

Project fiche 2.1: Support to the Agency for Supervision of Fully Funded Pension Insurance (MAPAS)

1. Basic information

1.1 CRIS Number: 2008/20-311

1.2 Title: Support to the Agency for Supervision of Fully Funded Pension Insurance (MAPAS)

1.3 ELARG Statistical code: 2.34

1.4 Location: Skopje

Implementing arrangements

1.5 Contracting Authority

Delegation of the European Commission, on behalf of the beneficiary

1.6. Implementing agency

Delegation of the European Commission, on behalf of the beneficiary

1.7. Beneficiary (including details of project manager):

Agency for Supervision of Fully Funded Pension Insurance

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8. Overall costs (VAT excluded)¹: EUR 1.000.000

1.9 EU contribution: EUR 1.000.000

1.10 Final date for contracting

Two years from the date of the conclusion of the Financing Agreement

¹ The total costs of the project should be net of VAT and/or other taxes. Should this not be the case, the amount of VAT and the reasons why it should be considered eligible should be clearly indicated.

1.11 Final date for execution of contracts

Two years from the final date for contracting.

1.12 Final date for disbursements

One year from the final date for execution of contracts

2. Overall Objective and Project Purpose

2.1 Overall Objective

The overall objective of the project is to reinforce the institutional capacity to regulate and supervise fully funded pension system institutions, leading to a more transparent and accountable pension insurance sector.

2.2 Project purpose

The purpose of the project is to provide the Agency for Supervision of Fully Funded Pension Insurance - MAPAS with technical assistance to strengthen its implementation practices through capacity building and improved organisational management including strategic and business planning, business work processes, research/knowledge management and IT development, while introducing – next to rule-based supervision - risk-based supervision and hence contributing to harmonising the supervision with the EU practices

2.3 Link with AP/NPAA/EP/SAA

The programme will contribute towards the implementation of the **Stabilisation and Association Agreement** Article 46 on social security system, Article 90 on adapting the social security system to the new economic and social requirements and Article 83 on the strengthening and restructuring of the insurance sector.

For the programme area, the **Accession Partnership** outlines a series of priorities to be addressed in the near future. The AP stresses the importance of modernisation of social security system and calls for ensuring administrative capacity to implement social inclusion and social protection policies and further enhancing social protection policies.

The **National Plan for Adoption of Acquis** with regard to pension insurance intends to further pursue legal development and harmonisation with the Acquis, building administrative capacities of the insurance funds, including the Agency for Supervision of Fully Funded Pension Insurance in order to strengthen the supervision of the pension insurance sector.

2.4 Link with MIPD

The **Multi-Annual Indicative Planning Document** (MIPD) states that attention should be paid to implementation of the Community rules on the co-ordination of social security schemes and improving quality and efficiency of the social system, including policy and institutions.

2.5 Link with National Development Plan

The **National Development Plan** highlights the success of the three pillar pension system and calls for completion of the pension system reforms, achieving long-term stability of the pension system and addressing effectively concerns in pension reform.

2.6 Link with national/ sectoral investment plans

The project directly links to the following key strategies and action plans in the sector (see for a more extensive list annex 3):

- National Programme for Development of Social Protection
- National Strategy on Equal Opportunities of Persons with Disabilities, 2001
- Reports on Developments in the Mandatory Fully Funded Pension Insurance, 2007
- Statistical report, 2007
- Pre-Accession Economic Programme (2008-2010), 2007

3. Description of project

3.1 Background and justification

Social and economical changes in the country at the beginning of the '90s influenced the stability of the existing pension system. The pension system faced financial difficulties in its operations, particularly in the regular payment of pensions. Increasing numbers of elderly people means increasing numbers of pensioners, while increased life expectancy means longer use of pension benefits. Additionally, unfavourable developments in the economy – induced by external shocks and transition through market economy reforms - caused a decrease of active contributors, on one hand, and increased number of pensioners, on the other hand.

In order to manage these developments, a thorough reform of pension system was conducted, introducing the multi-pillar pension system, where the financing of pension benefits covers diversification of demographic and economic risks in order to enable long-term financial solvency of the pension system. The first pillar of the pension system is financed on a pay-as-you-go basis, which means that contributions of current contributors are used to finance pension benefits of current pensioners. Through the second pillar the new, fully funded pension insurance was introduced, with defined contributions, on a mandatory basis, for contributors employed for the first time after January 1, 2003 (and voluntary for contributors employed before January 1, 2003). The third pillar, which is to be implemented in 2008, is also fully funded, but the membership is on a voluntary basis.

The design of the reform is based on persistence of principles and maxims of the current pension system: mandatory pension and disability insurance, dependency of the rights on duration and scope of assets paid in, social justice, compliance with conventions and recommendations of ILO. At the same time, the new system is compliant with the Constitution, according to which all citizens have the right to a social security and social insurance. It means persistence of the principle of insurance against all risks (longevity, death and disability).

Fully funded pension insurance radically differs from the pay-as-you-go financing regarding the treatment and registration of paid contributions and the calculation of pension benefits. The infrastructure of the second pillar is based on private pension funds managed by private pension companies, where each member of a private pension fund has an individual account. This type of insurance is based on the principle of asset accumulation on individual accounts and investment of accumulated assets. The rate of return on investments, lowered for the costs of operations, is fully allocated to the assets accumulated in the individual accounts. This way, economic goals determine investment strategy, create possibility for maximizing the overall return in the best interest of members. Diversification of investment risks (including international diversification) is one of the important characteristics of the system. The future pension shall depend on the accumulated assets and the life expectancy at retirement, i.e. the expected period of pension usage. Other important characteristics of the system are the right to individual choice and individual initiative for private pension fund membership and great degree of transparency of the system, provided by regular information to the members and the public disseminated by the pension companies.

The Agency for Supervision of Fully Funded Pension Insurance – MAPAS - was established in July 2002 and it supervises the operations of the pension companies and pension funds in order to protect the interests of the pension funds members. The Agency, for its operations, reports to the Government, and performs the following activities: collects bids in the tender processes, grants, withdraws and abrogates licenses for establishment and approvals for managing pension funds; supervises the operation of pension companies and the pension funds under their management and especially controls their legal operation; supervises the operation of legal entities acting as custodians or foreign asset managers of pension fund assets in relation to operating with such assets; promotes, organizes and enhances the development of the fully funded pension insurance in the country; proposes criminal proceedings before authorized bodies against pension companies, custodians, foreign asset managers, and other entities in case of breaking the provisions of Law on Mandatory Fully Funded Pension Insurance or other Laws; monitors and reviews the financial statements of Pension Funds and Pension Companies; issues regulations in accordance with the Laws on Mandatory and Voluntary Fully Funded Pension Insurance and other activities prescribed by Law.

If the Agency, during the inspection of the operations of the pension company and the management of pension funds, finds out that there are matters or acts subject to penalty by the Law, the Agency submits a proposal for proceeding to the authorities. Pension fund members or former pension fund members may make a complaint to the Agency against a pension company for activities performed by that pension company, which are not in accordance with the Law or with that pension company's regulations. A complaint may be made to the Agency by a pension fund member against other entities which had a business or contractual relationship with a pension fund and a pension company, in case the pension fund member believes that his/her interests as a pension fund member have been damaged as a result of violation of the Law by those entities.

MAPAS has to prepare its capacities for implementing risk-based supervision practices. MAPAS general supervision policy is and will stay rule-based, but with the introduction of the Voluntary Fully Funded Pension Insurance (third pillar) and for the purposes of harmonizing with the EU, MAPAS will have to strengthen its capacities in order to be able to implement the best EU practices from the risk-based supervision. At the same time, MAPAS has to enhance the supervisory and regulatory capacities in the area of foreign capital markets and financial instruments. It is expected that the project will contribute to increase capacities and better strategic and business planning, to define the

business process and strengthen crucial sectors, thus contributing to raise the overall professional level of the Agency.

3.2 Assessment of project impact, catalytic effect, sustainability and cross border impact

The project will further strengthen the Agency's capacities and further improve the supervision practices and business processes, which will provide for a long-term stability of the institution, allowing it to administer the fully funded pension insurance (second and third pillar pension) effectively. By assessing the mission and vision and developing a general strategy, MAPAS will ensure that resources (staff and money) are devoted to the priority activities determined to be critical to successful implementation of MAPAS mission. MAPAS is expected to contribute significantly to a professional pension insurance market.

By implementing best practices from the risk-based supervision MAPAS will improve its performance and will harmonize the legal framework with the EU *acquis* and reinforce the institutional capacity to regulate and supervise cross-border pension companies. Enhancing the supervisory and regulatory capacity of MAPAS in the area of foreign capital markets and financial instruments is also one of the crucial EU harmonization issues. According to EU directives, once in the EU, MAPAS shall be obligated to allow unlimited investments in the EU, as well as introduction of generally more liberal investment conditions in order for to make a gradual passage to the prudent man rule (especially in the context of the third pillar).

3.3 Results and measurable indicators²

The project consists of three components:

- 1) Implementing risk-based supervision practices
- 2) Strategic and business planning with business processes definition
- 3) Improving knowledge management and security.

Component 1: Implementing risk-based supervision practices

² Please note that some of the indicators have not yet been quantified or been given a benchmark. This will be done during the development of the detailed Terms of Reference.

Specific results to be achieved under this component include:

- Appropriate regulations issued by MAPAS, harmonized with EU best practices of risk-based supervision applied in cross-border supervision of pension companies and entities controlled by MAPAS (mandatory and voluntary pension funds, mandatory, voluntary and joint pension companies, custodians of mandatory and voluntary pension funds);
- MAPAS staff is conversant with the subject matter and applies the regulations.

The measurable indicators are:

- Regulations issued;
- Best practices identified and included in rule books;
- Number of trained staff;

Component 2: Strategic and business planning with business processes definition

Specific results to be achieved under this component include:

- First Strategic plan of MAPAS (including mission, vision, strategic goals, performance measures, performance targets, etc.);
- Existing business processes reviewed, documented and standardized and new business processes developed;
- Business planning skills, including techniques for monitoring and evaluation and strategic management skills, to continuously evaluate, update and improve MAPAS plans and activities are developed.

The measurable indicators are:

- Strategic plan approved by MAPAS;
- Review documents and new proposals concerning business processes are produced and followed-up by MAPAS;
- Speed of implementation of core work-processes, target is to increase the implementation speed;
- Internal monitoring and evaluation reports produced as per plan.

Component 3: Improving knowledge management and security.

- Information system³ concerning capital markets and financial instruments established;
- MAPAS staff is conversant with the information system and analytical methodologies concerning supervision;
- Research capacities enhanced in fully funded pension system operations, including statistical analysis, research of new possibilities and development of proposals for better operation of the system, in line with EU best practices as well as relevant EU directives;
- Information Security Management System Developed, compliant with the requirements of ISO 17799 (recently renamed ISO 27002), ISO 27001: 2005 and ISO 9001:2000 – Lead auditors of Quality Management Systems;
- MAPAS Staff is conversant with the Information Security Management System and act accordingly.

The measurable indicators are:

- Operational Information system for capital markets and financial instruments operational and providing a regular flow of information;
- ISMC operation and ISO certificate received;
- Number of staff trained.

3.4 Activities

Component 1: Implementing risk-based supervision practices

- Assessment of appropriate regulations concerning risk-based supervision;
- Development of regulations to be issued by MAPAS, harmonized with EU best practices;
- Development of rule book for on-site and off-site supervision;

³ Information system should be understood here as the system of persons, data records and activities that process data and information, and not just the IT component.

- Train and coach MAPAS employees in the subject matter, including:
 - tools used to identify and estimate the level of relevant risk factors
 - manner of conducting risk-based supervision
 - reporting of the findings of risk based supervision
 - introducing appropriate rules in the laws and regulations

Component 2: Strategic and business planning with business processes definition

- Develop in a participatory manner the first strategic plan of MAPAS (including mission, vision, strategic goals, performance measures, performance targets, etc.);
- Review existing business processes;
- Document and standardise business processes, develop new business processes (where necessary), and link them to the Information Communication Management System (ICMS);
- Train and coach MAPAS staff in business planning skills, including techniques for monitoring, evaluation and strategic management skills to continuously evaluate, update and improve MAPAS plans and activities. The monitoring system will include assessment of the impact on gender and minorities, as well as sensitivity criteria for corruption.

Component 3: Improving knowledge management and security.

- Develop an appropriate information system concerning capital markets and financial instruments;
- Train and coach MAPAS staff on the information system and associated analytical methodologies, specifically including financial instruments, foreign capital markets, portfolio management and risk management;
- Train and coach MAPAS staff in research modalities in fully funded pension system operations, including statistical analysis, research of new possibilities and development of proposals for better operation of the system;
- Develop an appropriate Information Security Management System;

- Train and coach MAPAS Staff on the Information Security Management System, specifically including knowledge and skills related to preparation, planning, conducting and reporting audits of assessing the compliance of Quality Management Systems (QMS) with the requirements of ISO 9001:2000.

Management and contracting arrangements

A project steering committee will be established to oversee the implementation process of the project activities.

Advisory services will be provided to the beneficiary through a service contract. The contract to support the project will contain next to a team leader additional expertise to assist in key tasks, e.g. in the field of administrative capacity building, training, IT development, legal development and others. Some of these experts will address the cross-cutting issues.

The core project team – consisting of the team leader and other expertise will be placed within the MAPAS.

The team leader will be responsible for the overall management, representation (co-ordination with the EU and other international bodies) as well as reporting. The co-ordination of activity development in the different components of the activity is significantly important. The team leader is responsible for an appropriate management of resources. During the inception phase of the project, a detailed deployment plan will be developed under the coordination of a Steering Committee in which each co-operating national institution will be represented to ensure appropriate inclusion.

The expected contracting arrangements are:

Financed through IPA:

- 1 Service contract will be concluded following an international restricted tender procedure. The duration of the contract will be for a period of 12 to 24 months. Implementation is expected in 3rd quarter 2010, one month after the signature of the contract. The contract value will be approx. EUR 1.0 Million.

3.5 Conditionality and sequencing

The project includes the following conditionalities:

- 1) Endorsement by all key stakeholders of the Terms of Reference for the individual contract to be engaged;
- 2) Appointment of counterpart personnel by the beneficiary before the launch of the tender process;
- 3) Allocation of working space and facilities by the beneficiary for technical assistance before the award of the contract;
- 4) Participation by the beneficiary in the tender process as per EU regulations;
- 5) Organisation, selection and appointment of members of working groups, steering and coordination committees, seminars by the beneficiary as per workplan of the project;
- 6) Appointing the relevant staff by the beneficiaries to participate in training activities as per work plan;
- 7) Sufficient managerial and technical human resources allocated to the relevant Departments;
- 8) Opening the pension market for access to more pension companies;
- 9) Successful implementation of the third pillar, with establishment of pension companies and occupational pension schemes.

In the event that conditionalities are not met, suspension or cancellation of projects will be considered.

3.6 Linked activities

1. World Bank – SPIL project

MAPAS is one of the beneficiaries of the World Bank Social Protection Implementation Loan (SPIL). Substantial resources of this component have been allocated for procurement of SW and HW equipment, as well as for drafting legislation and training of staff. SPIL should expire December 31, 2008.

2. USAID

One of the most important donors of the pension reform is USAID. During the last 10 years through different projects, USAID has been supporting the reform and the development of the Agency. Since last year, MAPAS is again part of the project activities of one of the USAID projects, which is expected to be extended until 2011. Assistance is mostly concentrated in supporting local events, local and/or US consultancy, in-house training and study tours to neighbouring countries.

3.7 Lessons learned

A well-regulated environment is the key to a successful implementation of the reform process. Detailed elaboration of the laws and relevant secondary regulations were beneficial to the development of the second pillar. The same practice is being implemented in the third pillar.

Reform takes time, but it is equally important to take sufficient time to prepare the reforms and take into consideration not only the pension system itself, but also the economy as a whole.

MAPAS, through its international contacts had opportunities to learn from the experience and the errors of other countries that were leaders in the pension reforms in the EU and the entire world, and hence avoid similar errors.

Once the regulations are adopted, it remains necessary to improve the regulations, which is an established practice of MAPAS, presently with a focus on the fully funded pension insurance. By doing so, MAPAS creates clear grounds for the operations of the private sector and leaves less space to assumptions and misinterpretations of legislation. MAPAS focuses on the off-site supervision of the pension companies and the pension funds, rather than the on-site control. The off-site supervision contributes to pro-active approach and gives possibility to eliminate possible errors in a very short time. On the other hand, the on-site supervision gives possibility for a deeper insight in the operations of the private sector by continuous and balanced supervision of the Pension Companies, pension funds and the Custodian and therefore assures the payment of the valuable pension benefits and contributes to the protection the interests of the pension funds members.

4. Indicative Budget (amounts in million EUR)

			TOTAL EXP.RE	SOURCES OF FUNDING								
				IPA COMMUNITY CONTRIBUTION		NATIONAL CONTRIBUTION					PRIVATE CONTRIBUTION	
ACTIVITIES	IB (1)	INV (1)	EUR (a)=(b)+(c)+(d)	EUR (b)	%(2)	Total EUR (c)=(x)+(y)+(z)	% (2)	Central EUR (x)	Regional/ Local EUR (y)	IFIs EUR (z)	EUR (d)	% (2)
Activity 1												
Service Contract	X	–	1.0	1.0	100							–
.....												
TOTAL IB			1.0	1.0	100							
TOTAL INV												
TOTAL PROJECT			1.0	1.0	100							

Amounts net of VAT (1) In the Activity row use "X" to identify whether IB or INV

(2) Expressed in % of the **Total** Expenditure (column (a))

5. Indicative Implementation Schedule (periods broken down per quarter)

Contracts	Start of Tendering	Signature of contract	Project Completion
Contract 1- Service for MAPAS	Q4 2009	Q3 2010	Q1 2012

6. Cross cutting issues

According to the Constitution, each citizen of this country has the right to a pension and disability insurance, as part of the essential right to a social security.

The cross-cutting issues will be addressed throughout the project. Up to 10% of the budget for capacity building – through short term expertise - may be allocated to assist the beneficiary to comply with European standards and best practices, implement relevant existing Government strategies and develop internal measures to ensure each cross-cutting issue is appropriately mainstreamed.

The mainstreaming of the cross cutting issues is regarded on two different levels:

- 1) Ensuring that the internal policies, structure or operating procedures of the beneficiary agency will conform to and promote the relevant principles outlined per section below.
- 2) Ensuring that the products, outputs produced by the beneficiaries (e.g. laws, regulations, policies, and strategies) will conform to and promote the relevant principles outlined per section below.

Throughout the project cycle, in particular when developing project ToR, state actors specifically addressing (one of) the cross cutting issues shall be consulted.

• **Equal opportunities and non-discrimination**

The training activities will include a specific component to train beneficiary staff in the implementation of the Government Gender Strategy, while reference will be made to the EC Programme of Action for the mainstreaming of gender equality in community development cooperation (2001-06). An output of this training component will be to assist the beneficiary to implement an ‘internal gender assessment’ to identify areas where it could improve its internal performance vis-à-vis gender. As indicated above

under activities, the beneficiary will be assisted to develop a monitoring system that will include gender criteria.

- **Support to minority and vulnerable groups**

Whereas the main reference in the country in relation to minority groups is the Ohrid Framework Agreement, in an EU context reference is made to the “Race directive” of 2000 (200/43/EC of 29 June), which has an important impact on employment (incl. vocational training, working conditions, social protection etc.) and is also a crucial aspect of the acquis. The beneficiary will be assisted to implement an ‘internal minority and vulnerable group assessment’ to identify areas where it could improve its internal performance vis-à-vis minorities or other vulnerable groups. As indicated above under activities, the beneficiary will be assisted to develop a monitoring system that will include minority and vulnerable group criteria.

- **Environmental protection**

The European Community has a longstanding commitment to address environmental concerns in its assistance programmes (as part as a wider commitment to sustainable development). Key references include art. 6 of the Treaty and also the Cardiff process which foresees the systematic consideration of environmental aspects into EC development cooperation and in other policies. The support will include a specific component to assist the beneficiary to implement an ‘internal environment assessment’ to identify areas where it could improve its internal performance vis-à-vis environmental aspects.

ANNEXES

1 - Log Frame in Standard Format

2 - Amounts contracted and Distributed per Quarter over the full duration of Programme

3 - Description of Institutional Framework

4 - Reference to laws, regulations and strategic documents

- Reference list of relevant laws and regulations
- Reference to AP/NPAA/EP/SAA
- Reference to MIPD
- Reference to National Development Plan
- Reference to national/sectoral investment plans

5 – Details per EU funded contract (*) where applicable:

- *For TA contracts*: account of tasks expected from the contractor
- *For Twinning covenants*: account of tasks expected from the team leader, resident twinning advisor and short term experts
- *For Grant schemes*: account of components of the scheme
- *For Investment contracts*: reference list of feasibility study as well as technical specifications and cost price schedule + section to be filled in on investment criteria
- *For works contracts*: reference list of feasibility study for the constructing works part of the contract as well as a section on investment criteria (**); account of services to be carried out for the service part of the contract

(*) non standard aspects (in case of derogation to PRAG) also to be specified

(**) section on investment criteria (applicable to all infrastructure contracts and construction works):

- Rate of return
- Co-financing
- Compliance with state aids provisions

- Ownership of assets (current and after project completion)

ANNEX 1 - Log Frame in Standard Format

LOGFRAME PLANNING MATRIX FOR Project Fiche: Support to MAPAS	Programme name and number: Support to MAPAS		
	Contracting period expires two years from the date of the conclusion of the Financing Agreement	Execution period expires two years from the final date for contracting	Disbursement period expires one year from the final date for execution of contracts.
	Total budget : 1.0 Million Euro		IPA budget: 1.0 Million Euro

Overall objective	Objectively verifiable indicators	Sources of Verification
Reinforce the institutional capacity to regulate and supervise fully funded pension system institutions, leading to a more transparent and accountable pension insurance sector.	All insurance pillars are operational. MAPAS capable to produce mandatory reports as per schedule.	Regular reports by MAPAS.

Project purpose	Objectively verifiable indicators	Sources of Verification	Assumptions
Provide MAPAS with technical assistance to strengthen its implementation practices through capacity building and improved organisational management including strategic and business planning, business work processes, research/knowledge management and IT development, while introducing – next to rule-	Number of harmonised laws. Number of laws that still need to be harmonised at project end. Risk based supervision operational.	National Gazette. Project reports	No major (political) upheaval in the country. Funding situation of MAPAS sufficient to maintain and support business improvements.

based supervision - risk-based supervision and hence contributing to harmonising the supervision with the EU practices			
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Results	Objectively verifiable indicators	Sources of Verification	Assumptions
<p>Component 1: Implementing risk-based supervision practices</p> <ul style="list-style-type: none"> • Appropriate regulations issued by MAPAS, harmonized with EU best practices of risk-based supervision applied in cross-border supervision of pension companies and entities controlled by MAPAS (mandatory and voluntary pension funds, mandatory, voluntary and joint pension companies, custodians of mandatory and voluntary pension funds). • MAPAS staff is conversant with the subject matter and applies the regulations. 	<ul style="list-style-type: none"> • Regulations issued; • Best practices identified and included in rule books; • Number of trained staff; 	Register or regulations. Rule books. Project documents.	Staff made available for training.
<p>Component 2: Strategic and business planning with business processes definition</p> <ul style="list-style-type: none"> • First Strategic plan of MAPAS (including mission, vision, strategic goals, performance measures, performance targets, etc.) • Existing business processes reviewed, documented and standardized and new business processes developed. • Business planning skills, including techniques for monitoring and evaluation and strategic management skills to continuously evaluate, update and improve MAPAS plans and activities are developed. 	<ul style="list-style-type: none"> • Strategic plan approved by MAPAS; • Review documents and new proposals concerning business processes; • Speed of implementation of core work-processes; • Internal monitoring and evaluation reports 	MAPAS decision. Project documents. Assessment of work-processes Reports.	Staff made available for training.

<p>Component 3: Improving knowledge management and security.</p> <ul style="list-style-type: none"> Information system concerning capital markets and financial instruments established; MAPAS staff is conversant with the information system and analytical methodologies concerning supervision; Research capacities enhanced in fully funded pension system operations, including statistical analysis, research of new possibilities and development of proposals for better operation of the system, in line with EU best practices as well as relevant EU directives. Information Security Management System Developed, compliant with the requirements of ISO 17799 (recently renamed ISO 27002), ISO 27001: 2005 and ISO 9001:2000 – Lead auditors of Quality Management Systems MAPAS Staff is conversant with the Information Security Management System and act accordingly 	<ul style="list-style-type: none"> Operational Information system for capital markets and financial instruments operational and providing a regular flow of information; ISMC operation and ISO certificate received; Number of staff trained. 	<p>Project reports Regular reports by MAPAS ISO certificate</p>	<p>Staff made available for training.</p>
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Activities	Means	Costs	Assumptions
<p>Component 1: Implementing risk-based supervision practices</p> <ul style="list-style-type: none"> Assessment of appropriate regulations concerning risk-based supervision Development of regulations to be issued by MAPAS, harmonized with EU best practices Development of rule book for on-site and off-site supervision. Train and coach MAPAS employees in the 	<p>Service Contract</p>	<p>1.0 Million Euro</p>	<p>Tender dossier development is done in timely manner to honour deployment schedule. Tender is successful. Staff available for training. Staff attitude towards improvement of business operations is open and positive. MAPAS is committed to medium to long term implementation of the</p>

			strategy.
<ul style="list-style-type: none"> • subject matter, including: <ul style="list-style-type: none"> ○ tools used to identify and estimate the level of relevant risk factors ○ manner of conducting risk-based supervision ○ reporting of the findings of risk based supervision ○ introducing appropriate rules in the laws and regulations 			
<p>Component 2: Strategic and business planning with business processes definition</p> <ul style="list-style-type: none"> - Develop in a participatory manner the first strategic plan of MAPAS (including mission, vision, strategic goals, performance measures, performance targets, etc.) - Review existing business processes - Document and standardise business processes, develop new business processes and link them to the Information Communication Management System (ICMS) - Train and coach MAPAS staff in business planning skills, including techniques for monitoring and evaluation and strategic management skills to continuously evaluate, update and improve MAPAS plans and activities are developed. The monitoring system will include assessment of the impact on gender and minorities, as well as sensitivity criteria for corruption. 			
<p>Component 3: Improving knowledge management and security.</p> <ul style="list-style-type: none"> • Develop and appropriate Information system concerning capital markets and financial instruments; 			

<ul style="list-style-type: none"> • Train and coach MAPAS staff on the information system and associated analytical methodologies, specifically including financial instruments, foreign capital markets, portfolio management and risk management. • Train and coach MAPAS staff in research modalities in fully funded pension system operations, including statistical analysis, research of new possibilities and development of proposals for better operation of the system; • Develop an appropriate Information Security Management System; • Train and coach MAPAS Staff on the Information Security Management System, specifically including knowledge and skills related to preparation, planning, conducting and reporting audits of assessing the compliance of Quality Management Systems (QMS) with the requirements of ISO 9001:2000. 			
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Pre-conditions:

- 1) Endorsement by all key stakeholders of the Terms of Reference for the individual contract to be engaged;
- 2) Appointment of counterpart personnel by the beneficiary before the launch of the tender process;
- 3) Allocation of working space and facilities by the beneficiary for technical assistance before the award of the contract;
- 4) Participation by the beneficiary in the tender process as per EU regulations;
- 5) Organisation, selection and appointment of members of working groups, steering and coordination committees, seminars by the beneficiary as per workplan of the project;
- 6) Appointing the relevant staff by the beneficiaries to participate in training activities as per work plan;
- 7) Sufficient managerial and technical human resources allocated to the relevant Departments;

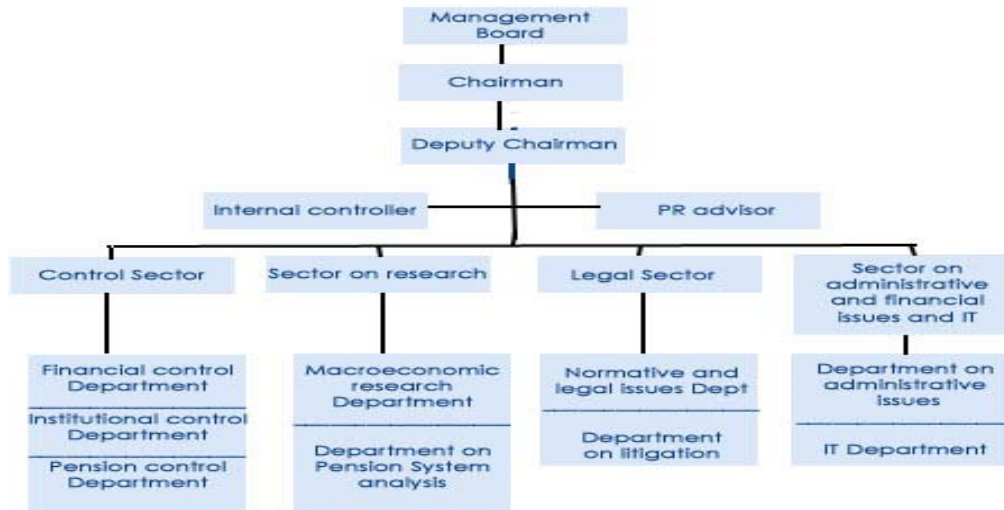
- 8) EU procedures to be followed for the contracting of technical assistance & training financed from pre-accession funds;
 - 9) Opening the pension market for access to more pension companies;
 - 10) Successful implementation of the third pillar, with establishment of pension companies and occupational pension schemes.
- In the event that conditionalities are not met, suspension or cancellation of projects will be considered.

ANNEX 2 - Amounts (in million EUR) contracted and Distributed per Quarter over the full duration of Programme (only IPA funds)

	2010				2011				2012			
Contracted	Q1	Q2	Q3	Q4	Q5	Q11	Q6	Q7	Q8	Q9	Q10	Q11
Service Contract			1.0									
Cumulated			1.0									
Disbursed												
Service Contract			0.3		0.3		0.3		0.1			
Cumulated			0.3		0.6		0.9		1.0			

ANNEX III. Institutional Framework

1. Organizational Chart- MAPAS



2. Number of employees: 20

3. Budget for 2008: 25,435,000.00 MKD

4. According to Article 47 of the Law on Mandatory Fully Funded Pension Insurance, the Agency performs the following activities:

- (a) Performs the activities for collecting bids in the tender processes, grants, withdraws and abrogates licenses for establishment and approvals for managing Pension Funds;
- (b) Supervises the operation of Pension Companies and the Pension Funds under their management and especially controls their legal operation;
- (c) Supervises the operation of legal entities acting as Custodians or foreign asset managers of Pension Fund assets in relation to operating with such assets;
- (d) Promotes, organizes and enhances the development of the fully funded pension insurance in the country, in co-operation with the Ministry of Labour and Social Policy;
- (e) Develops public awareness of the purposes and operating principles of Pension Companies and the Pension Funds, on the benefits of Pension Fund

membership, on the rights of Pension Fund Members and other issues relating to the pension fund system;

- (f) Proposes torts and criminal proceedings before authorized bodies against Pension Companies, Custodians, foreign asset managers, and other entities in case of breaking the provisions of this Law or other Laws;
- (g) Monitors and reviews the financial statements of Pension Funds and Pension Companies;
- (h) Maintains a register of sales agents;
- (i) Works in conjunction with the Ministry of Finance, the National Bank, the Securities and Exchange Commission and other bodies and institutions in the country and abroad, to ensure an effective supervision and regulation of the fully funded pension insurance and the financial sector.
- (j) Co-operates with the Pension and Disability Insurance Fund on the authorisations assigned to the Pension and Disability Insurance Fund in accordance with this Law;
- (k) Issues regulations in accordance with this Law;
- (l) Issues internal guidelines regarding its operation and prepares guides, manuals etc. related to the fully funded pension insurance;
- (m) Initiates passing of regulations and other acts relating to Pension Companies and Pension Funds;
- (n) Is a member and participates in domestic or international organizations, where such participation shall be in the interests of the country's pension system; and
- (o) Performs other activities in accordance with this Law.

4. Legislation

Harmonize the Law on Voluntary Fully Funded Pension Insurance with the EU acquis and adequately update the Rulebook on supervision.

ANNEX 4- Reference to laws, regulations and strategic documents

3.a) Reference list of relevant laws and regulations

Key laws and regulations on the sector:

- Law on Pension and Disability Insurance, 2006
- Law on Mandatory Fully Funded Pension Insurance, (amendments and additions) 2002 - 2006
- Law on Voluntary Fully Funded Pension Insurance, 2007
- Law on Social Protection, 2005
- Law on Payment of Pensions
- Law on Insurance
- Rulebook on training, retraining or additional training for unemployed and other persons, 2005
- Rules of the Manner and Procedure for Issuing License to Establish Pension Company for Managing Pension Funds and an Approval to Manage a Pension Fund, 2004
- Rulebook setting out detailed requirements for establishment of pension companies for managing pension funds, 2004
- Rulebook on Pension Fund Investment, 2004
- Rulebook on the method and procedure of marketing of pension funds, 2004
- Rulebook on the manner and the procedure for taking the sales agent exam and entering the sales agents register, 2004
- Rulebook on fees, 2004
- Rulebook on transfer fees, 2004
- Rulebook on valuation of pension fund assets, 2004
- Rulebook for chart of accounts, form and contents of the basic financial statements and additional financial statements of pension funds, 2004
- Rulebook on the contents of separate accounts in the chart of accounts of pension funds, 2004

3.b) Reference to AP/NPAA/EP/SAA

Reference to **SAA** (2001): The program will contribute towards the implementation of the SAA Article 46 on social security system, Article 90 on adapting the social security system to the new economic and social requirements and Article 83 on the strengthening and restructuring of the insurance sector.

Reference to **Accession Partnership** (2007-2008): The program will address the following AP priorities: “Reinforce the legislation and the supervisory framework, including enforcement, for the financial sector, in particular for the insurance sector and securities markets”; “modernising the social security”; “Ensure administrative capacity to implement social inclusion and social protection policies”; “Further enhance social protection policies”.

Reference to the **Progress Report** (2007): The latest progress report makes the following evaluation: “As regards occupational pensions, work is well on track: additional implementing legislation was adopted and both the administrative capacities and supervisory practice of the Agency for Supervisor of Fully Funded Pension Funds seem to be adequate”; “Some progress has been made as regards social protection. The second pillar of the pension system is operational, and the preparation of the voluntary pension insurance funds, as part of the third pillar, has started. The section for the inspection of social protection, which employs 13 staff, is operational. However, administrative capacity in the area of social protection within the relevant ministries is weak”; “The institutional capacity and human resources required for coordination of social security systems .. have to be strengthened”.

Reference to **National Plan for Adoption of Acquis** (2007): The Plan has following priorities with regard to pension insurance: “Building the administrative capacity has been envisaged for full application of the Regulations 31971R1408 and 31972R0574 in the field of social security and staffing of the Sector for Pension and Disability Insurance within the Ministry of Labour and Social Policy, the Pension and Disability Insurance Fund, the Health Insurance Fund and the Employment Agency. ... The priority in the field of pension insurance is continuation of the reforms, in particular, encompassing the legal framework by adoption of the Law on the Voluntary Fully Funded Pension Insurance and the Law on Payment of Pensions, which shall be complied with the EU legislation. ... Moreover, controlled review of the disability pension beneficiaries shall be harmonised according to the examples from the legislations of the modern European countries, from the aspect of medical indications and longer length of service for workers working on hazardous job posts. For the purpose of harmonisation with the Council Directive 31998L049 of 29 June 1998, conditions will be created for introducing supplementary pension, i.e. enabling a person to have continuous insurance”; “In 2000, foundations for the overall pension system were laid in the country as a three-pillar pension system, which is part of the social insurance. The first pillar is represented by the national Pension and Disability Insurance Fund, which operates on the basis of the pay-as-you-go principle. The second pillar is a mandatory fully funded pension insurance. ... The pensions from the first pillar are in a form of defined pensions. The pensions from the second pillar are

in a form of defined contributions and will be paid as continual annuities by an institution authorised for that purpose, or as programmed withdrawals from the Pension Fund, by choice of the member. ... Regarding the pension insurance, institutions competent to adopt laws and bylaws are the Ministry of Labour and Social Policy, the Pension and Disability Insurance Fund and the Agency for Supervision of Fully Funded Pension Insurance. The Ministry of Labour and Social Policy is the creator of the pension policy, the Pension and Disability Insurance Fund carries out pension and disability insurance, including the contribution collection for both pillars and their distribution between the first and the second pillar, while the Agency for Supervision of Fully Funded Pension Insurance supervises the operations of the pension fund management companies and the Pension Funds, as well as protects the interests of the members”; “Amendments to the Law on Pension and Disability Insurance in the part pertaining to the disability insurance for establishing legal basis in disability insurance in addition to the disability-based pension as an ultimate protective measure, according to the modern European tenants and principles, the preceding preventive measure in the pension system is to be realised solely through the right to professional rehabilitation based on the grounds of decreased working ability”.

3.d) Reference to MIPD

Multi-Annual Indicative Planning Document (2008-2010) refers to: “Implementation of the Community rules on the co-ordination of social security schemes”; “Improve quality and efficiency of the social system, including policy and institutions”.

3.e) Reference to National Development Plan

The proposed project has reference in following assessments of the **National Development Plan** (2007): “Another part of the social insurance is the pension system, which used to be a mandatory universal pay-as-you-go (PAYG) regime, administered by the State Pension Fund. In 2000 a new pension system was established, which complements the PAYG scheme by the introduction of two new pillars – the compulsory capital financed pension insurance (the second pillar) and the voluntary capital financed pension insurance (the third pillar). This reform was implemented relatively successfully until now, especially the introduction of the second pension insurance pillar, but there are still important issues to be resolved”. The **Plan** envisages following priorities in the field: “Complete the pension system reforms”; “Achieving long-term stability of the pension system”; “Address effectively concerns in ... pension reform”.

3.f) Reference to national / sectoral investment plans

The project links to the following strategies and action plans in the sector:

- National Programme for Development of Social Protection
- National Strategy on Equal Opportunities of Persons with Disabilities, 2001
- Reports on Developments in the Mandatory Fully Funded Pension Insurance, 2007
- Statistical report, 2007
- Pre-Accession Economic Programme (2008-2010), 2007

ANNEX 5 - Details per EU funded Contract

Management and contracting arrangements

A project steering committee will be established to oversee the implementation process of the project activities.

Advisory services will be provided to the beneficiary through a service contract. The contract to support the project will contain next to a team leader additional expertise to assist in key tasks, e.g. in the field of administrative capacity building, training, IT development, legal development and others. Some of these experts will address the cross-cutting issues.

The core project team – consisting of the team leader and other expertise will be placed within the MAPAS.

The team leader will be responsible for the overall management, representation (co-ordination with the EU and other international bodies) as well as reporting. The co-ordination of activity development in the different components of the activity is significantly important. The team leader is responsible for an appropriate management of resources. During the inception phase of the project, a detailed deployment plan will be developed under the coordination of a Steering Committee in which each co-operating national institution will be represented to ensure appropriate inclusion.

The expected contracting arrangements are:

Financed through IPA:

- 1 Service contract will be concluded following an international restricted tender procedure. The duration of the contract will be for a period of 12 to 24 months. Implementation is expected in 3rd quarter 2010, one month after the signature of the contract. The contract value will be approx. EUR 1.0 Million.