Center of Excellence in Finance

20 YEARS OF MAKING THINGS HAPPEN

Online course: Stakeholder mobilisation for successful structural reforms

Case study: Pension and Labour Market Laws Changes in Slovenia

Contents

Facts and background

With low birth rates and an increasing elderly population Slovenia is facing an increasing pressure on the pension, health and other public sub-systems. While in 2019 the share of the public PAYG pension system was approximately 10% of GDP it could rise to 17% by 2050 according to the microsimulation model. A share of GDP unbearable, if considering that other closely related expenditures such as health care and long-term care follow this trend. With one of the lowest activity rates of aged 55+ in the EU, one of the longest "bridges to retirement" composed of a mix of long term sick leave and unemployment benefits, a significant drop in disposable income when comparing the last salary to the first pension, fairly high indexation rates (general and additional) etc. the pension system was a perfect fit for a structural reform.

Slovenia has a fairly high wage compression and some difficulties in increasing productivity growth. In addition, politicians frequently engage in narrowing of the personal income tax and social security contributions bases to collect "beauty points", further limiting the manoeuvring space for structural reforms, which take time, effort and funds. Public awareness vulnerable to over-simplification due to the complexity of the pension system and its long term impact, a past pension system "shock" reform that built public distrust and high political risk due to minority government taking office in September 2018[1], were clear signs that an approach based on broad inclusion of stakeholders to build trust, awareness and inertia was needed. 2018 was an election year, that propelled high expectations of the political elite and the general public after years of austerity measures imposed due to the 2008 global financial-economic meltdown. A steep increase in GDP growth, budget revenues and fast diminishing public debt to GDP ratio have proven a counterproductive mix.

---

[1] There were five coalition parties in the Parliament (LMŠ, SMC, SD, DeSUS, SAB), which did not have a majority and hence relied on one opposition party (Levica) to gain a weak majority.

In order to plan for a successful outcome, the following was proposed (and accepted):

- extend the changes to the pension system to labour market legislation in order to achieve the goals set by the coalition (decent/adequate pensions); a significant part of issues faced by the pension system could be addressed by increasing the activity rates of the 55+ generation through "cutting the bride to retirement" and stimulating work activity just after fulfilling the retirement conditions,
- a broad range of stakeholders should be involved in the process in order to gain a broader consensus, understanding and support to the proposed changes; unanimous support of the Economic and social council is needed in order to assure a successful outcome in the Parliament,
- the most relevant documents were the white book on pensions and a 2017 agreement of the social partners giving a general outline of future changes to the pension system; this was to be combined with the coalition parties programmes and the coalition contract,
- the expectations of the coalition parties, including two parties which had pensioneers as their primary voting base, were high and diverging, hence interviews were to be held in order to prepare an adequate proposal and align expectations/goals,
- changes should happen fast, since it was likely that the government would not be able to complete the usual four years term.[2]
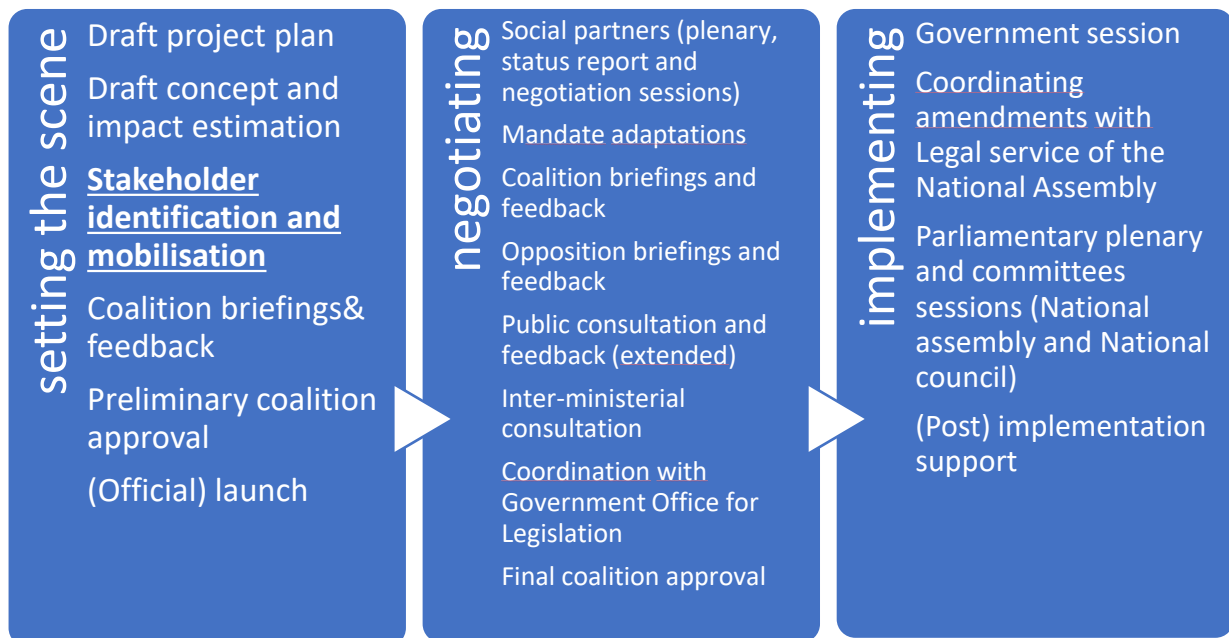
Subsequently the negotiations process took more than half a year, significantly squeezing the time available to other phases. However, the project that started in October 2018 ended on time with the adoption of the amendments to the pension and labour market laws in late 2019 (in force since 2020).

---

[2] The PM eventually stepped down (term lasted from September 2018 to March 2020).

Identification of stakeholders - Decomposition of the structural reform process

One of the practical approaches to identification of relevant stakeholders is to make a better use of the planning phase of the structural reform. Decomposing the project into steps and visualising the whole process from start to post-implementation activities can be used also as a handy tool for stakeholder identification. The project at hand was first split into three phases i.e. setting the scene, negotiating and implementing. It was then further split into tasks/milestones/interactions.

The process and its time frame were set by a plethora of rules that (pre)determine the timing and steps to be taken. While the identification of mandatory stakeholders was easily drafted by reviewing the agreed rules of engagement e.g. within the cooperation protocol of the coalition contract, the rules governing the procedures of the Economic and social council, the government and the parliament, the others require a fair share of common sense and some experience to be identified.

setting the scene
- Draft project plan
- Draft concept and impact estimation
- **Stakeholder identification and mobilisation**
- Coalition briefings& feedback
- Preliminary coalition approval
- (Official) launch

negotiating
- Social partners (plenary, status report and negotiation sessions)
- Mandate adaptations
- Coalition briefings and feedback
- Opposition briefings and feedback
- Public consultation and feedback (extended)
- Inter-ministerial consultation
- Coordination with Government Office for Legislation
- Final coalition approval

implementing
- Government session
- Coordinating amendments with Legal service of the National Assembly
- Parliamentary plenary and committees sessions (National assembly and National council)
- (Post) implementation support

Based on the above flowchart the following set of questions was considered in order to identify the relevant stakeholders: What do we need? Why do we need it? Who would be the best fit for it? Who will be engaged, when and in what form?

The identification exercise resulted in a spreadsheet similar to the one listed below. However, please note, that when listing stakeholders identification of organisations of generic roles is not enough. You should always identify the specific person that will be addressed and not merely a group or organisation in order to make your efforts worthwhile. There is always a broad range of experts, politicians, journalists and other who may be interested in cooperating, however, interest and expertise do not necessarily come in pairs.

Stakeholders list – needs, roles, engagement phases and frequencies

Engaging stakeholders takes time and effort. Our approach included a multi-level interaction of the inner team with (external) stakeholders. Rules of engagement depended on the need and role/status, while carefully matching and balancing the interaction levels. Five team members engaged in "servicing" the stakeholders. There are some parallels with cooking a good meal when determining the extent to which a team member is engaging with stakeholders i.e. minister (spice/used rarely and in small portions), state secretary and director of directorate (main ingredients/constant interaction), heads of relevant sectors (special ingredient/use rarely).

Need	Stakeholder(s)	Role/impact	Frequency	Phase
Assuring and nurturing adequate **political support**	PM	Sets priorities and provides primary political support	Q	keep in the loop at all times (note that political landscape is changing very fast & memory is short)
	PMs' advisor(s)	Keeps track of the reform, provides regular updates to the PM and provides feedback	M/W	
	Leaders of coalition parliamentary groups	Approval of (minor) amendments to the negotiations mandate (approving fall-back positions, extending/narrowing the scope)	Q	
	Coalition MPs and their expert assistants	Confirm initial mandate for negotiations and give the final consent before the legislation procedure starts; align expectations to prevent friction with/among them; provide materials for facts based discussions in the parliament	M	
	Opposition MPs and their expert assistants	Change "no" to "yes" or "neutral" by openly sharing data, measures and reasoning; give highlights of pros&cons from their prospective; obtain further insight into their reasoning	Q	
Expert **knowledge, data and analytical capacity**; additional „free" brainpower to assure „brain of reasonable scale"	Institute for economic research	Microeconomic pension model (promptly and regularly estimating the financial impact of various measures)	W	D, N
	Pension and disability insurance institute	Historical and current data on pensioners; aligning measures with capacity/practical insight	M	all phases
	Fiscal council	provide all relevant data in order to allow Fiscal council to take a well informed position on the changes	Q	D, I
	Government office for legislation	consistency with other legislation; improving the quality of translation of measures into provisions/law	Q	N, I
	Parliament office for legislation	consistency with other legislation; improving the quality of translation of measures into provisions/law; assure there are no major outstanding (legal) issues	Q	N, I
	Ministry of finance; other ministries	MoF - review and approval of (expected) financial impact(s); Health, public administration, defence, interior	Q	D, N, I

Need	Stakeholder(s)	Role/impact	Frequency[3]	Phase[4]
Building broad (social) **consensus**	Members of the social council	Name the members of the negotiation groups (two groups); negotiations (eight rounds of negotiations for each group); need unanimously positive vote to avoid (lethal) changes to the law in the governmental and parliamentary procedure; provides inertia and resilience	W	N, I
Building **public awareness** and understanding	The media and general public	Attending TV and radio shows, giving in-depth interviews (numerous); press conferences (two); technical briefings for journalists (two); one-on-one discussions/correspondence with journalists interested in details, reasoning, calculations etc. (numerous); providing updates on status of negotiation, providing alternative view in case of „leakage" of information from the negotiation room; assuring inertia and resilience of the reform by placing it high on their agenda	W/D	D, N, I
	Various expert and interest groups/opinion makers, NGOs	Presenting the plan, measures, legal and financial implications of the reform at various conferences, roundtables, briefings and other venues/events; assuring opinion makers and interest groups have quality (first hand) data that they readily share and provide relevant feedback during public consultation; obtain information on likely responses/issues that could be raised by interest groups and foresee likely communication channels (identify dummies)	M/W	D, N, I
Being on the same page; **echo**; **anchoring** the long term strategy; additional „brain power"	International stakeholders/organisations (EC, IMF, OECD etc.).	Representatives of relevant international organisations may provide additional insight and share peer countries data and measures; importance of aligning the understanding of issues and solutions; anchoring the structural reform in national strategies and international documents; generating broader goal congruence and assistance in horizontal communication across ministries and other stakeholders on what has to be done	Q	D, N, I

---

[3] Engagement frequency: Q-quarterly, M-monthly, W-weekly, D-daily.

[4] Phase: D-design, N-negotiation, I-implementation.

How do you know you are doing it right?

Interaction with stakeholders takes time and effort and does not necessarily pay-off (immediately). Hence, how much time you spend on a separate stakeholder should depend on your needs, which are closely related with their power and impact. Nevertheless, their expectations on how and how much interaction and focus you are willing to give them also matter. Additional effort may come handy and provide significant upside to your project that can result in positive externalities, such as:

- your inner team and the stakeholders are always willing to go the extra mile,
- stakeholders take (co)ownership of the structural reform, passionately arguing for it and proudly stating that they are part of it in front of any audience,
- „let's (finally) do it" attitude spreads among stakeholders,
- negotiators come well prepared to negotiations and signal potential issues and solutions in advance in order to allow you to prepare/pre-act and reduce unnecessary/unplanned conflicts and frictions,
- negotiators talk freely on sensitive/key topics and willingly provide the background and reasoning that led to their positions,
- (not necessarily) negotiations-related information starts to accumulate rapidly, which allows you to better understand each of the stakeholders, their needs, and understanding where is their "exceeding expectations" goal,
- broad range of stakeholders starts to show genuine curiosity and deeper understanding of the structural reform at hand and its (deeper) implications,
- you start hearing your echo from stakeholders on what are the issues and how to approach them,
- stakeholders become resilient against false claims and readily discharging malicious/harmful initiatives.

There is a point to (coherent) "storytelling"

There is a significant extent of "storytelling" that has to be made in order to maintain the inertia of the structural reform projects and support among stakeholders. Besides openly sharing your vision, facts, background, relevant measures and implications of the structural reform at hand, there are other handy tools that should be considered in order to amplify and leverage your positions. Some of these were:

- we generated some "buzz" – a selection of real and proven fake facts and issues that can be readily understood and passed on/shared by any stakeholder,
- hedging/anchoring/echo – we sticked to the mandate that was given to us and for any departures from it we were seeking and obtained approval from the coalition to prevent future issues in support,
- to gain trust we sometimes took the risk of giving the right to decide to stakeholders even if it was not necessary according to formal rules (e.g. social partners decided whether public consultation can run in parallel with negotiations),
- we invested time (as much as it was needed), sound evidence, data, information… and coffee,
- we solved issues that were not directly related with the structural reform, but could escalate into "keeping hostages" situations that would materially delay/harm the adoption process (e.g. renegotiating and updating the rules governing the Economic and social council rules to allow for opposition law proposals to be processed to reduce tensions between social partners in other areas).

There is some additional food for thought, that you can use to generate (new) ideas and develop your own innovative approaches for engaging stakeholders and leveraging their inclusion – see appendix.

Appendix - What text books won't tell you – there is a fun part to it (food for thought)

If it were easy… it would have been done long ago.

If it bothers you that bullets and medals rarely hit the right target, you are the single greatest risk for this structural reform to succeed.

Only strong and well nurtured stakeholders can provide traction to a structural reform in times of a minority government.

A strong government can pull-off a structural reform by ignoring stakeholders. However, besides a lower quality of the implemented measures, you would be facing a reduction in their trust. Such trends tend to reduce political stability, deepen the divide among stakeholders and hence increase the probability of structural reform being reversed.

If the whole political elite says your reform is the most „precious of them all", it just could be for you or Smeagol, but not for them.

Modern politics is a day-to-day battle/permanent campaign. Time runs fast and (government) priorities change. Locking yourself with the team for six months underground may produce an extraordinary "product", but it can only be used as a dust collector. Make sure the structural reform you are working on stays in the spotlight – among "top ten" government priorities at all times.

Always have a mandate for what you are negotiating and never make assumptions or take decisions that are not yours to make. However, if bad decisions are taken, it's still your fault – do your job.

Your fairness, integrity, transparency and reliability are your aces. Don't give them away (easily). Make detailed notes. Always – you may need them to prove your point… or apologize.

Two basic „must" rules are (i) nothing is agreed until everything is agreed and (ii) negotiate only what is on the table. Both rules can be used to your advantage also, if departed from for tactical purposes.

Your team can mitigate your handicaps - except for empathy.

Fruits that seem to be low hanging, tend to be poisoned.

There is no such rule as „silenzio stampa" (in politics), however, be ready it to use it to your advantage.

A rationally, empirically and hence objectively best solution is theory. Practice can usually do better.

There is no point in trying to find the logic/reasoning behind each and every position of other negotiating parties, however, it can be fun.

Starting negotiations five minutes late due to one negotiator missing out of twelve, costs one hour.

If you can't find a way out, skip it, take a break, a walk or go to sleep and then try smarter not harder.

To build the inertia needed for change occasional running/bursts have close to zero impact – keep calm and walk/apply constant pressure.

Timing and number of negotiation coffee/finger food breaks may significantly speed-up the process.

You can find a problem to any solution and leverage it through conflict to a desired level/goal – in some cases provoking an intentional disagreement may have even more value than a yes or a no.

Usually, the opinion maker and the decision taker are not the same person – the first is the queen, the second is the king. Treat them accordingly. If they like publicity, may be useful for anchoring/frontrunners.

If one of the two social partners starts to praise you, it is likely you made a mistake, if both do, you can be certain you did. Anyone can afford to make a mistake, unless you are the one who makes it.