

**Government of Turkmenistan**  
**and**  
**United Nations Development Programme**

**Project title:           Support to Social Protection System Development (2007-2009)**

**Brief description:** The key objective of this project is to strengthen the capacity of the Government to ensure the long-term sustainability of social security reform. The concrete project tasks will involve technical support in (i) strengthening the capacity in management and investment of pension funds; (ii) enhancing the capacity in social protection policy formulation, analysis and design; (iii) improving the quality of social service delivery to elderly and disabled; and (iv) education and communication campaigns to increase public awareness.

Date: Ashgabat, 8 September 2008

**SITUATION ANALYSIS**

**Background**

In early years of transition, Turkmenistan realized that the social protection system inherited from the Soviet period was: (a) inequitable; (b) non-transparent; and (c) lacking the flexibility needed during the transition. In 1998, the Parliament passed a comprehensive new set of legislation designed to implement Turkmenistan's plan to introduce pension reform. This legislative package has represented the first step in a fundamental reform of the pension system: creating a new system aimed to tie benefits more closely to contributions with increased reliance on individual savings efforts for income replacement in old age. The same package has introduced new measures reducing the number of occupations benefiting from early retirement provisions and increasing the minimum retirement age of male and female to 62 and 57,

respectively. In January 2006 the President of Turkmenistan signed a new pension law that introduced, among other revisions to the pension system, changes in the management and investment of fully funded scheme, also in main parameters of pay-as-you-go (PAYG) benefit formula.

Policy framework: Following the 1998 reform *social insurance* is provided through two elements – (1) the residual PAYG component that at present constitutes the major source of pension benefits; and (2) the new voluntary Fully Funded defined contributions (DC) component now in its initial accumulation phase. The fully funded system will gradually become the dominant source of retirement income with the PAYG system completely phased out. The residual benefits of the old system will be financed through the continued payment of Social Insurance Contribution of 20 percent of total payroll now applied to all workers (regardless of whether they had accrued any benefits under the PAYG system) that also finances several types of social assistance. Voluntary fully funded pensions are financed by a contribution of not less than 2 percent of wages, allocated to individual accounts.

*Social assistance* system provides disability and survivor's benefits regardless of work history and contributions, and social (elderly) and child allowances to lower income families. Survivorship and disability benefits that were previously provided from the PAYG system in Turkmenistan are provided instead as a form of state allowances. State allowances actually are financed from the 20% payroll contribution that continues to be paid by employers. It is more common for such benefits to be financed by payroll contributions if they are part of a PAYG pension system. Social assistance systems are more commonly financed from the state budget. However, the survivor's and disability benefits under the existing law, while referred to as "state allowances," do not have a purely social aspect as there are some differentiation based on wages. The introduction of social allowances in Turkmenistan was an important and positive feature of social protection to ensure adequate living standards in old age, and need to be strengthened, as voluntary fully funded DC pensions are to be the main retirement income. Maternity, sickness and work injury benefits are fully financed and directly provided by employers.

Besides, from early years of independence the Government of Turkmenistan provides basic *universally* available right for free use of gas, electricity, water and salt.

## **Issues to be addressed**

Over the past three years, pension policy formulation and implementation process has already undergone serious changes aiming in increasing its efficiency. The UNDP project on "Support to Pension System Development" implemented in 2005-2006 provided a technical assistance to support this effort, particularly contributing to: (i) improved regulatory framework for pension funds investment; (ii) enhanced Management Information System and administration capacity of supervising authority, and (iii) increased public awareness of the new pension system. However, this assistance should be continued focusing on critical needs of the Government of Turkmenistan in the sphere of *social protection policy* formulation and monitoring.

The key issues in the area of capacity building, which should be addressed, are as follows:

- Formulation of social protection strategy should take into account the need of extending the social protection coverage to more people and more contingencies;

- Formulation of social protection strategy should be based on high quality statistics and actuarial projections on social insurance and social assistance schemes;
- Formulation of social protection strategy should be based on client-oriented approach;
- Knowledge and skills of the staff involved in social protection policy formulation needs constant and serious upgrading. This relates to general economic, social and legal knowledge, as well as learning and improving concrete technical skills (e.g. in the sphere of actuarial analysis, asset liability management and pension accounting).

### **Intended Beneficiaries**

The ultimate beneficiaries of this project will be the population of Turkmenistan and the Ministries of Social Welfare and of Economy and Finance of Turkmenistan, which will have trained staff and enhanced institutional capacity to effectively manage the system.

### **STRATEGY**

There is clearly considerable scope for existing social security scheme to extend coverage to more people and to more contingencies, but a prerequisite should be technical assistance aimed at improvement of administrative and legislative framework of social protection system and to build the capacity which institutions need they are to assume new responsibilities. The key objective of this project is to strengthen the capacity of the Government to ensure the long-term sustainability of social security reform, mostly through enhancing the Ministry of Social Welfare of Turkmenistan policy formulation and monitoring capacity. The proposed project will contribute to UNDAF Outcome 1, and CP Outcome 1.1 and partly CP Outcome 1.2.

Efforts to introduce efficiency and sustainability of the social protection system require action at high levels of decision-making and should be based on informed participation and consensus between all those who are affected and on whom implementation of the system will depend. It is equally important that action comprises policy and strategy suitable to show how plans and policies can be turned into results.

The project's strategic approach is thus based on the following principles:

- Appropriate sequencing – First, the institutional and administration capacity needs to be improved before social security coverage is extended;
- Integrated intervention – Second, the most effective technical assistance is integrated into the daily work of the counterpart either through long-term involvement of international expert or through the hiring of local technical assistance staff;
- Coordinated with other technical assistance – Third, technical assistance with respect to extension of social protection should be correlated with other technical assistance. For instance, as social security is a basic human right, the strengthening of the Government's reporting capacity on implementation of social protection conventions ratified by the country can be correlated with or integrated into the existing UNDP project on building a reporting capacity in Turkmenistan;
- Coordinated with assistance to the financial sector – Fourth, technical assistance should

be coordinated with the technical assistance to the financial sector, particularly with any assistance designed to develop capital market or non-bank financial institutions.

It is expected that the overall quality of the social protection policy formulation process will be significantly improved, contributing in this way to development of effective and extensive social protection mechanisms, and immediate accomplishment of the MDGs.

In order to achieve this outcome the project focuses on four key outputs:

#### 1. Strengthened capacity in management and investment of pension funds

Under the 2006 pension law, the Ministry of Social Welfare (MSW) is determined as the sole agency to manage and administer the voluntary fully funded pension scheme. Sustainability of the new pension scheme will depend on the returns on MSW's investment activity. However, MSW strategic and management issues, especially the roles and the coverage of the benefits in the entire social protection systems and functions in the financial sector as the largest institutional investor have not been well defined. At the same time, there is a lack of proper operational procedures, which is urgently needed to be introduced, and the expertise of staff to handle pension funds investment management is inadequate.

In this regard, a hands-on expert is needed to assist the MSW in preparing a strategy with the scope of increasing efficiency of the MSW investment performance, particularly through project financing. The strategy will cover such issues like development of good "corporate management" structure for project financing, development of explicit lending guidelines (including diversification policies), building inside the MSW the capacity for project lending and monitoring, development within the MSW the capacity to negotiate partnerships with other lending institutions. The expert will also design and prepare the necessary training program for staff and conduct training sessions for the MSW staff.

#### 2. Enhanced capacity in social protection policy formulation, analysis and design

Social protection policies should be based on sound financial, fiscal and economic analyses, and policy developers need improved capacity to analyze social protection within a holistic treatment of issues of economic growth, management and public policy. The Government and social insurance staff will welcome receiving advanced education and training for actuaries, statisticians and economists in social protection analysis techniques. In addition, the initiative is suggested to provide specific professional high-level training to expert in social protection financing.

Concerning the legislative framework in social protection, the Government needs to develop legislation, policies and programmes, collect and report data, and allocate funding to increase social development. In this regard, the Government needs assistance in assessing the level of protection offered to the society by legal and judiciary system. This calls for research and analysis of problems in providing effective coverage, in the financing of schemes and in their management. Extensive assistance through bringing international expertise and advice, and

dissemination of international standards and good practices, is required for preparation of draft legislation and administrative implementation of different social protection schemes, e.g. old-age, disability, maternity, family and other benefit schemes.

### 3. Improved quality of social service delivery to elderly and disabled

The Government elder and disabled care programmes are delivered through state institutions at local level - territorial service centers for elderly and disabled. However, such care programmes need professionally trained personnel delivering social services to beneficiaries, effective coordination between national and local levels and strengthened partnerships with nongovernmental organizations providing social services. Services for aged and disabled, especially in rural regions, can be achieved by providing funding support for community mobilization, in-service training of social workers and resource support.

### 4. Increased public awareness in social protection issues

Some groups of society may not receive all the benefits they are entitled to under the country's social insurance scheme. It appears to be a need for communication strategy aimed at educating the insured population and employers on social insurance rights and obligations. This will be essential of any move to extend coverage to the non-government employees whose confidence in the stability of the pension system is critical if success is to be achieved. If the legislation needs to be changed there could a requirement for a prolonged communications exercise before a consensus is reached in the target population. Also, a large-scale communication campaign is essential for promoting social protection based on community and family links.

## **Management Arrangements**

The project will be implemented by the Ministry of Social Welfare of Turkmenistan, which will be the main Implementing Partner for this project. This Implementing Partner will be responsible and accountable for managing a project, including the monitoring and evaluation of project interventions, achieving project outputs, and for the effective use of UNDP resources.

In accordance with UNDP procedures, appropriate management arrangements and oversight of project activities will be established, such as the Project Board - the group responsible for making management decisions on a consensus basis for a project when guidance is required by the Project Manager, including approval of project revisions. Final decision making on project activities and accountability rests with UNDP in accordance with its applicable regulations, rules, policies and procedures. Potential members of the Project Board are reviewed and recommended for approval during the Programme Advisory Committee (PAC) meeting.

Project Assurance is the responsibility of each Project Board member. The Project Assurance role supports the Project Board by carrying out objective and independent project oversight and monitoring functions. This role ensures appropriate project management milestones are managed and completed.

The Project Manager has the authority to run the project on a day-to-day basis on behalf of the Project Board within the constraints laid down by the Project Board. The Project Manager is

responsible for day-to-day management and decision-making for the project. The Project Manager's prime responsibility is to ensure that the project produces the results specified in the project document, to the required standard of quality and within the specified constraints of time and cost. The Project Manager will be selected in consultation with the Implementing Partner.

The Project Support role provides project administration and management support to the Project Manager as required by the needs of the project or Project Manager.

### **Monitoring and Evaluation**

Overall monitoring and evaluation will be carried out in line with UNDP procedures. To ensure effective monitoring of the project, the Project Board and the Project Manager would be responsible for project monitoring and for devising corrective action, if needed. Quarterly progress reports shall be submitted by the Project Manager to the Project Board, using the standard report formats of UNDP. An annual project review will be conducted during the fourth quarter of year as a basis for assessing the performance of the project. In the last year, this review will be a final assessment. This review will involve all key project stakeholders and the Implementing Partner, and focus on the extent to which progress is being made towards outputs, and that these remain aligned to appropriate outcomes. The review will be structured by a set of common standards, and will be subject to spot external quality assurance assessments.

### **Legal context**

This project document shall be the instrument referred to as such in Article 1 of the Standard Basic Assistance Agreement (SBAA) between the Government of Turkmenistan and the United Nations Development Programme, signed by the parties on 02 March 1992.

All equipment, material and supplies purchased and funded on behalf of the UNDP in the execution of this project will be used exclusively for the purpose of the project. All equipment and supplies provided will be utilized in accordance with the rules and regulations of the United Nations.

The following types of revisions may be made to this project document with the signature of the UNDP resident representative only, provided he or she is assured that the other signatories of the project document have no objections to the proposed changes.

- Revisions of, or addition of, any of the annexes of the project document;
- Revisions, which do not involve significant changes in the immediate objectives, outputs or activities of the project, but are caused by rearrangements of inputs agreed to or by cost increase due to inflation.
- Mandatory annual revisions, which re-phase the delivery of agreed, project inputs or increased expert or other costs due to inflation or Organization expenditure flexibility.

