

**INTEGRATED SAFEGUARDS DATA SHEET  
CONCEPT STAGE**

Report No.: AC826

**Date ISDS Prepared/Updated: April 27, 2004**

**I. BASIC INFORMATION**

**A. Basic Project Data**

Country: Ukraine	Project ID: P083726
Project Name: Pension Reform Implementation project	Task Team Leader: Zoran Anusic
Estimated Appraisal Date: October 15, 2004	Estimated Board Date: May 10, 2005
Managing Unit: ECSHD	Lending Instrument: Specific Investment Loan
Sector: Other social services (100%)	Theme: Other social protection and risk management (P)
Safeguard Policies Specialists in the task team:	
Loan/Credit amount (\$m.): IBRD: 80	
Other financing amounts by source (\$m): Borrower: 20	

**B. Project Objectives [from section 3 of PCN]**

**The objective of the project is to develop the capacity required to create a fiscally sustainable and efficient pension system. To achieve this objective, the project will strengthen the capacity to implement a fundamental pension reform in existing and recently formed agencies managing different parts of the pension system and to achieve the synergies in agencies that manage other social insurance schemes.**

**C. Project Description [from section 4 of PCN]**

Ukraine's transition towards independence and market economy in the 1990s exacerbated problems in the PAYG DB system and ultimately led to its financial collapse. Although a comprehensive three-pillar reform was initiated in 1998, Ukraine accomplished initial legislative phase by adopting two basic pension laws, Law on Mandatory State Pension Insurance and the Law on Non-State Voluntary Pension Funds only in 2003. Implementation of the reform began in 2004 with an overhaul of PAYG parameters, including shifting to a German-style points system, tightening the link between contributions and benefits, reducing replacement rates and changing pension-indexation formulas. While the PAYG reform and introduction of the

voluntary pension system started in 2004, introduction of the second mandatory fully funded pillar is conditioned upon a set of macroeconomic and operative conditions which prevent its premature launch in the unfavorable macroeconomic framework.

Sector work has included several studies among which a report on Pension reform in Ukraine (2000) providing analysis of policy options regarding the new pension system design and advising on the major challenges of pension reform to be met. Since the pension reform outline underwent changes in terms of adjustment to government policies and decisions, further implications have been reflected in Ukrainian CEM Pension Note covering the major accomplishments and weaknesses of pension system to be implemented. In addition, the Bank has been involved in the pension reform efforts by the PAL operations which supported both institutional and policy changes. The studies of the pension reform concept and legal framework brought to light the following issues which will require special attention : (a) retirement age increase, particularly for Ukrainian women; (b) pension indexation flexibility of "price plus at least 20 percent of real wages" will have to be eliminated; (c) privileged pension schemes need to be reconsidered along the lines of the funded system; (d) second pillar introduction trigger linking it with minimum benefit level in first pillar would need to be removed; (e) recalculation of benefits boosts pension deficit and should be at least spread over a time horizon if not reconsidered and reduced. For the voluntary pension system to be introduced in 2004, the following issues require special attention: (a) development of supervision capacity for voluntary pension funds; (b) transition of existing non-regulated pension institutions to pension companies complying with the law should be vigorously supervised and enforced; (c) alternative non-pension framework for Kyivmiskbud-Arkada has to be developed and its reference to pension fund should be abolished; (d) introducing more individual choice within second pillar, envisaged in the future by the law, could be done sooner.

In addition to pension insurance, a number of other social insurance schemes have been established in Ukraine. All insurance systems have been developed on their own, with different administration/management structures and not enough analysis of the impact of cumulative contribution rate burden on labor costs and the economy. Unification of the current social revenue collection structure within a common collection agency is an important reform, which is under consideration in Ukraine. Although a decision has not yet been made regarding the final structure of the agency (it could be a separate agency providing an independent service for each of the funds or it could be placed within one of the existing funds), the Government has set up triggers into its annual action plan for 2004 to support the reform through introduction of single social insurance contribution and single registry of insured individuals.

To modernize the whole social insurance administration system and create capacities to support functioning and supervision of the funded pensions the Government has requested from the WB to prepare an investment project. PRIP is envisaged as a comprehensive investment project that would address all segments supporting the introduction of the new pension system, prudently operated funded pension pillars and establishment of a modern and efficient social insurance administration system. For project preparation, the Government requested a PHRD grant fund which was approved for \$881,700 and signed on October 14, 2003. PHRD Grant has been under implementation in accordance with the program.

## 2. Proposed project development objective(s)

**The objective of the project is to develop the capacity required to create a fiscally sustainable and efficient pension system. To achieve this objective, the project will strengthen the capacity to implement a fundamental pension reform in existing and recently formed agencies managing different parts of the pension system and to achieve the synergies in agencies that manage other social insurance schemes.**

## 3. Preliminary project description

Based on the dialogue so far, the Government intends to address the administrative and policy issues in the following four areas: (i) integration of social insurance administration, (ii) pension fund modernization, (iii) supervision capacity development, and (iv) pension policy analysis, monitoring and evaluation and public information provision.

Description of project components:

**Component 1: Integration of Social Insurance Administration.** This component should provide investment for consolidation of common functions of four extrabudgetary funds and future health insurance, and create a framework for individual accounts. Common functions include registration of insured individuals and contribution payers (employers), maintenance of databases, reporting by employers on a personified basis for the employees, collection of contributions, control of declared and paid contributions, enforcement of contributions, and reporting to insured individuals. Depending on the systemic solution for consolidation, investment would include equipment and software, consultant and other services, training program for the institution in charge of consolidation, communication links between central consolidating institution and other social insurance funds, training and retrenchment of the institutions that are consolidating common functions. In case the process yields redundancies in staff, the project may finance training and severance program.

**Component 2: Pension Fund Modernization.** Investment program under this component depends on the design of the first component and the decision of the Government as far as consolidation outline is concerned. If the Pension Fund of Ukraine (PFU) is designated by the Government as the central registry and collection institution, investment program under this component will be merged with the previous one and would include strengthening and improvement in IT capacity, communication technology, education and training program in addition to development of the individual account administration capacity, which has to be developed in the PFU. In case the PFU does not perform joint collection, control and reporting functions, investment program would include development of the individual account administration capacity, strengthening core PFU functions of pension determination and delivery, and a comprehensive modernization and restructuring program in accord with the consolidation process.

**Component 3: Supervision Capacity Development.** The new supervision agency has been created in Ukraine to regulate the non-banking financial institutions, including mandatory and voluntary pensions. Since this is an emerging agency, the project will support strengthening its institutional capacity including supervision procedures, IT, training and technical assistance to management and staff in order to create a transparent and effective regulatory regime for private pensions.

**Component 4: Pension Policy Analysis, Monitoring and Evaluation and Public Information Provision.** To implement the pension reform and to support long-term social insurance policy development, capacities in analyzing, monitoring and evaluating the effectiveness of policies need to be developed. This component of the project would support the development of the capacity of the Policy Planning and Evaluation Unit (PPEU) in MLSP and other divisions of relevant ministries and agencies in policy analysis, monitoring and evaluation as well as actuarial forecasting. To this end some particular efforts have already been made including the development of the model for pension policy quantitative analysis with support from PHRD Grant for project preparation activities. Consequently, inter alia, the project will assist in revising and finalizing the model within a flexible framework as well as in elaborating a training program to use the model for pension policy analysis. It will also support the PPEU to working with outside research and public policy agencies for the purpose of policy analysis. The output of the Unit would consist of regular evaluation reports, well constructed information collection, and policy notes analyzing specific policy issues. In addition, this component would support the development of the capacity of MLSP in designing and implementing a comprehensive information and education strategy regarding pension reform policies. The project will finance public opinion research, basic equipment and production of information materials to be disseminated to various target groups. Technical assistance and investments will be focused on (i) assisting in establishment of a communication unit in the MLSP; (ii) developing and implementing a communication strategy; (iii) conducting Public Opinion Research; (iv) producing information materials.

*Project Coordination and Management.* The project will be an investment operation coordinated by Project Coordination Unit (PCU). Operational expenses of the PCU, including staff salaries (non-civil servants), project audits and other PCU related expenses will be financed from the project.

**D. Project location (if known)**

Ukraine

**E. Borrower’s Institutional Capacity for Safeguard Policies [from PCN]**

**No safeguard policies are expected to apply to the proposed project. However, attention to any potential conflicts will be paid during project preparation by the Borrower, key counterpart institutions and the end-users of the PRIP project.**

**II. SAFEGUARD POLICIES THAT MIGHT APPLY**

Applicable?	Safeguard Policy If Applicable, How Might It Apply?
[ ]	<a href="#">Environmental Assessment (OP/BP 4.01)</a>
[ ]	<a href="#">Natural Habitats (OP/BP 4.04)</a>
[ ]	<a href="#">Pest Management (OP 4.09)</a>

<input type="checkbox"/>	<a href="#">Involuntary Resettlement (OP/BP 4.12)</a>
<input type="checkbox"/>	<a href="#">Indigenous Peoples (OD 4.20)</a>
<input type="checkbox"/>	<a href="#">Forests (OP/BP 4.36)</a>
<input type="checkbox"/>	<a href="#">Safety of Dams (OP/BP 4.37)</a>
<input type="checkbox"/>	<a href="#">Cultural Property (draft OP 4.11 - <a href="#">OPN 11.03</a>)</a>
<input type="checkbox"/>	<a href="#">Projects in Disputed Areas (OP/BP/GP 7.60)*</a>
<input type="checkbox"/>	<a href="#">Projects on International Waterways (OP/BP/GP 7.50)</a>

**Environmental Assessment Category:**

A  B  C  FI  TBD (to be determined)

The project is assigned environmental category "C" and the project will not finance any civil or rehabilitation works.

**III. SAFEGUARD PREPARATION PLAN**

- A. Target date for the Quality Enhancement Review (QER), at which time the PAD-stage ISDS would be prepared.
- B. For simple projects that will not require a QER, the target date for preparing the PAD-stage ISDS
- C. Time frame for launching and completing the safeguard-related studies that may be needed. The specific studies and their timing<sup>1</sup> should be specified in the PAD-stage ISDS.

**IV. APPROVALS**

<i>Signed and submitted by:</i>		
<b>Task Team Leader:</b>	<b>Zoran Anusic</b>	<b>Date</b>
<i>Approved by:</i>		
<b>Regional Safeguards Coordinator:</b>	<b>Name Name Ronald N. Hoffer (8-72-19)</b>	<b>Date</b>
<b>Comments</b>		
<b>Sector Manager:</b>	<b>Name</b>	<b>Date</b>

\* By supporting the proposed project, the Bank does not intend to prejudice the final determination of the parties' claims on the disputed areas

<sup>1</sup> Reminder: The Bank's Disclosure Policy requires that safeguard-related documents be disclosed before appraisal (i) at the InfoShop and (ii) in-country, at publicly accessible locations and in a form and language that are accessible to potentially affected persons.

## Comments

---