HOW TO RECONCILE THE INTERESTS OF DIFFERENT STAKEHOLDERS

Most structural reforms entail costs for some of the stakeholders, not only benefits. This is so precisely because reforms are structural: they change the structures in which businesses operate and people work and earn their incomes. Those who benefit from the current situation – or structure – will face unwanted costs when the structure is changed by the reform.

When you discuss reform with stakeholders, **they will primarily discuss the reform from their own point of view**, depending on how the reform will affect their own situation. This may be very worthwhile and helpful, and taking their comments into account may help you make the reform even better designed and effective. But **if the interests of those who would prefer to keep the current structure** – no or very little reform – **prevail, the result** may be precisely this: **no or little reform with no real effect on improving the current situation**.

LET'S THINK OF SOME EXAMPLES.

A

Market liberalization (energy, transport, trade/integration) – the current big players in the market will face stronger competition and lose their income. This is also true for their employees. The **prices for consumers** will also normally go up as a result of liberalization, at least in the short run, and especially if they were directly or indirectly controlled by the government.

B

The same logic applies to **other measures which put higher demands on quality and competitiveness** – greening of production, environmental standards, higher quality standards for educational institutions etc.

C

Labor market activation measures – when you tie the right to receive unemployment benefits or social security benefits to active search for and acceptance of jobs, people who before were able to obtain benefits without this requirement, will lose.

D

Reducing informal economy – this makes the business environment fairer for businesses in the formal economy, but some of the informal jobs and businesses may be lost because of the higher costs of participating in formal economy.

E

Reduction of red rape – when you reduce the time to obtain a business license from 2 years to 2 months, it would seem to benefit everyone. But in today's complicated environment, **those who already have the license or are able to obtain it faster than others** (because they are more skillful in dealing with regulations, better connected or willing to pay bribes) will lose their competitive edge.

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WHICH COSTS SHOULD WE CARE ABOUT AND HOW CAN WE COMPENSATE THE STAKEHOLDERS?

All who lose or face costs will try to oppose the reform, for example through their representative in stakeholder consultations, **but should all complaints be taken into account** – and how? **Clearly, those who will lose their extra profits** because they were taking advantage of complicated procedures and regulations, **should not be compensated**. But other cases are more difficult and there may be a legitimate reason to compensate the losers.

There are **two types of compensations**:

- **Direct monetary payments** (i.e. some of the costs are shifted from the stakeholders to the budget)
- **Adjustment of the reform** (i.e. gradual or adjusted implementation) **or complementary measures** to alleviate the costs

Here are some examples of cost compensations:

- **Market liberalizatio**n (payment): a **price subsidy** for poor households and perhaps even micro businesses.
- Complementary measure: a **restructuring subsid**y for current big/domestic companies who will face stronger competition.
- Complementary measure: a **dedicated active labor market progra**m for retraining and re-employment of people who will lose jobs with the existing companies.
- **Informal economy** (payment): a **tax allowance or subsidy** for employers who employ informal workers formally.
- Complementary measure: a **tax/fine amnesty** for businesses who go formal.
- **Activation measures in the labor market** (adjustment of the reform): the activation requirement is **not imposed on the most vulnerable** people or groups; for other groups it is **introduced gradually**.

This all sounds fine, but **there are limits to compensations**:

- Monetary compensations **may be very costly for the budge**t.
- Adjustment of reforms, if too many, **may dilute the reform** and make it less effective.

WHAT ARE THE VALUE AND LIMITS OF STAKEHOLDER CONSULTATIONS?

Examples of consultations being helpful:

Informal economy, activation measures – some stakeholders, e.g. non-governmental organizations (NGOs). working in the social protection field and some trade unions – may be very helpful in explaining to you which groups will be most hurt by the measures and in thinking of how exactly you can help/compensate them.

Restructuring (or any other) subsidy – business stakeholders can help you design the subsidy better so that it will really help and work.

On the other hand, **almost all stakeholders will tend to exaggerate their case:**

- Current big companies in the market – will present you the numbers of their revenue and jobs losses due to liberalization and overestimate the cost.
- Informal employment – businesses will exaggerate the cost of formal employment compared to informal.
- Activation/social measures – some NGOs or trade unions may see almost everybody as extremely vulnerable and strongly hurt by the proposed reform.

So, in many cases, **consultations (if serious) turn into negotiations**.

- You present the benefits of the reform, perhaps exaggerating the benefits and downplaying the costs.
- The stakeholders who carry the costs do exactly the opposite (exaggerate the costs, downplay the benefits). They may do so also because they need to impress their members, or they simply do not like the government.
- **The stakeholders who would benefit from the reform** may support your arguments and make positive proposals for improvements.

Another feature that makes negotiations complicated is that **not all stakeholders are equally influential**, and this may balance the outcome in the wrong way. Stakeholders differ in their **membership**, financial **resources**, organizational **capacity**, and advocacy **skills**. The most influential are probably those who have direct **access to media, political decision-makers, or international organizations.**

SUMMARY

Stakeholder **consultations are helpful**, provide information and understanding, and can help you make the reform better – more effective and with less costs.

They can also help you **balance the arguments of stakeholders** who benefit from the reform against those who carry the costs.

However, **if the opposing stakeholders' interests prevail, they may dilute the reform** and make it ineffective.

The **challenge for you is to maximize the positives and minimize the negatives** – introduce compensations if needed but preserve the effectiveness of the reform.

In reality, the outcome will depend on how:

- strongly you personally believe in the reform (well designed, really beneficial, necessary), i.e. your ownership of the reform
- much support there is for the reform from the political decision-makers, who ultimately bear the political costs of reforms if they are unpopular, strongly opposed or simply inadequate or poorly implemented.