



UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT

ALEJE JEROZOLIMSKIE 56C
00-803 WARSAW, POLAND

October 6, 1998

Urząd Nadzoru nad Funduszami Emerytalnymi
OTRZYMANO
1998-10-06
Nr wch. 747/98
Dep. SP

Mrs. Ewa Lewicka
Secretary of State
Government Plenipotentiary for Social Security Reform
Ministry of Labour and Social Policy
Nowogrodzka 1/3
00-513 Warsaw

Mr. Cezary Mech
President, Superintendency of Pension Funds
ul. Foksal 10
00-366 Warsaw

Dear Mrs. Lewicka and Mr. Mech:

I am pleased to inform you that USAID has signed an agreement ("Task Order") with PricewaterhouseCoopers ("PwC" or "Contractor") totaling \$4.6 million over a 17-month period to support the implementation of Poland's new pension system. As partners, I believe it is important at the beginning that we all have a clear understanding of roles and expectations to assure effective use of this large technical assistance program for the benefit of Poland. Therefore, I'd like to highlight the following understanding and key considerations:

USAID Objectives

USAID operates in a results framework and holds the Contractor accountable for meeting the results and benchmarks contained in our Task Order. Therefore, it is important that our Polish partners understand the objectives to be achieved and appropriately support the Contractor in the achievement of these. Specific benchmarks are contained in the Task Order attached to this letter. The primary objectives covered by this Task Order are to:

1. Assure that affected Polish working population are informed about the choices available to them and the value of pensions under the new system.
2. Establish essential licensing, regulatory and supervisory functions over private pension funds and employee pension plans.

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USAID Agents

PricewaterhouseCoopers (PwC) was selected by USAID in a competitive procurement process to implement this technical assistance program for the benefit of Poland. PwC retains overall responsibility for the tasks contained in this Task Order. PwC has subcontracted to Profile and Corporate Profiles DDB to carry out most of the tasks related to public education, working closely with the Office of the Government Plenipotentiary for Social Security Reform (OP) with a view to achieve Objective #1 above. PricewaterhouseCoopers will work closely with the Superintendency of Pension Funds (UNFE), in particular, with a view to achieve Objective #2. PriceWaterhouseCoopers will also cooperate with UNFE in the achievement of Objective #1 as determined by OP. PwC also will cooperate with OP in the achievement of Objective #2 as determined by UNFE.

Counterparts

The Office of the Government Plenipotentiary for Social Security Reform (OP) and the Superintendency of Pension Funds (UNFE) are USAID's primary counterparts for this assistance. While not specified as a primary counterpart, ZUS will also be key to the achievement of objectives under this Task Order. USAID expects UNFE and OP to facilitate coordination with ZUS as needed for the achievement of specific tasks, such as public education and integration of ZUS and UNFE information technology (IT) systems as appropriate to support UNFE's supervisory role.

Scope of Work

The Task Order between USAID and PricewaterhouseCoopers specifies the agreed scope of work and benchmarks to be completed. This scope of work was discussed with and agreed by both OP and UNFE prior to requesting technical proposals from prospective contractors in June. Some modifications were made during negotiations with the Contractor.

Generally, the scope of work includes:

- Development of a comprehensive public education strategy for implementation of the new system to be implemented in part by USAID. USAID's support for implementation of the public education campaign is limited to the specific activities detailed in the attached scope of work.
- Media and public relations, including creation of promotional materials and advertising, press conferences, core journalists meetings, and public opinion polls and focus groups.

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- Training of spokespersons to deliver presentations to at least 5,000 stakeholders.
- Policy advice to UNFE.
- Advising UNFE in the development of policies, procedures, tools and checklists for licensing, monitoring and enforcing compliance, operations and performance of private pension funds and employee pension plans, and training employees in their implementation.
- Extensive training for UNFE and others involved in the implementation of the new system, including classroom training and study tours to Hungary, Mexico and other countries whose pension systems are relevant to Poland.
- Advising UNFE in the creation of procedures and tools for resolution of disputes between contributors and the pension funds and plans according to Polish law and good standards of supervisory bodies.
- Assessing UNFE's information technology (IT) needs and recommending an IT strategy to help UNFE fulfill its supervisory role.
- Advising on international best practices for transfer agents, custodians and ethical conduct/fair practice for pension funds and their agents.

The scope specifically excludes:

- Production and distribution of promotional materials and advertising.
- Procurement of hardware and software.

Changes to the Scope of Work

We understand the need to be flexible and responsive to the changing environment and know that some changes in technical direction or scope may be needed over the term of our cooperation. It is important for you to understand, however, that the attached scope of work is part of a contractual relationship between USAID and PricewaterhouseCoopers.

Consequently, any proposed changes to the scope or benchmarks require USAID approval. PwC can help OP and UNFE determine whether a proposed activity falls within their scope. USAID is willing to consider changes or additional assistance that do not fit within the scope upon specific request of the GOP. Already, it is clear that Benchmarks 7a and 7d in the Task Order should be modified to clarify that participation of advisors in on-site supervisory examinations may not be possible under Polish law. Please be aware that the time to process a change in scope (i.e., a "modification") can be two to three months. Simple changes in technical direction that do not affect benchmarks, results or budget may be approved more quickly.

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Confidentiality

USAID has many years of experience working with regulators in Poland and other countries in Central and Eastern Europe and the NIS. Our best assistance programs have been those where our advisors work side-by-side with their counterparts, having access to confidential information that allows them to advise on the basis of full information, even participating in on-site examinations with the General Inspectorate of Banking Supervision at the National Bank of Poland. Confidentiality is crucial and USAID and its advisors place a high priority on assuring confidentiality is maintained throughout the project. PwC has been working with UNFE to draft an acceptable confidentiality agreement. Finalization of this agreement is essential to the effectiveness of USAID's technical assistance, and therefore, assistance cannot begin until it is completed.

Other Considerations

1. Advisors are not decision-makers nor is it intended that they act in a supervisory capacity over any GOP employees. Rather, they will work side-by-side with OP and UNFE employees in an advisory capacity and in order to ensure transfer of relevant knowledge.
2. The effectiveness of our assistance is directly related to the level of involvement of our counterparts. As part of the development of the work plan, PwC will seek names of OP and/or UNFE individuals who will be actively involved in the achievement of each task. OP and UNFE will be involved in the development of the work plan and will be part of the approval process. Copies of the final work plan will be provided to OP and UNFE and will be monitored by USAID.
3. In order to facilitate confidentiality, team-building and cost-sharing, UNFE has agreed to provide furnished work space on-site for the six-person team residing in Warsaw with extra space for the short-term consultants, which may number up to six individuals at any given time. However, due to building construction, space for only two resident advisors and one support staff can be assured prior to completion of the construction process.

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4. In order to achieve maximum value from the technical assistance, our advisors should work side-by-side with their counterparts, having access to confidential information that allows them to advise on the basis of full information related to the specific task agreed in the future by UNFE in the framework of the workplan or otherwise given by UNFE at a later date. To this end, USAID expects that prior to arrival of any advisors under this Task Order, UNFE and PwC will finalize the confidentiality agreement that is to be signed by all PwC advisors working with UNFE. UNFE and the advisors will agree which information is needed to carry out the tasks. UNFE has the final decision regarding access. The advisors will have access to no other confidential information.
5. Reports produced specifically for UNFE under this Task Order will be approved by UNFE, considered confidential, and will not be distributed by PwC or USAID outside UNFE. OP will receive reports directly from UNFE, without unnecessary delays, except for portions containing confidential information or that are subject to professional secrecy as described in the Law on Organization and Operation of Pension Funds.
6. USAID's advisors will advise UNFE in the creation of a proactive supervisory environment that promotes fairness, competition and transparency.
7. With respect to training, the list of participants will be agreed between USAID and the relevant GOP institution (OP or UNFE).
8. The GOP will do its best to secure funding for the production and distribution of public education materials. Once this funding is secured, USAID will authorize the commencement of the design and development of materials dependent on GOP funding.
9. Effective coordination between GOP organizations (OP, UNFE, ZUS, NDS and other regulators) is critical to the successful implementation of the new system. To this end, USAID expects that the GOP will coordinate all aspects of the reform's implementation as related to the tasks to be carried out through this technical assistance program, including close coordination of the public education campaign among affected parties and to assure appropriate synergies between the IT systems of UNFE and ZUS.

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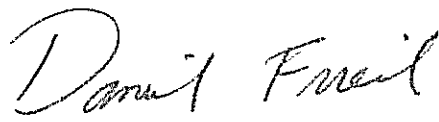
- 10. To the extent any software or hardware are procured under future modifications to this Task Order, the Contractor will make commercially reasonable efforts to obtain a Year 2000 warranty, and any other available warranties, from third-party hardware or software suppliers for the benefit of UNFE.

USAID looks forward to working with your organizations in the implementation of this key reform. In order to assure a common understanding of the above, I would appreciate it if you would indicate your concurrence below.

Sincerely,

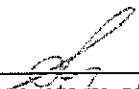


William M. Frej
Mission Director



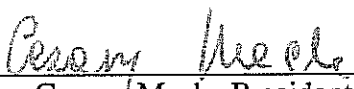
Daniel Fried
U.S. Ambassador to Poland

Concurred:



 Mrs. Ewa Lewicka, Secretary of State
 Government Plenipotentiary for Social Security Reform

06.10.1998
 Date



 Mr. Cezary Mech, President
 Superintendency of Pension Funds

06.10.1998
 Date

STATEMENT OF WORK

Implementing Poland's Private Pension System

I. SUMMARY

This Task Order provides assistance from October 1, 1998, to February 29, 2000, to establish essential licensing, regulatory and supervisory functions over private pension funds in the newly established Office of Pension Fund Supervision and to inform the Polish working population about the choices available to them and the value of pensions under Poland's new mandatory and voluntary systems of privately managed capital funded pension funds and plans.

II. BACKGROUND

A. Need for Pension Reform

Pension reform is among the last major macroeconomic reforms to be undertaken for economic transformation to a market economy and is a priority on the Government of Poland's (GOP) agenda for 1998. It is essential for long-term fiscal stability, as retirement and disability benefits in Poland exceed 15 percent of GDP (compared to 11 percent in Western Europe; and 8 percent in countries with per capita income similar to Poland), and budget transfers to finance the deficit in the system represent 4 percent of GDP. If not changed, it is projected to rise to as high as 22 percent of GDP by 2035. Several factors have contributed to Poland's pension problems. First, pension payments ballooned in the 1990's as early retirement was used to offset the adverse social impacts of unemployment resulting from privatization and liquidation of state owned enterprises. This, combined with earlier retirement for privileged occupations, added to the rolls of retirees and led to effective retirement ages of 59 for men and 55 for women (vs. current statutory retirement ages of 65 and 60, respectively). Further, pension allowances were granted at a high percentage of average wages and indexed to wage growth. Thus, to finance the system, the GOP instituted an exceedingly high contribution rate of 45 percent of wages, providing a disincentive to increase employment and encouraging the flight of firms to the gray economy and non-compliance.

B. Goal of the Reform

The stated goal of the new system is to ensure the highest possible level of benefits for future generations by diversifying sources of financing benefits (hence the name for the reform: "Security through Diversity") from both public and private sectors.

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C. History and Description of the Reform

Over the past two years, Poland has designed and is near implementation of an ambitious pension reform program. Beginning in October 1996, pension benefits ceased to be indexed to wage growth and instead were linked to consumer price increases, thereby diminishing increases in current retiree payments above inflation growth. Also at that time, an Office of the Government Plenipotentiary for Social Security Reform (OP) was instituted. It quickly developed a reform proposal to introduce a three-pillar pension system, drawing on elements found in pension systems in Sweden, Argentina and Chile and on consensus elements already present in a more radical proposal drafted at the Ministry of Finance (the so-called Mazur plan), a pension reform proposal put forward by the Solidarity Trade Union, and draft legislation for private pension funds developed at the Ministry of State Treasury (ex-Ministry of Privatization).

The new system shifts from "defined benefit" to "defined contribution" and is expected to encompass all workers except farmers and workers over 50. Some groups that have separate benefits today, such as uniformed services, will likely receive supplementary benefits that will be clearly defined in legislation. Those over 50 years of age will stay in the old system. Employees 30 and under will be covered by the new system on a mandatory basis. Those between 31 and 50 will be allowed to contribute exclusively to the reformed pay-as-you-go (PAYG) system or to both the PAYG and private mandatory pension funds. Total non-farming workforce in Poland is approximately 14 million, of which about 2.3 million are over 50; some 6.5 million are between 30 and 50, and approximately 5.2 million are under 30. The minimum retirement age is hoped to be 62 for both men and women, although this has been one of the more highly contested elements of the reform, with opponents wanting to keep the current levels of 60 years for women and 65 for men. However, since benefits depend on the amount of contributions, workers will have incentive to work longer, which will increase the effective retirement age. As the salary basis for contributions to the first two pillars is to be capped at 250 percent of the average wage, those with substantially larger incomes will have the incentive to set aside additional voluntary savings for retirement under this third pillar. The total contribution to social security will remain 45 percent of wages with 24 percent going to retirement pensions (15 percent to Pillar I; 9 percent to Pillar II) and the remaining 21 percent to disability pensions and sickness and accident funds. Employees' pre-tax pay will be adjusted upward by the amount of their mandatory contributions (23 percent of pay) and employers will pay the remaining 22 percent. Today, employers pay the full 45 percent. A Demographic Reserve Fund is proposed to be established to guarantee benefit payments in the event that the ratio of benefits recipients to contribution-payers changes unfavorably.

Pillar I: As proposed, the first pillar would be a reformed pay-as-you-go (PAYG) social security system (administered by the social insurance agency, Zaklad Ubezpieczen Spolecznych, or "ZUS"). This universal (mandatory) funded pillar, as mentioned, becomes much more transparent through the strong relationship between contributions and benefits. Each contributor will receive a periodic statement showing cumulative contributions to date.

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Rate of return will be linked to a coefficient between the price growth index and wage bill growth, as decided in law. At retirement age, the retiree's annuity will be calculated as the adjusted cumulative contribution divided by his/her expected years of remaining life. The longer a person works, the higher the annuity, thereby providing a disincentive to retire early. Should lifetime contributions by individuals eligible for retirement be insufficient to provide a base pension, the minimum of which will be transparent in the legislation, the state budget will make up the difference.

Pillar II: The second pillar would comprise an estimated 10-20 newly created, privately managed pension funds. These funds will be licensed and supervised by the new Office of Pension Fund Supervision (UNFE). ZUS will act as transfer agent for contributions to the second pillar. Fund assets will be held by independent depositories.

The rate of return for Pillar II funds will equal the net return on investments. A minimum return is guaranteed, however. If a fund's return is below a set band from the weighted average return for all open funds, the fund managers must make up the difference. At retirement, capital accumulations would be transferred to a licensed annuity plan of the retiree's choice. Contributions to this pillar would be tax exempt, although benefits would be taxed as they are received through the annuities. Contributions are proposed at 20 percent of the current ZUS contribution, that is, 9 percent of wages.

A guarantee fund, with contributions from the licensed funds' own funds, will be established to assure payment of benefits (similar to the U.S. Pension Benefits Guaranty Corporation, a federal agency). Premiums will be paid into the National Depository for Securities.

Pillar III: The third pillar will be voluntary employee pension plans offered by employers. Such plans might offer private pension funds, investment-linked insurance policies, mutual life insurance plans, or participation in investment funds. Contributions toward this third pillar would not be exempt from tax, but benefits at the time of retirement would be tax exempt.

D. Status of Legislation

Three key pension reform laws have been passed to date (September 1998):

Law on Organization and Operation of Pension Funds, passed August 27, 1997, sets up regulations for establishing privately managed, capital funded pension funds under Pillar II, contributions to which would be mandatory for those joining the new system. The law specifies eligibility requirements for pension funds, their owners and managers, and sets up the regulatory structure to conduct supervision over the funds. The law specifies that the Office of Pension Fund Supervision (UNFE) would be established by May 1998 and operating (i.e., licensing funds) by September 1998.

Law on Employee Pension Programs, passed August 22, 1997, establishes conditions (i.e.,

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employer obligations, contributions, payments) to be fulfilled by participants and authorizes employer-sponsored pension plans and mutual insurance plans constituting the third, voluntary pension plan pillar, effective January 1, 1999.

Law on Use of Privatization Proceeds, passed June 25, 1997, authorizes the use of privatization proceeds of designated state-owned enterprises to finance transition costs resulting from implementation of pension reform. As individuals move to the second pillar, the deficit in the first pillar, the social security PAYG system (ZUS) will widen, as payments to current retirees will exceed inflows. Privatization proceeds would be used to finance this gap. Sale of bonds convertible to shares of enterprises to be privatized is envisioned as a way to secure inflows when needed without being tied to less certain privatization timetables.

Legislation that establishes the underpinnings for the entire system was submitted to Parliament at the end of April 1998. The first, the Law on Retirement and Disability Pensions, reforms the current PAYG system (Pillar I) for those under 50 years of age. The Law on Social Insurance System, the so-called "Mother Law", is fundamental to the entire system. It defines which groups will be eligible to participate in the new, reformed system and the contribution levels. Passage of this law by the Parliament occurred in late September 1998 and legislation specific to the first pillar is expected to be passed by the end of October.

Less critical for immediate passage, the Law on Retirement Insurance Companies creates separate legal entities operating as joint stock companies to be licensed to begin operations in 2010, when the first pensions under the new system would begin. They would disburse annuities from the pension funds.

The Government of Poland remains optimistic that the newly reformed system will begin operations on schedule in January 1999; however, certain elements have been delayed to April 1, 1999. To help communicate the new system, a combined total of at least 70 staff members of UNFE, ZUS and OP and at least 20 independent consultants will have been trained under the previous Task Order to respond to basic questions about, and/or to present, the new system to various interest groups.

E. Office of the Government Plenipotentiary for Social Security Reform

The Office of the Government Plenipotentiary for Social Security Reform (OP) was instituted in October 1996 with the authority and primary task of developing a reform proposal. It quickly introduced legislation for a three-pillar pension system, drawing on elements found in pension systems in Sweden, Argentina and Chile and on consensus elements already present in a more radical proposal drafted at the Ministry of Finance (the so-called Mazur plan), a pension reform proposal put forward by the Solidarity Trade Union, and draft legislation for private pension funds developed at the Ministry of State Treasury (ex-Ministry of Privatization). The OP remains the primary coordinator of the overall reform, assuring that all related legislation is prepared, passed and implemented, and will continue its role as a

primary counterpart for this Task Order.

F. Organization of the Office of Pension Fund Supervision

The Office of Pension Fund Supervision (UNFE) was formally established on May 1, 1998, and reports to the President of the Council of Ministers. UNFE has authority to, among other things, issue licenses; impose administrative and legal sanctions, ranging from financial penalties to withdrawal of licenses; conduct on-site inspections of pension funds, depositories and entities providing contributor registration services for the funds; request any information relevant to its supervisory responsibilities over pension funds; and require change of depository in the event of non-performance or improper performance. By law, contributors to pension funds may register complaints with UNFE against a pension fund.

UNFE's preliminary organization chart reflects the following major departments (first year staffing in parentheses): Financial Policy (15); Department of Analysis and Public Communications (15); Licensing and Legal (20); Supervision (15); and Employee Pension Plans (5). After licensing of open pension funds and registration of employee pension plans is completed by year end 1998, some 50 percent of the Licensing and Legal staff are expected to shift to Supervision and additional supervisory staff are expected to be hired, as well as additional Analysis staff, who will support the supervisory function by analyzing the open pension funds and employees pension plans. Support functions will be carried out by an Administrative Office. UNFE expects 80 employees on staff by year end 1998.

Key UNFE staff will have been trained in licensing Pillar II funds and registering Pillar III employee plans and will have begun these functions by the beginning of this Task Order. Key staff also will have been trained in core principles of investment management relevant to the regulator's role.

G. Supervision Authority Advisory Committee

The law requires the President of the Council of Ministers to establish a 15-member Advisory Committee to serve as an advisory and consulting body of UNFE in matters relating to the operation of the pension funds and employee pension plans. At least six members of which are appointed from among candidates proposed by the Trilateral Commission for Social and Economic Affairs. The Chairman and Vice Chairman are appointed for two year terms; other members for six years.

H. ZUS Role in the New System

As mentioned, employees' contributions will be transferred to ZUS, which will maintain data for each individual's contributions and retirement benefits under Pillars I and II and will receive and transfer Pillar II contributions to the fund designated by the employee. The ability of ZUS to effectively collect, record and transfer employee contributions and to respond to employees' questions about the new system is critical to success of Pillar II. ZUS

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is designing a major information technology system, which the GOP expects to be operational by April 1999 when this element of the new system is implemented. ZUS has approximately 38,000 employees in 55 branches and 200 offices countrywide.

I. USAID Contribution to the Advancement of Pension Reform

Through prior task orders implemented by Price Waterhouse and its subcontractor Profile, a Polish public relations firm, and assistance provided by Financial Services Volunteer Corps, CASE Foundation and the Adam Smith Research Center working under the Center for International Private Enterprise, USAID has furnished:

- an assessment of current pension type plans already being offered on the Polish market and a suggested framework for development of private pension funds and their development;
- a seminar for key Polish policy makers on Chilean, Argentinean, U.S., and other experience in pension fund development and supervision;
- seminars for key participants in the system—employers, ZUS, financial institutions—to introduce prospective roles under the new system;
- expert review of draft legislation;
- study tours to Chile, Argentina, the U.S., and European countries for stakeholders--parliamentarians, journalists, financial institutions, trade union leaders, and policy makers--to view first-hand relevant pension developments in other countries; and
- public education assistance to support passage of reform legislation, including strategy development, focus groups, market research, advertising, brochures, direct response system, study tours, press conferences, media training, and seminars.

J. Donor Coordination

In addition to USAID, the Office of the Government Plenipotentiary for Social Security Reform has received assistance from the World Bank, International Finance Corporation, Swedish International Development Agency, British Know-How Fund, EU PHARE, Canadian Government, International Finance Corp., and the United Nations Development Program. OP coordinates the work of all donors to assure maximum efficiency of available resources. World Bank has been the lead donor for Pillar I; USAID for Pillar II and IFC is now focused primarily on Pillar III.

III. **SCOPE OF WORK**

A. USAID/Warsaw Strategic Objectives

Fulfillment of this task order will contribute to the USAID/Warsaw's Results Framework comprised of Strategic Objectives, Results and Targets as follows:

Strategic Objective 1.4: Development of a competitive, market-oriented private financial sector.

Intermediate Result A: The Task Order will *improve public confidence in the financial sector* indicated by the USAID/Warsaw Target of creation of essential regulatory and supervisory functions over private pension funds

Intermediate Result C: By helping to create private pension funds, the Task Order will *increase availability of standard financial services and products* as indicated by the following USAID/Warsaw Targets:

1. Percent of working non-farming population participating in licensed private pension plans (Pillar II) equal to 40 percent in FY 1999, and maintained at that level in FY 2000.
2. Private voluntary pension plans (Pillar III) available throughout Poland by FY 1999.

The Task Order is not expected to contribute substantively to USAID's Intermediate Result B, "*increasing the efficiency of the financial sector.*" As mentioned, activities under this Task Order will contribute to achievement of the above Strategic Objective, Intermediate Results or Targets. Specific Task Order Objectives, Tasks and Benchmarks, which follow, are the expected results for which the Contractor will be held accountable.

B. Task Order Objectives

The Contractor understands and agrees that the attainment of USAID's Task Order Objectives, Tasks, and Benchmarks (see below) constitute the essence of this Task Order, and that USAID will judge the Contractor's performance based upon achievement of these measures. In the event that any of these measures are not achieved in the time frame agreed upon with USAID, or should the Contractor at any time realize that they are not achievable, the Contractor shall immediately advise USAID in writing, and shall provide a complete explanation of the circumstances related thereto in the next quarterly report (per Section VI, "Reporting Requirements").

Upon completion of the Task Order, USAID expects that the following objectives will have been achieved:

- UNFE will have established essential licensing, regulatory and supervisory functions over mandatory private pension funds.
- Affected Polish working population will have been informed (through the OP and/or UNFE) about the choices available to them and the value of pensions under the new system.

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C. Tasks and Benchmarks

The Contractor shall perform the Tasks specified below that will contribute to the achievement of the Task Order Objectives specified above. Benchmarks are established to measure the Contractor's progress toward achievement of the Tasks and Objectives.

Tasks and Benchmarks

1. Advise UNFE senior management in the areas of regulatory policy, management and organization;
2. Assist UNFE in implementing procedures for licensing Pillar II funds and registering Pillar III employee pension plans, and in resolving issues that arise in the implementation process.

Benchmark for Task #2:

- a. By January 1, 1999, UNFE has completed licensing of initial Pillar II funds.
3. Assist UNFE, and OP as appropriate, in developing procedures and tools for monitoring and enforcing compliance, operations and performance of private pension funds. Such assistance may include development of formats and procedures for electronic reporting, checklists, manuals and other materials for use in carrying out surveillance, compliance and enforcement functions. Particular emphasis should be placed on EDP audit.

Benchmarks for Task #3:

- a. Uniform pension fund reporting standards for off-site monitoring of 2nd pillar pension funds developed by March 31, 1999, and implemented by UNFE by June 30, 1999; for 3rd pillar programs, by September 30, 1999, and January 31, 2000, respectively.
- b. By June 30, 1999, UNFE has in place essential procedures for monitoring and enforcing operations, performance and compliance of 2nd pillar pension funds and other supervisory functions; for 3rd pillar programs, by February 1, 2000.
- c. Computerized analyses and databases support these functions (see Tasks #4 and #5) by June 30, 1999. Achievement of this benchmark is contingent on timely procurement and installation of relevant hardware and software by GOP, USAID or other donors.
- d. Surveillance and compliance manuals, checklists and/or other procedures and tools developed by August 31, 1999 for Pillar 2 funds; by January 31, 2000, for Pillar 3 programs.
4. Review procedures for transfer agent and custodial functions and suggest standards for performance and methods to encourage adherence to performance standards that promote

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efficient and timely transfer to private pension funds and safekeeping of pension fund assets in line with international best practices.

Benchmarks for Task #4:

- a. Report to UNFE and OP by November 30, 1998.
5. The Contractor shall complete a needs assessment of and strategy for information technology (IT) required by the Office of Pension Fund Supervision to carry out its supervision, compliance, enforcement and public information responsibilities. The assessment shall develop user requirements by each functional area of supervision, including operations and performance monitoring, compliance monitoring, enforcement and public service; identify, assess, and provide cost estimates for alternatives, including an identification of hardware and personnel resources UNFE will need to support the software applications; and make recommendations as how to most effectively meet identified needs. The Contractor will build upon work performed under the previous Task Order, in which an inventory of possible software applications along with their capabilities will have been developed. Priority consideration shall be given to use of off-the-shelf software packages that could be modified according to specifications needed for UNFE. The Contractor will make commercially reasonable efforts to obtain from third party hardware or software suppliers for USAID/UNFE: (1) A Year 2000 warranty and other general commercial warranties as the suppliers offer in their course of business, and (2) the right for USAID/UNFE to receive an assignment of all such warranties, including a Year 2000 warranty and an additional right, to the extent possible, to receive an assignment in favor of USAID/UNFE or all standard commercial indemnities that the suppliers may provide. To the extent that the Contractor itself originates or prepares any custom application software, such software, when used in accordance with its associated documentation, shall be capable of correctly processing, providing and/or receiving date data (i.e., representations for month, day and year) within and between the 20th and 21st centuries, provided that all products (for example hardware, software, and firmware) used with the software properly exchange data with it. The remedies available to USAID/UNFE for breach of this provision shall be limited to repair or replacement of the software, provided that the Contractor is notified of noncompliance on or before June 30, 2000.

Recognizing that a true cost estimate for the software cannot be determined until after the assessment is completed, USAID has budgeted \$100,000, which should be incorporated in the Contractor's cost proposal. USAID reserves the right to procure the software independent of this Task Order, in which case this amount of the Task Order would not be funded. Specific benchmarks and LOE for software procurement and installation will be set at the time this decision is made.

Benchmarks for Task #5:

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- a. Draft assessment report and recommendation to UNFE, OP and USAID by November 15, 1998. Comments on draft to be provided to the Contractor within 15 calendar days. Final assessment report due within 15 calendar days later.
6. The Contractor shall conduct a training needs assessment and recommend a training plan for UNFE personnel and Supervision Authority Advisory Committee ("Committee"), and shall identify training to be provided by the Contractor. Such plan shall include training in procedures and application of guidelines, manuals and tools developed under Tasks #2 and #3 above and in software application, if any, developed pursuant to Task #5 above. In addition, the training plan will include the role of UNFE in Poland's social security system; public awareness; principles of asset management, including investment instruments, risks and assessing appropriate limits; and on-the-job training. A training-of-trainers shall be incorporated into the plan to assure that UNFE has in-house capabilities to provide classroom training for its staff in core courses by the end of the Task Order. It is expected that the Contractor will develop a total of six 3- to 5-day courses (as appropriate to the subject) over the term of the Task Order. Each course is expected to be delivered by the Contractor and UNFE trainers an average of two times to classes of 10 to 30 participants. Less formal one-day workshops and on-the-job training is contemplated, as well. In-country training shall be supplemented with study tours to pension fund managers and relevant federal agencies in the United States organized by Financial Services Volunteer Corps. (FSVC) and to private pension fund regulatory authorities in Hungary, Mexico and other relevant countries organized by the Contractor. While the study tours are intended to be focused on regulatory matters, non-UNFE staff may participate as agreed by OP, UNFE and USAID.

Benchmarks for Task #6:

- a. Training plan submitted to UNFE and OP by October 31, 1998, for review and concurrence.
7. The Contractor shall carry out agreed upon training activities, including development of course materials and case studies and training of trainers. Given the relevance of Latin American and selected European experience in mandatory, privately managed capital-funded systems, maximum use in training shall be made of experts/trainers experienced in supervision functions for those pension systems.

Benchmarks for Task #7:

- a. UNFE conducts *limited* scope on-site inspections of all licensed funds by September 30, 1999. Contractor provides pre-inspection training; works closely with UNFE on-site staff during the exams, participating in exams if legally authorized; and assists in writing the final report and coaching examiners in effective management briefings as part of the training program of examiners.
- b. At least 15 UNFE employees and Committee members trained in essential off-site

supervision principles by June 30, 1999; at least an additional 15 by September 30, 1999.

- c. At least 15 UNFE employees and Committee members trained in essential on-site inspection principles by September 30, 1999; at least an additional 15 by December 31, 1999.
- d. First *full* scope on-site inspection of private pension fund conducted and report written by January 31, 2000. Contractor provides pre-inspection training; participates in the inspection, and assists in writing and communicating the final report as part of the training program of examiners.
- e. Five study tours (up to 9 persons, including one Contractor staff member, each tour) to Hungary, Mexico and other countries with private mandatory pension systems relevant to Poland completed by February 15, 2000.
- f. At least two UNFE employees are capable of delivering each of the core courses developed under this Task Order.

8. Advise on policies and rules of ethical conduct/fair practice for pension funds and their agents to minimize conflicts of interest, reinforce fiduciary responsibilities, and generally contribute to the safety and soundness of pension fund management and increased public confidence. This may include assistance in helping to establish a self-regulatory organization for private pension funds and plans. Contractor will build upon work of other donors.

Benchmarks for Task #8:

- a. Rules of ethical conduct /fair practice drafted by March 30, 1999.
- b. Prototype report on performance of the system drafted by UNFE, with input from OP and ZUS, by February 15, 2000.
- c. Prototype for UNFE report of pension funds' performance, which according to law will begin to be published quarterly after two years of funds' operations, drafted by February 15, 2000.

9. Assist in development of a *transparent* process for resolution of disputes between contributors/employees and the pension funds and plans. This may include developing regulator guidelines to encourage pension funds to establish internal procedures for handling complaints or providing advice to an NGO that emerges to protect consumers.

Benchmarks for Task #9:

- a. By April 1, 1999, a *transparent* process for handling complaints of participants in Pillar II funds has been established and widely publicized.

10. Advise UNFE on harmonizing supervision and regulation of mutual funds, pension funds, and employee plans, as well as pension funds that are bank subsidiaries subject to supervision of the Banking Supervision Commission. Such work may include organizing

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joint studies and workshops with the Polish Securities and Exchange Commission (SEC), the National Bank of Poland, KIR (the payments clearing house), the National Depository of Securities, the insurance regulator (PUNU), and UNFE; developing a Memorandum of Understanding between the regulators, or joint inspections, as may be appropriate. Contractor will coordinate with other USAID projects assisting the National Bank, KIR and SEC.

Benchmark for Task #10:

- a. By December 31, 1998, the Contractor will recommend an appropriate benchmark to the COTR for approval.
11. Once key pension reform legislation is passed by Parliament, Poles of working age will face key choices including: (1) whether to participate in the second pillar; (2) which pension fund to join, and (3) whether to participate in an employee pension plan. To assure that eligible populations have independent objective information to assist them in making such choices, the Contractor shall assist OP and UNFE in updating its public education strategy for this purpose and in implementing that strategy. Full use shall be made of prior public education activities and products produced under the previous Task Order. Such products and activities include public education strategy; focus group reports; brochures and leaflets for employers, labor unions, employees and opinion leaders; press kits; speakers kits and a cadre of 20-40 individuals trained to present the new system to various interest groups; a series of 10-minute television public service announcements promoting the new system and website (coming soon). A Questions and Answers brochure describing the new system and employee choices also will have been produced under the former Task Order for printing by the OP. This Task Order shall cover costs to create selected public education materials, however, due to high costs and limited US government resources, the GOP will maintain responsibility for providing funds for production and distribution of public education products for mass circulation. Prior to commencing design and development of public education materials dependent on such funding, the Contractor will secure written approval from USAID. USAID's approval will be contingent on firm commitment from the GOP that appropriate funding is available for the production and distribution of said materials. Requests for approval for communications products subject to Section H. 30 of the Omnibus II contract should be submitted to USAID/Warsaw for action.

Benchmarks for Task #11:

- a. Within 45 calendar days of passage of the Mother Law, an enhanced public education strategy is presented to the OP and UNFE for approval. Strategy shall be comprehensive, even though full implementation of that strategy will not be funded by this Task Order.
- b. Within two weeks before private pension funds begin to advertise, accurate

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information (e.g., public information materials and media products produced and disseminated) is widely available to workers to assist them in making informed choices on whether to transfer to the new pension system, on choosing pension funds, and deciding on participation in employee pension plans. Achievement of this benchmark is contingent upon GOP funding of production and distribution of public education materials to be created by the Contractor.

- c. OP website is maintained throughout the term of the Task Order, as appropriate, and UNFE website is created and maintained.
- d. Implementation of on-going public education activities as specified in the public education strategy and agreed by USAID and OP and/or UNFE, as appropriate. It is expected that, through the course of the Task Order, these activities will include:
 - 1) At least eight press conferences.
 - 2) At least ten meetings with core journalists.
 - 3) Press releases and feature stories in selected publications at least monthly.
 - 4) Press clipping/media monitoring service.
 - 5) At least three public opinion polls and quarterly focus groups to: (1) develop and test the content of public education messages, (2) determine level of awareness and acceptance of and confidence in the new system; and (3) identify areas in need of further development, promotion or change.
 - 6) One one-day advanced training course for the cadre of 20 to 30 independent pension reform spokespersons trained under a previous Task Order and updating and production of materials for use in public presentations.
 - 7) At least 5,000 individuals from relevant interest groups throughout Poland will have participated in the 2-3 hour presentations of the new system delivered by presenters trained according to benchmark 11(d)(6).
 - 8) Preparation of newspaper, radio and television advertisements. Costs of placement of the ads will be borne by the GOP.
 - 9) Leaflets, fact sheets and brochures are developed to inform various stakeholders about their roles and/or choices in the new system.

IV. WORK REQUIREMENTS

- 1. Within 15 business days of Task Order initiation, the Contractor shall prepare a work plan and timetable identifying and describing the steps to be undertaken to implement each task and related benchmarks. The work plan/timetable ("Work Plan") should also identify the Contractor personnel responsible for executing each task. The Work Plan is to be reviewed, amended (as necessary) and approved in writing by the COTR within five business days of receipt.
- 2. Maintain regular contact, and meet periodically, with USAID/Warsaw and USAID/Washington staff to discuss Task Order implementation status, problems and opportunities.

3. Coordinate with other donors and USAID implementors as appropriate.

V. TRAINING

Training plans shall be reported to USAID/Warsaw's Program Office, which tracks in-country training and has responsibility for participant training. The Contractor shall assure that arrangements for study tours for which it is responsible comply with USAID participant training regulations, which include, but are not limited to, language testing, medical examinations, travel insurance, and, sometimes, a waiver from the AID Representative for third-country training. Advance planning is critical.

VI. REPORTING REQUIREMENTS

The following reports are required under this Task Order:

1. Work Plan (see Section IV, Work Requirements).
2. Written reports and deliverables as specified in Section III, Scope of Work.
3. Brief written monthly status reports summarizing Task Order progress measured against tasks and benchmarks and identifying implementation issues that may affect contractor performance. The report is expected to be a concise reporting mechanism summarizing Task Order progress, preferably in bullet form with brief introductory narrative, and that requires reasonable Contractor management time to prepare. This report could be provided in a table format that can be easily updated.
Reports should be submitted to USAID within 5 business days of the end of each month.
4. Written quarterly performance report shall be delivered in accordance with the Omnibus II contract and shall provide, at a minimum, the following information:
 - a) Summary of progress on major steps in Work Plan implementation including identification of each Contractor professional involved in rendering assistance under the Work Plan.
 - b) Identification of implementation problems, opportunities and significant successes as they relate to this Task Order's objectives. Problems include impediments to successful Work Plan implementation, problems created by or affecting identified Polish counterparts, shortcomings regarding the involvement of USAID (and any related activities or services coordinated by USAID) or other donors related to this Task Order's objectives, and Contractor's recommendations for the resolution of these issues. Opportunities include recommendations on the provision of technical assistance not envisioned in this Task Order but the inclusion of which could result in greater success of the Tasks, Benchmarks, or Task Order Objectives. Successes are significant if they are milestones achieved or have impact worthy of special mention.
 - c) Highlight major events or activities, such as conferences, study tours, discussion of

legislation that are anticipated prior to the next quarterly report.

d) Administrative information regarding level of effort and expenditures as specified in Attachment J.1 of the Omnibus II contract.

- 5. Task Order Completion Report delivered within 15 business days following Task Order completion or termination, describing Task Order achievements against work plans, tasks, benchmarks and objectives; identifies lessons learned during implementation and suggests ways to resolve constraints identified.

All reports should be delivered to the following U.S. Agency for International Development addresses:

USAID/Warsaw
 al. Jerozolimskie 56C
 00-803 Warsaw, Poland
 Attention: Ms. Vicki Peterson

USAID/Washington
 Bureau for Europe and the NIS
 1300 Pennsylvania Avenue
 Washington, DC 20523-3800
 Attention: Mr. Alexander Shapleigh