SSPF in advance and recorded/preserved in individual accounts and the data of the further years have already been considered in the accounts as a result of reports collected periodically).

New pensioners, for whom the pension assignment process was completed, are informed of the amount of the pension, the bank branch from which the bank card will be received and the time (via "sms", e-mail or official letter). They also receive their banking cards personally from appropriate banks (in envelopes with PIN code).

It should be noted that with the application of an innovative approach, from 1 January 2019 the electronic automated assignment of old-age pensions and from 1 March disability pensions were launched in Azerbaijan. Pensions of 16,299 people, constituting 60.2% of all pension assignments, were appointed automatically during the first eight months of 2021 without having to approach any branches of SSPF and face any bureaucratic difficulties.

To achieve 100% of electronic appointment of all pension types, including pensions for servicemen of special ranks as well as for survival pension, is a challenge still to be addressed.

Digitalization of the pension system

As an important issue, the reforms implemented have contributed to the process of replacing administrative control with public control. The services related to insurance and pension system electronically integrated into the "E-government" portal (all government electronic services provided to population by different state authorities have been concentrated in the frame of unique internet portal), were provided to population in electronic form within "one-stop-shop" approach. Using this opportunity, each insured person can exercise control over an individual (personal) account for him/her calculated and paid monthly contributions in real time (but updated periodically).

In general, the old-age pensions are assigned electronically and the work on enhancing the coverage of electronically assigned pensions to all pension types is still ongoing. Moreover, major part of services provided to the population have been automatically identified based on the one-stop-shop principle and

consolidated in the Internet resources format. Currently, the unified social registry of Azerbaijan operates successfully covering core e-services within the framework of the Internet portal named www.e-sosial.az. In addition, it is notable that in 2018 the Agency for Sustainable and Operational Social Security (DOST) was created by the Presidential order to improve governance in employment, and social protection sectors. DOST Agency provides more than 130 social protection services of MLSPP in the “one-stop-shop” principle, including the pensions assignment.

Ministry of Labour and Social Protection of Population

The Ministry of Labour and Social Protection of Population of the Republic of Azerbaijan (MLSPP) is a central executive body implementing state policy in the areas including labour relations, labour protection, use of labour resources, social protection of population, as well as labour pensions and social insurance, employment of population, unemployment insurance, demography, socio-medical expertise, rehabilitation of people with disabilities and children with special needs.

The MLSPP key operating areas related to labour pensions include:

- to participate in the formation of a unified state policy in labour pensions area and ensure its implementation;
- to approve important guidelines, regulations, rules, and other normative legal acts for ensuring compliance with legislation in the labour pensions area;
- to create an electronic version of the information system of the Ministry and to ensure the implementation of electronic services in the fields of labour, employment, social protection and social provision through this system;
- to ensure the preparation of projects of budget of the SSPF and the implementation of approved budget;
- to exercise governance in the field of mandatory state social insurance;
- to ensure financing the payment of labour pensions;
- to ensure the implementation of personal record in the state social insurance system;
- to make proposals about acceleration of minimum wage, increasing the level of demand criteria to the minimum living standards for the country step by step, indexing the amount of labour pensions and social allowances depending on the inflation rate.

To carry out its functions, the MLSPP is structured in a Central Administration consisting of 17 departments, the DOST, the SSPF, the State Labour Inspectorate Service, the State Employment Service and the State Medical-Social Expertise and Rehabilitation Service.

The Pension Policy and Supervision of Individual Accounts department at the MLSPP will be the main beneficiary of this project. Indirect beneficiaries will include:

- E-Services and Innovations Department;
- Strategic Planning Department;
- SSPF.

State Social Protection Fund

The SSPF is a public legal entity under the MLSPP (According to the Presidential Decree No. 912 "On additional measures to improve management in the field of social protection"), operating in the field of mandatory state social insurance and voluntary (additional) social insurance, labour pensions, social benefits, targeted state social assistance, pensions and compensations, as well as other payments.

Several specialized departments under SSPF were established in Baku city: Central Branch for Social Insurance and Personal Accounting; Central Branch for Special Assignments (assignments with privileges); Central Branch for Finance and Accounting; Central Branch for the Assignment of Social Payments; Central Branch for Work with Court Disputes and Central Branch for Examination of Living Conditions. In addition, 1 city and 8 region (district) branches had been replaced with new regional territorial branches that increased accessibility and convenience for all.

The budget of SSPF is approved by the Parliament once per year by separate law for the upcoming year

(along with the state budget) and is one of the parts of the state budget summary. The budget document is based on the principle of determination of revenues upon the expenditures, by which the surplus of expenses over revenues is compensated at the expense of means of state budget that will be transferred in the next fiscal year to SSPF's balance.

The main source of revenues is the mandatory state social contributions (around 70%) from different sources such as from the private sector as well as from trade unions and funds allocated from the state budget to balance the budget of SSPF

Expenditures of SSPF include allocations to financing of labour pensions and small portion of allocations are addressed to financing of different social benefits (i.e., temporary loss of capacity, pregnancy and childbirth, childcare, and funerals). Also, remaining amount is addressed to the maintenance costs of SSPF and its local bodies, at the same time membership and other fees for international organizations (ISSA and others).

3.2 Ongoing reforms:

Strategic Documents in the process of drafting

Development of the Concept of Pension Provision System in Azerbaijan 2022-2030

The main objectives of the Pension Concept 2022-2030 are:

- further strengthening the financial sustainability of this system to provide future generations with a reliable state pension;
- maximum automation of services provided to citizens in the pension-insurance system;
- increasing public confidence and interest in the state insurance and pension system by ensuring long-term stability of pension appointment conditions;
- simplification of legislative acts in the field of pension provision, elimination of inconsistencies and inter-segment discrimination and their systematization;
- formation of a voluntary (non-state) social insurance-based pension system;
- expanding international cooperation in the field of pension provision system;
- strengthening the social protection of the insured and the pensioners.

To achieve these goals, the fulfilment of the following tasks is required:

- strengthening the principles of social insurance in the pension system;
- determining the proportional ratio between the minimum pension and the minimum wage, establishing a proportional growth mechanism, as well as ensuring that the minimum pension is always higher than the subsistence level;
- replacement of the length of service supplements with coefficients applied to pension capital and application of a single indexation method in the pension system;
- taking measures to fully finance state obligations in the insurance-pension system from the state budget;
- precise definition of the framework of state incentives in the field of social insurance and their financing in the insurance and pension system from the state budget.

Problems encountered

- **The pension system in Azerbaijan has not yet been adapted to the needs of the market economy and has not been integrated into international standards.**
- **In addition, the pension system has not been financially viable, and it has not been able to achieve the reliable social protection of retirees in the long term due to the continued serious**

dependence on the state financial resources.

- Thus, **a number of the non-social insurance obligations of the existing pension system in the country have led to an increase in social insurance spending and transfers from the state budget, significantly increasing the financial burden of this system.** As a result, the prognosis of expenditures in the State Social Protection Fund's budget in 2021 amounted to 5,146.0 million AZN, which is 8.7 times more than in 2006, with 589.5 million AZN. During the same period, the amount of transfers from the state budget increased by 9.7 times, from 167 million to 1,631.5 million AZN. In the budget of 2021, incomes for mandatory state social insurance are predicted to be 68%, and the funds allocated from the state budget are predicted to be 31.7%.
- Recent actions taken at the state level in the direction of formalizing work places, registering labour contracts and eliminating informal employment, expanded the possibilities of using the savings potential of the mandatory state social insurance. **Indication of the specific weight of expenses on the payment of old-age labour pensions has had a tendency to decline compared to international indicators, while the indication of the specific weight of the expenses on the payment of disability labour pensions, has had a tendency to increase in comparison with the specific weights of world practices.**
- Thus, **the financing of benefits paid** to persons who retired before the statutory total retirement age (persons entitled to a pension on preferential terms), a number of additional payments to labour pensions (in former times, also to the basic part) in connection with long service, as well as other non – insurance payments, all play a role in **weakening the principles of insurance within the system.**
- **To transform the current pension system with a dominant insurance element to a full insurance-pension system is one of the main problems to be solved.** Any new sectoral policy documents under this project must be **costed and aligned with the annual budget law and with the mid-term budgetary framework (MTBF).**
- In order to define the prospective development priorities of the pension system, a forecast based on actuary calculations, is carried out by the Pension Policy and Supervision of Individual Accounts department of the MLSPP. Accuracy of the current database in use is the main obstacle to defining the development priorities of the pension system according to the long-term econometric models based on multi-parametric actuary projections. **How to improve an automated electronic database of the pension system to produce quantitative and qualitative statistical reports is a challenge that needs to be addressed.**
- Another challenge is to **introduce state-of-the-art methods for data analysis, actuarial calculations and forecasting according to the European best practice,** which should be adapted/custom-tailored to MLSPP needs. It will give an opportunity to project life expectancy of the population, future macroeconomic indicators of the economy, changes in future pension amount of the insured persons by considering international trends, amount of both contributory and non-contributory pension liabilities, as well as the number of future pensioners and insured persons. In order to prepare actuarial analysts and forecasting specialists and strengthen their professionalism, training courses on actuarial models and forecasting methods should be provided to the MLSPP staff.

3.3 Linked activities:

EU Support

The EU funded Twinning project ‘Support to the State Social Protection Fund on the introduction of funded element within the insurance–pension system, establishment of non–state pension funds and development of legal framework for regulating their activity’ (2014-2015) aimed at enhancing the capacity of the SSPF to establish the regulatory, legal and administrative framework for the introduction of a funded element in the insurance-pension system and the establishment of non-state pension.

The project achieved the following five results:

- Relevant pieces of legislation drafted for establishment of the funded component in the state insurance-pension system.
- Technical description of the mechanism for accumulation and management of the funds on the individual accounts provided.
- Relevant legal framework to organize the process of establishment of non-state pension funds drafted.
- Capacity of the relevant SSPF staff enhanced to ensure launch of the funded component in the state pension system and to play a role (which role remains to be decided) in creating a market for non-state pension funds.
- A communication strategy elaborated to raise public awareness concerning the funded component of the state pension system and private pension funds.

The EU funded Twinning project “Support to the Ministry of Labour and Social Protection in the reform of the pension system in Azerbaijan” (2017-2019) aimed at improving the capacity, tools and efficiency of the SSPF to develop and implement an automated fiscal control (e-audit) system; to strengthen the institutional and technical aspects of the budgeting as well as the strategic planning mechanisms of the mandatory and voluntary social insurance systems.

Main outputs of the project could be specified as follows:

- An automated financial control (e-audit) system developed and tested
- The institutional and technical aspects of the budget preparation process in the SSPF improved
- Strategic planning mechanisms for compulsory and voluntary social insurance systems strengthened based on the European best practices

3.4 List of applicable *Union acquis*/standards/norms:

The following EU legal acts provide relevant information on the European policy goals and recommendations in the pension area:

- Directive (EU) 98/49/EC of the European Parliament and of the Council of 29 June 1998 on safeguarding the supplementary pension rights of employed and self-employed persons moving within the Community
- Directive (EU) 2016/2341 of the European Parliament and of the Council of 14 December 2016 on the activities and supervision of institutions for occupational retirement provision (IORP II Directive)
- Regulation of the European Parliament and of the Council of 29 June 2017 on a pan-European Personal Pension Product (PEPP)
- Council Recommendation of 8 November 2019 on access to social protection for workers and the self-employed

3.5 Components and results per component

The Twinning project will build capacities and provide advisory assistance through activities structured under the following Mandatory Results:

Mandatory Result 1: Regulatory and institutional frameworks are strengthened to ensure universal coverage, adequacy, predictability, financial, fiscal and economic sustainability of the pension system

Sub-Result 1.1 Proposals for necessary amendments of the regulatory framework taking into consideration the objectives of the Pension System Reform Concept 2022-2030 developed

Sub-result 1.2 Institutional framework improved to strengthen strategic analyses

Short description:

This component will address regulatory framework and institutional capacity of MLSPP to enhance policies based on the principles of adequacy, predictability, financial, fiscal and economic sustainability of the pension system.

The regulatory and institutional frameworks of the pension system were developed taking into account the national experience, good international practice and advice of international experts; nevertheless, it is difficult to foresee all complexity of the pension reform in its full alignment with the social insurance principle. The pension system in Azerbaijan is going to evolve incrementally, thus analysing, fine tuning/upgrading of pension primary and secondary legislation as well as strengthening institutional capacity of MLSPP will be needed.

Most of the secondary legislation was prepared and is in force; however, there are some key issues not covered by the existing legislation. Number of secondary legislative acts will be amended/developed to solve/regulate the following issues (non-exhaustive list):

- Transmit to the proactive method of granting of all types of pensions (electronic automated assignment without need to submit an application and/or approach branches of SSPF)
- Methodology/mechanism on how to incorporate special categories of population (civil servants, military personnel, persons with special rank, judges and others) in the full insurance reliance pension model

This component will also address the needs of MLSPP in building its capacity in strategic analysis in the pension field. It is necessary to establish mechanisms that will design relevant proposals with consideration of all factors such as: turning of pensions paid before introduction of the new system, pension rights gained by the insured during functioning of the previous system, supplement payments for seniority as well as other payments not based on social insurance principles into additional financial burden for the system; amount of state budget allocations required to attain social targets set out by the state; funding demands expected in future as a result of introducing personal accounting in the mandatory state social insurance system; compliance of social insurance rates with growing financial demands; and studying other issues in a well-coordinated manner.

To this end, capacity to carry out strategic planning in the pension system should be made available and strengthened. Furthermore, the strategic planning capacity enabling to define the long-term development priorities of the pension system through harmonization with the country's socio-economic development should be enhanced. The conceptual framework and mechanisms should be formed in this field in accordance with the international practice taking into account the modern requirements. Global processes and challenges, the analysis and study of interdependence between country's economic and social development and other factors, building and strengthening the necessary capacity to carry out investigations in order to assess the long-term impact of all these aspects on strategic planning of pension system are of special importance. The project will provide technical assistance and capacity building for the strengthening of strategic planning mechanisms of the pension system for the relevant staff of MLSPP.

Mandatory Result 2: Digitalisation of the pension system is facilitated

Short description:

This component will assist in facilitating the pension system's digitalization process. Within this component a comprehensive proposal on digitalization of the pension system and full automation of all pension provision services on a web based platform is to be developed. Integration of electronic databases of stakeholders in pension area should also be addressed.

This should be done respecting the national standards for interoperability. Consultation with the coordinating state authority for ICT should be ensured. In addition, as an IT system is being developed which will require personal identification, the whole of the social protection system could be covered

(potentially, i.e., preparing for the opportunity to extend individual data to work experience, paid contributions, collected benefits also outside the pension system).

Mandatory Result 3: Data collection, processing, evaluation, control and reporting system are modernised

Short description:

This component will focus on modernization of data collection, processing, control and reporting system currently in use in MLSPP. Reporting and data collection system for each pension type will be upgraded.

Development of recommendations on how to improve an automated electronic database of the pension system to produce quantitative and qualitative statistical reports will be tailored according to the main objectives of the Pension System Reform Concept 2022-2030 (accessibility, productivity, quality).

The project will support the improvement and structuring of database on the insured people to make more precise projections (e.g. demographics) of the pension system.

Mandatory Result 4: New actuarial models and forecasting methods in pension provision are developed

Short description:

This component will focus on building the capacity of MLSPP in development of actuarial models and forecasting methods in line with European policies and best practice.

Within the component, actuarial/forecasting models adapted to pension system of Azerbaijan will be developed.

Special attention will be paid to passing on the international experience on making actuarial analysis for pension budget projection. For this reason, it is very important to study in well-coordinated manner changes of macroeconomic and demographic indicators and those ones defining the work of the system itself. Introducing relevant mechanisms will be ensured in order to periodically bring additional rights and privileges available in the system in line with demographic indicators.

The project will help MLSPP to assess current institutional and technical aspects of budget formulation process and will draw recommendations to improve the current situation. The project will draw recommendations on how to integrate actuarial work in the budget process and these recommendations will be implemented.

3.6 Means/input from the EU Member State Partner Administration(s)*:

The project will be implemented in the form of a Twinning contract between the Beneficiary Country and EU Member State(s). The implementation of the project requires one Project Leader (PL) with responsibility for the overall coordination of project activities and one Resident Twinning Adviser (RTA) to manage implementation of project activities, Component Leaders (CL) and pool of short-term experts within the limits of the budget. It is essential that the team has sufficiently broad expertise to cover all areas included in the project description.

The RTA will be supported by an assistant who will handle administrative arrangements for conferences, training, seminars, etc. including a provision for interpreters and translations.

A full-time interpreter/translator may also be recruited in Azerbaijan and funded by the project. (S)he will perform most of the required interpretation/translation services. Additional interpretation may be procured and funded by the project under special circumstances, such as simultaneous interpretation.

Proposals submitted by the EU Member State shall be concise and focused on the strategy and the methodology, with an indicative timetable underpinning this; moreover, the administrative model shall be suggested, the quality of the expertise to be mobilised and the proposal should clearly show the administrative structure and capacity of the Member State entities. Proposals shall be detailed enough to respond adequately to the Twinning Fiche, but are not expected to contain a fully elaborated project.

They shall contain enough detail about the strategy and methodology, and indicate the sequencing and mention key activities during the implementation of the project to ensure the achievement of overall and specific objectives and mandatory results/outputs.

The interested Member State(s) shall include in their proposal the CVs of the designated Project Leader (PL) and the Resident Twinning Advisor (RTA), as well as the CVs of the potentially designated Component Leaders-(CLs).

The Twinning project will be implemented in close co-operation between the partners aiming to achieve the mandatory results in a sustainable manner.

The set of proposed activities will be further developed with the Twinning partners when drafting the initial work plan and successive rolling work plans every three months, keeping in mind that the final list of activities will be decided in cooperation with the Twinning partner. The components are closely inter-linked and need to be sequenced accordingly.

3.6.1 Profile and tasks of the PL:

The Project Leader is expected to be an official or assimilated agent with a sufficient rank to ensure an operational dialogue at political level.

Basic Skill Requirements:

- University degree in law, public administration, social security or other relevant discipline or equivalent professional experience of eight years in public administration, social security or other sectors relevant for this twinning
- Minimum three years of specific experience, at a senior management level, in pension sector in EU MS relevant national or regional administration
- Very good spoken and written English (at least level 2 on a scale of 1 [excellent] to 5 [basic])

Assets

- Experience in EU funded project management, ideally twinning;
- Specific professional experience in the implementation of pension system reforms
- Knowledge of EU pension legislation, EU-policies, existing structures and methods in the field of the project

Tasks to be completed:

- To supervise and coordinate the overall project preparation;
- To supervise, guide and monitor project implementation towards timely achievement of the project results;
- To liaise with the BC administration at the political level;
- To ensure timely availability of the expertise;
- To prepare the project progress report with the support of the RTA;
- To co-chair the project steering committees.

3.6.2 Profile and tasks of the RTA:

The Resident Twinning Adviser will be based in Azerbaijan to provide full-time input and advice to the project for its entire duration. She/he will be in charge of the day-to-day project implementation and coordination of project activities according to a predetermined work plan and liaise with the RTA

counterpart in Azerbaijan. (S)he should co-ordinate the project and have a certain level of understanding of all the components.

Basic Skill Requirements:

- University degree in economics or social protection or other relevant discipline or equivalent professional experience of eight years in social security or other sectors relevant for this twinning;
- Minimum 3 years of specific experience in strategic planning or data analyses/actuarial calculation processes in pension system;
- Very good spoken and written English (at least level 2 on a scale of 1 [excellent] to 5 [basic])

Assets:

- Experience in project management, preferably twinning;
- Experience in implementation of relevant EU legislation and EU instruments related to the project components.

Tasks:

- To coordinate and assure project implementation and implementation of all project activities;
- To prepare the initial and subsequent work plans and project progress reports, together with the PL
- To assure the coherence and continuity of the successive inputs and the on-going progress;
- To coordinate the activities of all team members in line with the work plan;
- To assess continuously the project progress to assure its timely implementation;
- To prepare the material for regular monitoring and reporting;
- To liaise with MS and BC PLs and maintain regular contact with the BC RTA;
- To provide the technical advice, support and assistance to the Beneficiary institution in the areas specified in the work plan;
- To liaise with the EUD Project Manager;
- To liaise with other relevant institutions in Azerbaijan and with other relevant projects.

3.6.3 Profile and tasks of Component Leaders (component 1-4):

The Component Leaders will work in close cooperation with the RTA and the Beneficiary administration in order to meet the mandatory results. Their main task is to plan and coordinate the activities under their respective areas of responsibility in collaboration with the partner institutions.

Basic Skill Requirements:

- University degree or equivalent professional experience of 8 years in a discipline relevant to the component of the twinning for which the candidate is proposed;
- Minimum 3 years of professional experience at an operational level in relevant MS social security CA or mandated body in a field relevant for the component for which the candidate is proposed
- Very good spoken and written English (at least level 2 on a scale of 1 [excellent]to 5 [basic])

Assets:

- Experience in capacity building and ideally twinning projects
- Azerbaijani, Turkish or Russian language skills

Tasks:

- To provide component coordination, guidance and monitoring in close cooperation with the BC component leader, RTA and RTA counterpart;
- Preparation of Terms of Reference (ToR) for short term expert missions relevant to their component and overseeing the implementation of STE missions;
- Continually monitoring objective achievements related to their component and comparing actual progress with the specified benchmarks and time-frame;
- Support RTA in preparation of the interim, quarterly and final reports related to their component
- To provide practical expertise and technical advice, as well as coaching to the relevant staff in the Beneficiary administration for the execution of activities relevant for the project components;
- To analyse policies and practices in the thematic area relevant to the respective component;
- To support drafting of action plans, training plans, studies;
- To prepare and conduct training programs, to facilitate stakeholders' dialog;
- To draft technical documents relevant to the component's results in close cooperation with the BC counterparts;
- To suggest improvements of relevant procedures and systems.

3.6.4 Profile and tasks of other short-term experts:

The STEs should be identified by the Project Leader/RTA and will be agreed with the Beneficiary Administration during project implementation. Short-term expertise will be required in the following indicative (but not exclusive) areas: strategic planning in pension area, pension law, pension statistics, pension actuary, pension forecasting, IT database and software development.

Basic Skill Requirements:

- University degree or equivalent professional experience of 8 years;
- At least 3 years of professional experience in a respective field related to the purpose of the mission foreseen in the work plan;
- Very good spoken and written English (at least level 2 on a scale of 1 [excellent] to 5 [basic])

Assets:

- Experience in delivering capacity building activities;
- Experience in providing inputs to policy documents, methodological guides and/or handbooks;

Tasks:

- To provide advice, expertise and/or coaching to the relevant staff of the Beneficiary administration for the execution of specified project activities;
- To plan and deliver capacity building activities (workshops, study tours, trainings);
- To suggest improvements of relevant procedures and systems including suggestions to the revision of regulatory framework;
- To provide support in drafting action plans and roadmaps;
- To report on the results of the missions;

- To liaise with RTA and BC counterparts.

4. Budget

Maximum Budget available for the Twinning Grant: **EUR 1,500,000.00**

5. Implementation Arrangements

5.1 Implementing Agency responsible for tendering, contracting and accounting (AO/CFCE/PAO/European Union Delegation/Office):

The Delegation of the European Union to the Republic of Azerbaijan (EUD) in Baku, Azerbaijan will be responsible for the tendering, contracting, payments and financial reporting. EUD will work in close co-operation with the Beneficiary.

Address: Landmark III, 11th Floor, 90A, Nizami str.

AZ 1010 Baku, Republic of Azerbaijan

<http://eeas.europa.eu/delegations/azerbaijan>

The persons in charge of the project at the EUD are:

Mr Victor BOJKOV

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Head of Contracts, Audit and Finance

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5.2 Institutional framework

The Ministry of Labour and Social Protection of Population (MLSPP) is the central counterpart and beneficiary of the Twinning Project.

5.3 Counterparts in the Beneficiary administration:

The PL and RTA counterparts will be staff of the Beneficiary administration and will be actively involved in the management and coordination of the project.

5.3.1 Contact person:

Name: Rasim Ayyubov

Position: Head of Analysis and Review Division

E-mail: rasim.ayyubov@sosial.gov.az

5.3.2 PL counterpart

Name: Elnur Abbasov

Position: Head of Pension Policy and Supervision of Individual Accounts department

E-mail: elnur.abbasov@sosial.gov.az

5.3.3 RTA counterpart

Name: Fidan Mammadova

Position: Leading Advisor of Pension Policy and Supervision of Individual Accounts

department

E-mail: fidan.mammadova@sosial.gov.az

6. Duration of the project

Execution period of the project shall be **27 months** (24 months of implementation + 3 months closure period).

7. Management and reporting

7.1 Language

The official language of the project is the one used as contract language under the instrument (English). All formal communications regarding the project, including interim and final reports, shall be produced in the language of the contract.

7.2 Project Steering Committee

A project steering committee (PSC) shall oversee the implementation of the project. The main duties of the PSC include verification of the progress and achievements *via-à-vis* the mandatory results/outputs chain (from mandatory results/outputs per component to impact), ensuring good coordination among the actors, finalising the interim reports and discuss the updated work plan. Other details concerning the establishment and functioning of the PSC are described in the Twinning Manual.

7.3 Reporting

All reports shall have a narrative section and a financial section. They shall include as a minimum the information detailed in section 5.5.2 (interim reports) and 5.5.3 (final report) of the Twinning Manual. Reports need to go beyond activities and inputs. Two types of reports are foreseen in the framework of Twinning: interim quarterly reports and final report. An interim quarterly report shall be presented for discussion at each meeting of the PSC. The narrative part shall primarily take stock of the progress and achievements *via-à-vis* the mandatory results and provide precise recommendations and corrective measures to be decided by in order to ensure the further progress.

8. Sustainability

The sustainability of the achievement of this project will be assured by the adoption of best practices and solutions at the system level. New policy directions and practices will be proposed by the project. In their development a participatory and facilitative approach will be used in order to create ownership of the process and the results. Involvement of all relevant stakeholders will assure that the developed policy options have adequate acceptance among national partners. Mechanisms for communication and dialogue between the agencies and ministries introduced by the project are meant to be a lasting contribution of the project to the health insurance policy development in Azerbaijan.

The sustainability of the project results is dependent on the commitment of the Beneficiary administration. Sufficient number of personnel from the Beneficiary administration will be assigned to work in the implementation of the project. Capacity building of the staff will be reinforced by the development of handbooks and guidelines which will be translated in the local language. The training materials will be at the Beneficiary's disposal to multiply and/or scale up the training and/or to update it, should the need arise. Project interventions are meant to reach the level of management practices in the relevant institutions and every-day procedures which should ensure that the results of the project last beyond the project's timeframe.

9. Crosscutting issues (*equal opportunity, environment, climate etc...*)

Equal opportunity in the project will be assured in accordance with EU standards and equal opportunity policies. Equal treatment of women and men will be observed in the project staffing, implementation and management. In particular, attention to the equality principle will be given to the selection of

personnel for training and capacity building activities.

Relevant project information and all communication and visibility materials must be updated and approved by the EU Delegation through the EU's project communication database 'EUDIGITOOL'. All visibility and communication material will be kept up to date throughout the lifetime of the project. The use of the 'EUDIGITOOL' approval system is a mandatory requirement.

10. Conditionality and sequencing

There is no conditionality set for this project as the external conditions for achieving the results of this intervention are present - Beneficiary has demonstrated a commitment in the development of this project.

11. Indicators for performance measurement

The indicators for measuring success of the project implementation are linked to the Mandatory Results Components that have been outlined above in the Section 3.5. The logical framework, including the indicators, will be revisited during the inception period of the project. The work plan that will be drafted in collaboration with the MS and the MLSPP will further specify the indicators.

*The indicators of achievement for **Result 1: Regulatory and institutional frameworks are strengthened to ensure universal coverage, adequacy, predictability, financial, fiscal and economic sustainability of the pension system***

Sub-result 1.1 Proposals for necessary amendments of regulatory framework taking into consideration the objectives of the Pension System Reform Concept 2022-2030 developed:

- Assessment report of the national pension reform priorities;
- Number of amendments of regulatory framework drafted;
- Number of mechanisms for incorporating special “non-insured” category in the full insurance reliance pension model.

Sub-Result 1.2 Institutional framework improved to strengthen strategic analyses:

- Assessment report of the current organizational set up for strategic analyses in pension area with the list of recommendations for their enhancement;
- Availability of a strategic development plan for the Pension Policy and Supervision of individual Accounts Department of MLSPP including organisational set up of the Department with a clear-cut assignment of tasks and matching job descriptions;
- Number of capacity building activities to obtain knowledge on the European practices on state benefits of mandatory state social insurance premiums and their impact on the pension provision/financing methods;
- Availability of an Action Plan with benchmarks of quality, quantity, and time to make pension systems more sustainable in light of prospective demographic developments, and to address current financing problems;
- Number of methodologies/ guidelines for strategic and operational analyses and planning drafted and put in use;
- Proportion of strategic planning staff of MLSPP trained on strategic and operational analyses and planning.

*The indicators of achievement for **Result 2: Digitalisation of the pension system is facilitated:***

- Assessment report of the digital tools currently in use and IT infrastructures of the MLSPP;
- A comprehensive proposal on how to improve the digitalization of the pension system and full automation of all pension provision services on a web-based platform;
- Number of electronic services in MLSPP;

- Number of stakeholders electronically integrated with the MLSPP databases;
- A proposal on integration of electronic databases of stakeholders in pension area;
- Number of IT staff of MLSPP provided with the practical knowledge on digital systems used in EU MS;
- Proportion of IT staff of MLSPP trained on new IT solutions in pension system and European practice in the field of IT Governance.

*The indicators of achievement for **Result 3: Data collection, processing, evaluation, control and reporting system are modernised:***

- Assessment report of the data collection, processing, control and reporting system of the MLSPP;
- Number of state-of-the-art methods for data analysis, producing statistical reports drafted and put in use;
- A proposal on how to improve an automated electronic database of the pension system to produce quantitative and qualitative statistical reports;
- Number of new/revised formats and templates for data collection and exchange drafted and put in use;
- Number of practical guidelines for using statistical analysis methodologies and techniques drafted and put in use;
- Proportion of staff members of the MLSPP trained in data collection, processing, control and reporting system.

*The indicators of achievement for **Result 4: New actuarial models and forecasting methods in pension provision are developed:***

- Assessment report of actuarial models and forecasting methods;
- Number of state-of-the-art methods for actuarial calculations and forecasting drafted and put in use;
- Availability of a specific actuarial software model, with technical specifications for IT-service procurement (procurement is not part of the project);
- Number of practical guidelines for using actuarial and forecasting methodologies and techniques drafted and put in use;
- Proportion of staff members of the MLSPP trained in actuarial models and forecasting methods.

12. Facilities available

The Beneficiary commits itself to deliver the following facilities:

- Adequately equipped office space for the RTA and the RTA's assistants for the entire duration of the secondment;
- Supply of the office room including access to computer, telephone, internet, printer, photocopier;
- Adequate conditions for the STEs/MTEs to perform their work while on mission;
- Suitable venues for the meetings and training sessions that will be held in the frame of the project.
- Availability of staff that will be involved during the twinning project implementation.

Full coordination and transparency is expected among all key players involved.

ANNEXES TO PROJECT FICHE

1. The Simplified Logical Framework
2. Description of other 2 pension types
3. Mandatory State Social Insurance Contributions

4. Main legislative basis of the pension system in Azerbaijan

Annex 1 Simplified Logical Framework

	Description	Indicators (with relevant baseline and target data)	Sources of verification	Risks	Assumptions (external to project)
Overall Objective	To contribute to strengthening resilience of the pension system in Azerbaijan	<ul style="list-style-type: none"> Coverage of insurance or tax-based social security scheme (SDG)⁵ Baseline: 16.6% (2021) Target: 14% (2025) Number of workers newly registered as participant in the social security scheme (SDG) Baseline: 0.16 million (2021) Target: 0.2 million (2025) Old-Age Dependency Ratio⁶ Baseline: 3.52% (2021) Target: 4% (2025) 	<ul style="list-style-type: none"> National statistics Annual reporting of MLSP 		

⁵ Ratio between the number of pensioners and the number of social contribution payers

⁶ Ratio between the number of persons aged 65 and over and the number of persons aged between 15 and 64

<p>Specific (Project) Objective(s)</p>	<p>To support the Government of Azerbaijan in improvement adequacy, efficiency and sustainability of the pension system in line with European best practices</p>	<ul style="list-style-type: none"> • Share of special “not-insured” category of pensioners Baseline: 20% (2021) Target: 10% (2025) • Share of electronic appointment of all pension types Baseline: 60.2% (2021) Target: 90% (2025) • Proportion of total government spending on social protection Baseline: 31.7% (2021) Target: 25% (2025) • Number of mechanisms increasing the access of every citizen to forecast information about future pension amount and terms Baseline: 1 (pension calculator) Target: at least 1 additional mechanism • Availability of access to information and database system Baseline: not available Target: access mechanism developed and in use 	<ul style="list-style-type: none"> • National statistics • Annual reporting of MLSPP 	<p>Resistance among recipients to the implementation of fully insured pension system</p> <p>Financial and human Resources allocated by MLSPP insufficient to develop the foreseen activities</p> <p>Lack of commitment from the managers/high level decision-making of the beneficiary institutions and relevant personnel to participate in the activities of the project</p> <p>Difficulty in mobilizing project’s RTA and short-term experts due to COVID pandemic</p> <p>Slower processes as a result of</p>	<p>The Government remains committed to implement fully insured pension system</p> <p>Adequate financial and human resources made available to MLSPP for implementation of fully insured pension system as well as full digitalisation of pension assignments</p> <p>Possible institutional changes do not affect the existing roles and responsibilities of related institutions</p> <p>MLSPP retains its key staff who possess relevant knowledge, competences and skills to continue working on the pension system</p> <p>Capacity of beneficiary is sufficient to absorb the projects results</p>
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				Working From Home (WFH) measures	
Mandato ry results/ outputs	Result 1: Regulatory and institutional frameworks are strengthened to ensure universal coverage, adequacy, predictability, financial, fiscal and economic sustainability of the pension system				
	<u>Sub-Result 1.1</u> Proposals for necessary amendments of regulatory framework taking into consideration the objectives of the Pension System Reform Concept 2022-2030 developed	<ul style="list-style-type: none"> Assessment report of the national pension reform priorities Baseline: non-available (2021) Target: assessment report developed (2024) Number of amendments of regulatory framework drafted Baseline: 0 (2021) Target: Minimum 5 amendments (2025) Number of mechanisms for incorporating special “non-insured” category in the full insurance reliance pension model Baseline: 0 (2021) Target: Minimum 1 mechanism (2025) 	<ul style="list-style-type: none"> Assessment report List and text of regulatory amendments Mission reports 	<p>Lack of commitment from the managers/ high level decision-making of the beneficiary institutions and relevant personnel to participate in the activities of the project</p> <p>Unavailability of qualified staff and funds for the implementation of the proposal may jeopardize the job done by the experts</p> <p>Change of MLSP staff (loss of staff, or high staff turnover)</p>	<p>Commitment of lawmakers to review and improve legislation to enable direct support measures to be adopted</p> <p>Access to indispensable information and documents is ensured</p> <p>Required data are available</p>
	<u>Sub-result 1.2</u> Institutional framework improved to strengthen strategic analyses	<ul style="list-style-type: none"> Assessment report of the current organizational set up for strategic analyses in pension area with the list of recommendations for their enhancement Baseline: non-available (2021) Target: assessment report developed (2024) 	<ul style="list-style-type: none"> Assessment report Policy documents Training programs, attendance lists and reports Capacity building activities reports Mission reports 	<p>Lack of commitment from the managers/ high level decision-making of the beneficiary institutions and relevant personnel to participate in the</p>	<p>Commitment of MLSP and involvement of all relevant stakeholders in the process</p> <p>Strong involvement and commitment of MLSP</p>

		<ul style="list-style-type: none"> • Availability of a strategic development plan for the Pension Policy and Supervision of individual Accounts Department of MLSPP including organisational set up of the Department with a clear-cut assignment of tasks and matching job descriptions Baseline: non-available (2021) Target: strategic development plan developed (2024) • Number of capacity building activities to obtain knowledge on the European practices on state benefits of mandatory state social insurance premiums and their impact on the pension provision/financing methods Baseline: 0 (2021) Target: Minimum 2 seminars (2024) • Availability of an Action Plan with benchmarks of quality, quantity, and time to make pension systems more sustainable in light of prospective demographic developments, and to address current financing problems Baseline: non-available (2021) Target: action plan developed (2024) 		<p>activities of the project</p> <p>Unavailability of qualified staff and funds for the implementation of the proposal may jeopardize the job done by the experts</p> <p>Change of MLSPP staffing (loss of staff, or high staff turnover)</p>	<p>staff at all levels</p> <p>Sufficient staff at MLSPP in terms of qualification, quantity and availability</p> <p>Coordination between departments and institutions connected with the Project is ensured</p> <p>Access to indispensable information and documents is ensured</p> <p>Required data are available</p>
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		<ul style="list-style-type: none"> Number of methodologies/ guidelines for strategic and operational analyses and planning drafted and put in use Baseline: 0 (2021) Target: minimum 2 documents (2024) Proportion of strategic planning staff of MLSPP trained on strategic and operational analyses and planning Baseline: 0 (2021) Target: 75% of strategic planning staff (2024) 			
	<p>Result 2: Digitalisation of the pension system is facilitated</p>	<ul style="list-style-type: none"> Assessment report of the digital tools currently in use and IT infrastructures of the MLSPP Baseline: non-available (2021) Target: assessment report developed (2024) A comprehensive proposal on how to improve the digitalization of the pension system and full automation of all pension provision services on a web-based platform Baseline: non-available (2021) Target: comprehensive proposal developed (2024) Number of electronic services in MLSPP Baseline: 61 (2021) Target: 90 (2025) Number of stakeholders electronically integrated with the 	<ul style="list-style-type: none"> Assessment report Comprehensive proposal on digitalization Proposal on integration of electronic databases of stakeholders in pension area Training programs, attendance lists and reports Mission reports 	<p>Lack of commitment from the managers/ high level decision-making of the beneficiary institutions and relevant personnel to participate in the activities of the project</p> <p>Unavailability of qualified staff and funds for the implementation of the proposal may jeopardize the job done by the experts</p> <p>Change of MLSPP staffing (loss of staff, or high staff turnover)</p>	<p>Commitment of MLSPP and involvement of all relevant stakeholders in the process</p> <p>Capacity of beneficiary is sufficient to absorb the projects results</p> <p>MLSPP establishes appropriate cooperation and information exchange links with other relevant institutions</p> <p>Sufficient staff at MLSPP in terms of qualification, quantity and availability</p> <p>Coordination between</p>

		<p>MLSPP databases Baseline: 31 (2021) Target: 45 (2025)</p> <ul style="list-style-type: none"> • A proposal on integration of electronic databases of stakeholders in pension area Baseline: 0 (2021) Target: proposal developed (2024) • Number of IT staff of MLSPP provided with the practical knowledge on digital systems used in EU MS Baseline: 0 (2021) Target: Maximum 3 participants (2024) • Proportion of IT staff of MLSPP trained on new IT solutions in pension system and European practice in the field of IT Governance Baseline: 0 (2021) Target: 50% of IT staff (2024) 		<p>Difficulties in implementing training programmes</p>	<p>departments and institutions connected with the Project is ensured</p> <p>Access to indispensable information and documents is ensured</p> <p>Required data are available</p>
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	<p>Result 3: Data collection, processing, evaluation, control and reporting system are modernised</p>	<ul style="list-style-type: none"> Assessment report of the data collection, processing, control and reporting system of the MLSPP Baseline: non-available (2021) Target: assessment report developed (2024) Number of state-of-the-art methods for data analysis, producing statistical reports drafted and put in use Baseline: 0 (2021) Target: minimum 2 methods (2024) A proposal on how to improve an automated electronic database of the pension system to produce quantitative and qualitative statistical reports Baseline: 0 (2021) Target: proposal developed (2024) Number of new/revised formats and templates for data collection and exchange drafted and put in use Baseline: 0 (2021) Target: minimum 2 methods (2024) Number of practical guidelines for using statistical analysis methodologies and techniques drafted and put in use Baseline: 0 (2021) Target: minimum 1 document (2024) 	<ul style="list-style-type: none"> Assessment report List and text of state-of-the-art methods A proposal on how to improve an automated electronic database of the pension system List and text of new/revised formats and templates for data collection and exchange Text of guidelines Training programs, attendance lists and reports Mission reports 	<p>Lack of commitment from the managers/ high level decision-making of the beneficiary institutions and relevant personnel to participate in the activities of the project</p> <p>Unavailability of qualified staff and funds for the implementation of the proposal may jeopardize the job done by the experts</p> <p>Change of MLSPP staffing (loss of staff, or high staff turnover)</p> <p>Difficulties in implementing training programmes</p>	<p>Commitment of MLSPP and involvement of all relevant stakeholders in the process</p> <p>Adequate resources made available to MLSPP to develop and implement new statistical reports</p> <p>Capacity of beneficiary is sufficient to absorb the projects results</p> <p>Sufficient staff at MLSPP in terms of qualification, quantity and availability</p> <p>Coordination between departments and institutions connected with the Project is ensured</p> <p>Access to indispensable information and documents is ensured</p> <p>Required data are available</p>
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		<ul style="list-style-type: none"> Proportion of staff members of the MLSPPP trained in data collection, processing, control and reporting system <p>Baseline: 0 (2021) Target: 50% of relevant staff (2024)</p>			
	<p><u>Result 4: New actuarial models and forecasting methods in pension provision are developed</u></p>	<ul style="list-style-type: none"> Assessment report of actuarial models and forecasting methods <p>Baseline: non-available (2021) Target: assessment report developed (2024)</p> <ul style="list-style-type: none"> Number of state-of-the-art methods for actuarial calculations and forecasting drafted and put in use <p>Baseline: 0 (2021) Target: minimum 2 methods (2024)</p> <ul style="list-style-type: none"> Availability of a specific actuarial software model, with technical specifications for IT-service procurement (procurement is not a part of the project) <p>Baseline: non-available (2021) Target: actuarial software model developed (2024)</p> <ul style="list-style-type: none"> Number of practical guidelines for using actuarial and forecasting methodologies and techniques drafted and put in use <p>Baseline: 0 (2021) Target: minimum 1 document (2024)</p>	<ul style="list-style-type: none"> Assessment report List of state-of-the-art methods for actuarial calculations and forecasting Text of guidelines Training programs, attendance lists and reports Mission reports 	<p>Lack of commitment from the managers/ high level decision-making of the beneficiary institutions and relevant personnel to participate in the activities of the project</p> <p>Unavailability of qualified staff and funds for the implementation of the proposal may jeopardize the job done by the experts</p> <p>Change of MLSPPP staffing (loss of staff, or high staff turnover)</p> <p>Difficulties in implementing training programmes</p>	<p>Commitment of MLSPPP and involvement of all relevant stakeholders in the process</p> <p>Adequate resources made available to SAMHI to develop and implement new actuarial models and forecasting methods</p> <p>Capacity of beneficiary is sufficient to absorb the projects results</p> <p>Sufficient staff at MLSPPP in terms of qualification, quantity and availability</p> <p>Coordination between departments and institutions connected with the Project is ensured</p> <p>Access to indispensable information and documents is ensured</p>

		<ul style="list-style-type: none"> Proportion of staff members of the MLSPP trained in actuarial models and forecasting methods <p>Baseline: 0 (2021) Target: 35% of relevant staff (2024)</p>			Required data are available
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Annex 2: Description of the other two pension types

Disability pension

The disability pension for the insured person with mental or physical disabilities as a result of illness or injury shall be determined in a relation to the working restriction. The disability groups, the causes of disability or limited health benefits under the age of 18, as well as the duration of their occurrence shall be determined by the medical and social expert commissions in accordance with legislation.

Disability pensions is provided to the persons with I group disability at the rate of 4 months of covered employment for each full year of the working age, provided that the total covered employment period is not less than 5 years. The persons with II and III group disability pensions are entitled to disability pension, if they have pension capital giving the opportunity for a monthly pension not below minimum wage and have same years of covered employment as for Group I defined.

For military servicemen with disability, including disabled persons of 1st group of caused by war from the category of military servicemen of the term active military service (except military servicemen and other permanent military servicemen deprived of military ranks) have right to Labour pension regardless of their service period, disability servicemen or discharged after being discharged from service, but as a result of illness or injury during the service period (injury, trauma, contusion).

The amount of the disability pension is determined by the following formula:

$$\text{Disability pension} = \text{insurance part of the disability pension} + \text{funded part of the disability pension}$$

where

- the insurance part – is the index derived by dividing the number of expected pension payment periods (T) of the pension capital accrued in the insurance part of an individual account until that day (PSK) to the sum of the insurance continuity factor (K). In its turn, insurance continuity factor shall be defined as the proportion of the number of insurance service months required for disability pension to 192: $SH = PSK / (T \times K)$,
- the funded part – is the amount calculated as the proportion of the pension capital recorded in the funded part of an individual account to the number of months in expected pension payment period

Survivors labour pension

When the head of the family, who oversees family members, dies, family members have the right to obtain survivor's pension.

Survivor's labour pensions are payable to dependent members of the deceased persons (breadwinner's family) who are unable to work.

The following family members if they were dependents of a deceased person, have the right to a survivor's pension:

1.1. Children of a deceased person:

1.1.1. until age 18;

1.1.2. people with disability over the age of 18, whose health limitations were determined before age 18;

1.1.3. until age of 23, if he or she is in formal education;

1.2. if the father, mother, husband, wife reached the age required for old age pension or disabled I or II groups

1.3. regardless of age and work ability, if one of parents, grandparents or siblings are looking after children of the deceased person under the age of 8 and doesn't work.

The amount of the survivor's pension is determined by the following formula:

$$\text{Survivor's pension} = \text{Insurance part of the old age pension of deceased person}$$

Annex 3: Mandatory State Social Insurance Contributions

The law “On the Social Security” indicates social insurance contributions rates. Mandatory state social insurance contributions finance pensions, sickness and maternity benefits, temporary disability benefits, the funeral grant and childcare benefits.

Mandatory state social insurance contribution is money paid to the insurer for insurance.

In mandatory state social insurance, the insurance contribution is determined as a %age of wages (income) and is paid at the expense of the insurer and the insured.

The law specifies the social insurance contributions level for several categories of insured persons.

On income from employment

The contributions for insured persons (employees) are paid with the normative total %age of 25 (per cent), of which:

- the contribution paid by the employer (insurer) on behalf of employee at his/her own expense - **22 % of the** calculated payroll/of other revenues (which are within the coverage of mandatory state social insurance) for each contracted employee (hired workers);
- the contribution paid by the insured person (employee) at his own expense (subtracted from gross wage by salary payment) - **3 % of the** employee's wage/ of other revenues (which are within the coverage of mandatory state social insurance).

The contributions for those insured persons, who are working by being hired by insurers (employers) who belong to non-government sector which are not engaged in oil and gas sector at the same time, should be paid by below indicated rates since 01 January 2019 within next 7 years:

Monthly revenue covered with mandatory state social insurance	Social insurance contribution rates		
	Total	From insured (employees)	From insurers (employers)
Up to 200 AZN	25%	3%	22%
More than 200 AZN	25%	6 AZN + 10% of the part above 200 AZN paid through employer at his own expense	44 AZN + 15% of the part above 200 AZN

Note: Criteria for activities in the oil and gas sector and the non-public sector were approved by the Resolution of the Cabinet of Ministers of the Republic of Azerbaijan dated February 18, 2019 No. 56.

On income from activities not related to hired employment

Mandatory state social insurance contributions are paid to the insured who receive income from **activities not related to hired employment at the** following rates:

- Individuals engaged in entrepreneurial activities in the field of construction: in the amount of 50 % of the minimum monthly wage (250 AZN from September 1, 2019) established in the country:
 - ✓ 100 % in the city of Baku - 125 AZN;
 - ✓ 90 % in Sumgayit and Ganja cities - 112.50 AZN;
 - ✓ in other cities 80 % - 100 AZN;
 - ✓ 60 % in administrative territorial units and settlements, which are the administrative center of district administrative territorial units - 75 AZN;

✓ 50 % in rural areas 62.50 AZN.

- Individuals engaged in entrepreneurial activities in other areas must pay 25 % of the minimum monthly wage established in the country:
 - ✓ 100 % in the city of Baku - 62.50 AZN;
 - ✓ 90 % in Sumgayit and Ganja cities - 56.25 AZN;
 - ✓ in other cities 80 % - 50 AZN;
 - ✓ 60 % in administrative territorial units and settlements, which are the administrative center of district administrative territorial units - 37.50 AZN;
 - ✓ 50 % in rural areas 31.25 AZN.
- Individuals engaged in the types of activities provided in the table below individually (without the involvement of employees):

Name of activity type	Minimum monthly wage
Master of ceremonies, musicians, dancers, and others engaged in leading entertainment event party (wedding and etc.)	5% - 12.50 AZN
Individual photo, audio-video services (except for photo studios)	5% - 12.50 AZN
Shoemaker, cobbler	3% - 7.50 AZN
Repair of watches, TV sets, refrigerators and other household appliances	3% - 7.50 AZN
Housekeeping in private houses and apartments, care for the sick, the elderly and children, nanny, personal driving, household cleaning, gardener, chef, security guard and individuals serving customers in catering facilities (waiter)	3% - 7.50 AZN
Painting workshops	3% - 7.50 AZN
Individual hairdressers	3% - 7.50 AZN
Individual tailors	3% - 7.50 AZN
Individuals using property land suitable for agriculture (with the exception of those who have created a legal person and members of the family farm business) pay mandatory social insurance premium for each family member with the capacity to work at the following rates of the minimum monthly wage, depending on the area of land	Up to 5 hectares - 2% (5 AZN); From 5 to 10 hectares - 6% (15 AZN); If it is more than 10 hectares - 10% (25 AZN);
Taxpayers carrying out passenger and cargo transportation by motor vehicles receiving "Distinction Badge" in accordance with the Tax Code of the Republic of Azerbaijan	6% - 15 AZN

The monthly social insurance contribution for individuals engaged in the activities specified in the above table (except for individuals in agriculture) is determined by applying the following ratios:

- ✓ In the city of Baku (including villages and settlements) - 2,0;
- ✓ In Absheron district, Sumgayit and Ganja cities - 1.5;
- ✓ In other cities and districts - 1;
- The monthly social insurance contribution
 - ✓ for those working under civil legal contracts (excluding individual entrepreneurs) - in the amount of 25% of the income withheld from the source of payment;
 - ✓ for special notaries - in the amount of 25 % of ten times the minimum monthly wage - 625 AZN ($250 * 10 * 25\% = 625$ AZN);
 - ✓ for legal entities and individuals who pay the author's royalties - 15% of the amount of royalties are calculated from the source of payment;
 - ✓ the members of the Bar, and the freelance auditors, freelance accountants - in the amount of 10% of income (excluding expenses).

Payment of contributions (social insurance contributions are taken through insurers simultaneously with the state taxes) and reporting (quarterly and in unified form including taxes also) are made to tax authorities (the State Tax Agency under the Ministry of Economy), but the accounting of member data (amounts of mandatory state social contributions calculated and paid/maintenance of personal (individual accounts) and accrual of pension capital) conducted by the SSPF and by MLSPP (personal accounting system).

Individuals engaged in entrepreneurial (or labour) activities must calculate and pay for themselves the mandatory state social insurance contributions at the specified rates. Individuals engaged in entrepreneurial (or labour) activities who use labour force under an employment agreement (contract) pay mandatory state social insurance contributions for employees at rates determined in proportion to wages.

Individuals engaged in entrepreneurial activities in several areas of activity pay mandatory state social insurance contributions at the rates established for the main area of activity. The main area of activity is determined by individuals engaged in entrepreneurial activity in proportion to the total production (amount of funds received from the supply of goods, works and services) (the area with the largest share is the main area of activity) and the relevant supporting document must be submitted to the executive authority.

Annex 4: Main legislative basis of the pension system in Azerbaijan

The following legal acts are serving as the main legislative basis of the pension system in Azerbaijan:

The constitution of the Republic of Azerbaijan - Article 38	November 12, 1995
Law of the Republic of Azerbaijan «About Social Insurance»	February 18, 1997
Law of the Republic of Azerbaijan «About labour pensions»	February 7, 2006
Law of the Republic of Azerbaijan «About individual accounting in the state social insurance	February 27, 2001

According to the Constitution of the Republic of Azerbaijan everyone has the right on social security upon attaining the age prescribed by law, in case of illness, disability, loss of bread-winner in the family, loss of work capacity, unemployment or in other cases prescribed by law. The family members are also the first to be duty-bound to render assistance to their needy kin. In addition, minimum pensions and social allowances are prescribed by law and the state facilitates the development of charity activity, voluntary social insurance, and other forms of social security.

The law of the Republic of Azerbaijan on social insurance states the split of social aid programme from pension provision. The regulation base for the maintenance of mandatory state social insurance system was found; basics of the pension provision; application of social insurance standards. Labour pension assignment based on the personal (individual) accounting system within mandatory state social insurance system: the terms and conditions of the pension assignment system, calculation mechanisms etc.

The law “On personal accounts in the state social insurance system” regulates the management of the personal individual pension accounts, financing and person’s rights.

The law “On the Labour pensions” foresees the construction of the pension system. This law defines the grounds for creation of citizens’ pension rights in the Republic of Azerbaijan, the rules for exercising these rights and the system of pension provision. Labour pension means a monthly payment, fixed under the procedures and conditions prescribed by the law “On the labour pensions”, compensating for the wage or another type of income that the persons insured within the framework of mandatory state social insurance were receiving prior to assignment of labour pensions, or the income lost by the family members of the insured person after his/her death.

Annex 5: Main statistical figures

In Azerbaijan, the number of pensioners as of the 1st of January 2021 comprised of 1.229 million persons (716,222 or 58.28% of old age, 373,809 or 30.42% of disability and 138,798 or 11.30% of survivor pensioners). As a result of measures taken in the pension system, the number of people who receive old-age pensions is in gradual decline since 2017. This tendency on old age pensions is to link with the rules accepted following the amendments about the gradual increase of statutory retirement age after 1 July 2017 (some people around pension retirement age wait for further additional time to become entitled (by increase for 6 months)). The increase of capital amount requirement in individual (personal) accounts, which increases in its turn the amount required (or calculated) to be entitled for a pension at least at an amount of minimum pension level, also affects this tendency. Besides, the decline on the disability pensions was associated with the revision and elimination (termination) of certain appointments identified as being properly conducted, as well as with the strengthening of control mechanisms.

In comparison to the total number of population, the number of pensioners consists of 12.2 % of the number of the total population and it is relatively low (because of the significant young generation in the demographic

pyramid and the lack of the mandatory qualification requirements for the social insurance benefits).

According to the national statistics, the average pension as of the 1st of January 2021 was 302.24 AZN (331.41 AZN for old-age pension, 260.9 AZN for disability pension and 263.04 for survivors' pension).

The pension's system budget during the last fifteen years increased from 503 million AZN to 4,748.3 billion AZN in 2020. At the same period, collection of the mandatory state social insurance contributions increased from 315.9 to 3,553.1 million AZN. Due to this fact the transfers from the state budget to pension's system budget decreased from 1,246 (in 2016) to 1,177.91 million AZN in 2020.

It is important to present some indicators of the current demographic situation in the country that are closely related to the pension system.

According to the national statistics, the population in Azerbaijan have passed 10 million in early 2019 and comprises of 10,229,322 in 2021 with growth rate of 0.98%. The share of population of 20-54 years was 52.67 % in the total population, 55 years and over – 18.62 %.

The ageing in Azerbaijan will be significant in next decades: the part of the population over 65 years will increase from 7.15% (of total population in 2020) to 32.48% (of total population in 2050). The old-age dependency ratio in Azerbaijan in 2020 was 9.7, projected in 2030 – 18 and in 2050 – 26.7.

Dependency ratio (the proportion of the number of insured persons per one pensioner) at the beginning of 2021 consisted of 1.5 insured persons per one pensioner. The fertility rate declines yearly and in 2019 was 2.065 live births per woman. In comparison, the fertility rate in 1959 was 5.68, in 1994 – 2.77 and in 2011 – 2.69 live births per woman. According to the United Nations projections, the fertility rate in Azerbaijan will decrease to 1.896 in 2030 and to 1,762 in 2050. The life expectancy at birth growths: in 1971 was 74.3 years for women and 66.8 years for men; in 1990 – 74.8 years for women 67 years for men; in 2000 – 75.1 years for women and 68.6 years for men; in 2010 – 76.2 years for women and 70.9 years for men; in 2019 – 78.7 years for women and 74 years for men. According to the United Nations projections, the total life expectancy at birth will growth up to 74.09 in 2030 and to 76.43 in 2050.