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Labor Redundancy, Retraining, and Outplacement during Privatization

The Experience of Brazil's Federal Railway

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When Brazil's Federal Railway was privatized, the team in charge of privatization made a significant effort to complement the incentive for voluntary reduction with an elaborate menu of training options. How did it work?

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Summary findings

One of the most complex challenges of infrastructure privatization is its impact on employment. Often (but not always) private operators' main approach to cost-cutting is labor reduction. Private operators cannot afford the low levels of labor productivity typical in public companies if they are to be competitive and to deliver on their contractual obligations to provide cheaper, more reliable infrastructure services. But labor issues are so sensitive that government's early, direct involvement is seen as a way to address what potential investors see as a risk of privatization as well as to address the social concerns of the population, including the workers.

When Brazil's Federal Railway was privatized, the team in charge of privatization made a significant effort to complement the incentive for voluntary reduction with an elaborate menu of training options. Estache, de Azevedo, and Sydenstricker describe this experience in dealing with labor redundancy problems. They discuss the design of the program, highlight the connections between its components, and assess the program's achievements.

All things considered, they conclude, this staff reduction program was reasonably successful. The aimed-for improvements in productivity were achieved without major problems through a government-stimulated and -sponsored combination of early retirement and voluntary retrenchment. The concessionaire was willing to make quick decisions about the number of involuntary retrenchments it wanted to make, which helped sustain the momentum created by the government's prompt implementation of its own decisions and the fair treatment of workers.

The main problems came from the underestimate of time needed to agree on the strategy for implementing the training and outplacement programs. Informal evidence suggests that most workers found new jobs before many of the training programs were available. And the strategy adopted gave workers a good incentive (one month's pay) to sign up for the courses but provided little incentive for workers to show up, since they were paid up front.

This paper—a product of the Governance, Regulation, and Finance Division, World Bank Institute—is part of a larger effort in the institute to increase the understanding of infrastructure regulation. Copies of the paper are available free from the World Bank, 1818 H Street NW, Washington, DC 20433. Please contact Gabriela Chenet-Smith, room J3-147, telephone 202-473-6370, fax 202-676-9874, email address gchenet@worldbank.org. Policy Research Working Papers are also posted on the Web at www.worldbank.org/research/workingpapers. Antonio Estache may be contacted at aestache@worldbank.org. October 2000. (19 pages)

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The Experience of Brazil's Federal Railway

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1. Introduction

As infrastructure privatization experiences in developing countries progress, there is increasing evidence that their impact on employment is one of their most complex and politically challenging elements. In many cases—although not always— the main approach to cost cutting that is adopted by private operators is indeed labor reduction. Because labor productivity is generally very low in public companies, private operators cannot afford to maintain these levels of employment if they expect to be competitive with potential new entrants into the sector or if they are to deliver on their contractual obligations to provide cheaper and more reliable infrastructure services. The high sensitivity of the labor issues increasingly results in governments being involved in the initial stage of the labor reduction programs. This direct and early involvement can be viewed as a way for governments to address some of the risks associated with privatization that are perceived by potential investors. It is also a way for governments to ensure that the social concerns of the population at large, as well as the workers who could lose their jobs.

The desire to ensure the proper handling of the social needs of the workers is one of the main reasons why the team in charge of the privatization of Brazil's railways made a significant effort to complement the incentive for voluntary reduction with an elaborated menu of training options. This paper provides an overview of this experience in dealing with labor redundancy problems. It discusses in some detail the overall design of the program and highlights the interconnections between its various components. The paper also provides a first assessment of the program's achievements.

The paper is organized as follows: Section 2 is an overview of the historical evolution of Brazil's Federal Railways (RFFSA) and of the factors that lead to its privatization; Section 3 discusses the main estimates of the staff retrenchment needs; Section 4 describes the profile of the railway workers; Section 5 explains the overall strategy with which the specific program was build; Section 6 presents the various elements of the program that aim to address its efficiency and social concerns; Section 7 presents the main achievements so far; and Section 8 concludes with some lessons.

2. Historical Background: The Path to Privatization

Brazil's Federal Railways, RFFSA, was incorporated in 1957, as a state-owned corporation under the jurisdiction of the Ministry of Transport (MT).[1] RFFSA is the result of the merger of eighteen independent railways, built mostly by British and French concessionaires, beginning in the nineteenth century. The incorporation of RFFSA was part of a National Development Plan to promote efficiency through direct government intervention in the operation of the economy. Unfortunately, over time, the lack of a business plan, coupled with constant government intervention in RFFSA's decision making process, as well as political interference with the company's employment policy, led to years of insufficient

[1] RFFSA: REDE FERROVIÁRIA FEDERAL SOCIEDADE ANÔNIMA: Brazil's Federal Railway

earnings and inadequate capital investment. RFSSA ended up with 160,000 employees at its peak. Moreover, RFFSA was burdened by excess capacity and uneconomic rail lines, particularly in the Northeast. A substantial portion of RFFSA's tracks were well below the level of minimum efficiency, and failed to earn revenues in excess of its variable costs, at then current rail rates.

On several occasions, the Federal Administration struggled to restructure the railway system. Strategies have included issuing new debt, reducing fixed costs (and an earlier effort to reduce the labor force), reorganizing inter-city services and, above all, capital restructuring through transferring the suburban passenger operations (and their corresponding operational losses) to a separate entity (CBTU). Despite all these efforts, RFFSA has consistently shown losses in its balance sheet. Since attempts to restructure RFFSA under the public umbrella were all failing, Brazil started looking at the privatization experiences of other Latin American countries such as Argentina and Chile. The successes of the programs in those countries, combined with the increasing difficulty of maintaining cost-effective operations in Brazil lead the government to decide to privatize the railroad services, under a new regulatory regime, so as to foster effective competition with the trucking industry. To implement this new policy, in 1992, the government included RFFSA in the National Privatization Program. This was the first major privatization of public infrastructure services in Brazil.

In order to enable the privatization to take place in a competitive manner, the government: (a) submitted to Congress a bill of law ("Sistema Nacional de Viação" or SNV), which allows a substantial reduction of the railroads which, in accordance with the previous applicable legislation, were due to remain under the interest of federal jurisdiction; and (b) established a new railway regulation, to enable the private operators to discontinue operations of branch lines not within the SNV, as well as operations of those lines under the SNV which were shown to be uneconomic. The government then started to work on selecting the restructuring model for the sector. In view of the geographic characteristics of Brazil and the size of the federal railway network, as well as the significant cross-regional differences in RFFSA's traffic, this restructuring was to be a key determinant of the overall success of the efforts to introduce competition in the sector.

The restructuring decision ended with the following: RFFSA's operations were to be divided into a number of vertically integrated regional systems. The concession for the operation and maintenance of these systems for a period of thirty years would be publicly auctioned to private enterprises. A minimum price was to be established for the concession of each regional system. The auction price for a regional system was to be paid in accordance with a payment schedule described in the Public Offer. The amount collected from the concessionaires was to be divided between the National Treasury (5% from the concession) and RFFSA (95% from leasing the operational assets). The federal administration, as the company's controlling shareholder, deliberated that the net proceeds of the auctions would be used to reduce RFFSA's indebtedness.

The specific privatization model prepared by BNDES, Brazil's National Economic and Social Development Bank, followed those lines and divided the RFFSA railway system into six

Regional Areas. The Regional Areas were then independent systems, serving different markets, with no or limited inter-connections and inter-charge traffic. The market and financial analysis of each of the Regional Areas carried out by RFFSA and BNDES indicated that all such Areas were economically feasible, and therefore attractive to the private sector. In economic term, the success was thus almost guaranteed. One potential stumbling block was the labor opposition, and this one of the factors that explains the main efforts put into the labor redundancy packages discussed below.

3. Assessing the employment reduction needs

The implementation of the proposed privatization plan clearly required some degree of reduction in RFFSA's employment. Although RFFSA had already made significant progress in reducing its employee headcount, the company's labor productivity continued to be low. RFFSA had reduced its total staff from about 110,000 in 1975 to about 42,000 in May 1995. This reduction led to a substantial increase in labor productivity, from 250,000 to almost 1 million net ton-km per employee. However, this labor productivity continued to be insufficient, not only when compared to similar North American companies, but also to recently restructured and privatized railways in Argentina and Chile. The strategy to deal with this excess labor had to be subtle since there were significant differences in labor productivity across RFFSA's regions (see Table 1) and cuts across the board would not make sense.

TABLE 1: LABOR PRODUCTIVITY INDICATORS (1994)

Regional Areas	Employees	1000 net-ton-km/employee
Northeast	4,402	210
Southeast	9,982	2,041
South	10,208	884
West	2,655	722
Tubarão	351	274
Midwest	8,608	800

The solution was to come up with new cost reduction plans for each of the six Regional Areas to be privatized, based on new operational procedures, with redundant activities identified by job categories. This was essentially a very meticulous job that required a very detailed study based on the best international practice. The redundancy estimates were to be conservative since the idea was to avoid second-guessing what the concessionaire would actually need, while avoiding forcing the concessionaire to have to re-recruit "fired" workers as had been the case in Argentina and the UK. In addition, the staff remaining at the company at the time of transfer to the private operator had to be sufficient to avoid interruptions in service. To ensure this, a detailed analysis was conducted by the Regional Managers to assess both the staffing needs for each function and the number of excess workers. By the end of this

analysis, RFFSA's management had reasonable estimates of the staff reduction needs in each Regional Area. This process led, in May 1995, to an employment reduction target number of 20,000 workers. Between May and September 1995, 1,953 workers voluntarily decided to leave the company, so that by the time the first concession was announced in September 1995, the new reduction target number was 18,047, as seen in Table 2.

TABLE 2: MINIMUM STAFF REDUCTION REQUIREMENTS

Regional Areas	Employees (5/95)	Employees to be laid-off	Staff Reduction (%)
Northeast	4,446	1,909	41.9
Midwest	12,039	5,575	46.7
South	10,616	4,547	43.4
Tubarão	367	30	8.3
Southeast	10,385	4,624	45.0
Central Administration	1,209	590	48.8
West	2,792	772	28.2
TOTAL	**41,991**	**18,047**	**43.0**

4. Profile of RFFSA's employees

To minimize the social cost of layoffs, RFSSA had to have a good understanding of the profile of its employees. This required a detailed study that was carried out as part of the preparation for the World Bank project. A detailed analysis of the characteristics of each regional labor market and outplacement opportunities for each excess worker was conducted. The study covered the employee's age, experience and education level, compared to similar characteristics in the regional labor market where the redundant workers employees would have to compete for a new job.

The study revealed that the two main characteristics of Brazil's labor market are: (a) the modest qualifications of its labor force; and (b) its capacity to generate jobs of poor quality. The poor qualifications of the country's labor force reflects the low level of formal schooling and the low quality of basic education. Professional training is not entirely effective, even for the most educated workers. Moreover, training on the job is often not sufficient, due to the high turnover in the labor market. There are frequent short spells of unemployment. In many cases, these spells result in lower wages when workers return to the market. There is also an increasing trend toward switching from the status of employee to independent business-person.

In spite of some similarities, such as the low level of education, the profile of RFFSA's employees differed from the rest of labor market (See Table 3). The average rail worker was about 41 years old, had about eighteen years of service in the same company, didn't have much education and had little or excessively specialized skills. The average worker in the

general labor market is at least six years younger. RFFSA's workers were paid between ten and thirty percent more then the average worker in the respective labor market.

Table 3: PROFILE OF RFFSA'S LABOR FORCE (NOVEMBER 1995)

	Average age (years)	Average time of service (years)	Primary education (%)	Secondary education (%)	Tertiary education (%)	Average Monthly wage (reais)
Central Adm.	41	18	16	32	53	2,412
Northeast	45	18	67	25	7	1,215
Midwest	40	17	38	54	8	1,186
Southeast	41	18	38	52	9	1,656
South	40	18	66	26	8	1,310
Tubarão	40	16	33	47	20	1,232
West	41	17	9	88	3	1,302

The emerging concern was then that without some assistance, many of the rail workers declared redundant were likely to find it difficult to compete in the labor market in the short run. Even in the event these workers did manage to reenter the market, chances would be that they would be paid less. The view at that time was that what was needed was enough training to reduce the cost imposed by specialized job experience and the lack of formal education. A team of advisors from various training institutions was convened by RFFSA to prepare a menu of options for affected employees to choose from and to design training packages that would meet the employees' needs.

5 - A Generic approach to jointly address efficiency and social concerns

The next step was for RFFSA to work on building a staff reduction program that would address its social concerns as well as the efficiency requirements of the restructuring process. This meant that the legally-required severance payments (which, on average, corresponded to the equivalent of ten months salary) was not enough. In addition, the program had to find a way of encouraging early retirement to reduce the average age in the company, and it had to provide some incentives for voluntary retirement to minimize the number of workers that would have to be fired. These incentives had to be complemented by training programs, based on regional employment opportunities, and outplacement assistance that would reduce the personal drama of the workers declared redundant.

These ideas were transformed into the following specific goals of the staff reduction program. The program was to: (a) reduce RFFSA's employee headcount by about 18,000 over three years, in addition to the 4,000 employees who had applied for early retirement in 1995; but it also had to: (b) increase staff productivity through training and outsourcing; and (c) minimize the social cost of the adjustment through appropriate severance payments. The

privatization team recognized that these targeted reductions in labor force were by no means final. Once all Regional Areas had been privatized, the organization of each system would probably change and would likely to lead to additional reductions in staff, changes in skill mixes and improved productivity. However, during the first 12 months of the concession, the concessionaires would have to ensure the same benefits that RFFSA awarded to dismissed workers. After the first twelve month period, laid-off workers would only be entitled to the amounts established by law. [2]

It was clear that the private operators were to make their own adjustments, which were expected to be minimal. In fact, the optimal strategy might have been to leave all decisions to the private concessionaires. However, this would not be consistent with the political reality of the country and the particular industry. About 80% of the company's workers were affiliated with one of the seven unions active in the sector. These seven unions are comprised of only railway workers. All of the unions initially were essentially against privatization and refused to participate in the reorganization process, despite the fact that they actively participated in briefing meetings and public hearings held for the employees. Leaving it to the private sector to negotiate with the unions would undoubtedly have affected the fiscal return of the privatization, and in some cases, could have limited the interest of private enterprises in the process. The advantage of the proposed strategy was that the bulk of the adjustments were made before the privatization, which minimized the risk of later conflicts. It also had the advantage of ensuring that the social concerns were properly addressed.

6. The Details of the Overall Incentive Program

The specific details of the overall incentive program built on the information discussed above. The program had five components:

a) Incentives for early retirement;
b) Severance packages for voluntary separation;
c) Training;
d) Assistance for outplacement; and
e) Severance packages for dismissed workers

(a) Incentives for Early Retirement

In January 1995, with the implementation of a plan of incentives for early retirement, RFFSA began its efforts to reduce its staff. The main eligibility requirement was that the employee had to be at least 50 years old and legally eligible to retire as of December 31, 1998 when all Regional Areas would be transferred to private concessionaires. The proposed benefits under this program were:

[2] A potential problem with this sequencing was that the private concessionaires could rehire employees who had left the company under the program. The labor law does not allow restrictions to recruitment. The only contractual restriction applied by RFFSA was that any worker joining their incentive program would not be able to work for RFFSA again.

- Payment of the worker's net monthly salary for a period of six months while the appropriate paperwork was being processed by INSS (the National Social Security Agency). This plan included retroactive payment of the retired employee's pension benefits for the same six month period;
- If the paperwork was not ready after the six month period, RFFSA would continue to pay the amounts referred to above, but in the form of an interest-free loan to be reimbursed by the retired employee after the date of his/her actual retirement;
- Payment of both the employee's and the employer's match to the RFFSA's pension plan (REFER), for up to five years, until the early retiree reached the age of 55, which is the minimum age to be eligible for payments under REFER. This strategy reduced the incentive for people between 50 and 55 to stay on the job until they become eligible for payments under REFER. Payments would be made at the time of actual retirement.

In 1995, 5,154 employees volunteered to retire under this plan. Eligible employees were able to participate in this plan up to the time when the private concessionaires took over the operation of the respective Regional Area. After that point, the concessionaires would determine the pension plan which would be offered to their employees, and RFFSA would have no more actuarial obligations.

(b) Incentives for Voluntary Separation

The package for voluntary separation was meant to ensure that the employee who would willingly leave the company would be ready to start his/her own business or could re-enter the market without having to suffer a significant reduction in his/her previous salary. Another important goal of the incentive package was to comply with a federal guideline which requires that cost reduction programs of publicly owned enterprises do not lead to increases in the country's unemployment rate, which could threaten its social stability. Eligibility for packages were on a first -come-first-serve basis, within specified limits by job category.

The key to this program was training those workers affected by the staff reduction program. For workers interested in starting their own business, the program provided the necessary tools to comply with the legal and administrative requirements of self-employment. Employees targeted by the program had also to select a specific professional training. For those not interested in starting their own business, the design of the training programs were targeted to ensure that, after their training, workers were equipped with the tools in demand in their respective regional markets. Employees also received assistance in their search for employment. All employees were eligible on a first-come-first-serve basis except for the following:

- employees who decided not to be associated with the employee savings organization FGTS (which is optional);
- employees who were eligible for normal retirement;

- employees entitled to their job because of their status, tenure or responsibilities (union leaders and representatives of employees in internal commissions to prevent accidents (CIPAs). These employees could choose to resign from their responsibilities and thus become eligible for the package;
- pregnant employees;
- administrative level employees; and
- temporary employees.

The actual separation from the company took effect within thirty days of the acceptance of the employee's application to join the plan. During that period, the decisions on the specific benefits under the program were taken and processed. They included calculation of the financial benefits, standard legal rights and incentives, and the preparation of the training programs which were to be started within six months of the approval of the employee's adhesion to the plan.

Financial Incentives - The financial incentives depended on each employee's number of years of service. To assist the employees in their decisions, each RFFSA office was equipped with software which gave information on all the incentives offered to each worker, accompanied by a simulation of the benefits eventually afforded. The incentives were based on four to twelve months salary, depending on the number of years of service. To become eligible, a worker would have to have at least six years of services to the company. The financial incentives granted are shown in Table 4 below, and were structured as follows:

- For workers with 6 to 25 years of service, the incentives were calculated as an increasing geometric progression from 4 to 12 months of salary with 19 increments of 1.0595 for each year of service between these two points;
- For workers with 25 to 30 years of service, the incentives were calculated as a decreasing geometric progression from 12 to 6 months of salary, with 5 increments of 0.8705 for each year of service between these two points.

TABLE 4: FINANCIAL INCENTIVES

No. of Years with RFFSA	Total No. of Monthly Wages	No. of Years with RFFSA	Total No. of Monthly Wages
6	4.00	**19**	8.48
7	4.24	**20**	8.99
8	4.49	**21**	9.52
9	4.76	**22**	10.09
10	5.04	**23**	10.69
11	5.34	**24**	11.33
12	5.66	**25**	12.00
13	6.00	**26**	10.45
14	6.35	**27**	9.09
15	6.73	**28**	7.92
16	7.13	**29**	6.89
17	7.56	**30**	6.02
18	8.01		

Employees who decided to join the voluntary separation incentive program would also benefit from: (a) an authorization to continue living in houses/apartments owned by RFFSA for up to twelve months (only for those already living in such houses/apartments); and (b) pension plan payments (REFER) by RFFSA for twelve months, unless the employee decided to withdraw the savings accumulated in that plan. The average value of the financial incentives to each worker was of roughly US$ 8,000, in addition to an average of about $ 18,000 worth of legal termination rights, calculated on the basis of the number of years of service, age and contribution to various compulsory savings accounts. The incentive package was designed to avoid traumatic family situations, which have been observed in many labor force reduction programs. The average duration of unemployment varied from six to nine months in most regions. The incentive package intended to pay a full salary to workers during much of their job search period. In addition, the package included training to help reduce the job search period, thereby reducing the probability of social problems.

(c)Training Program

To provide an additional incentive to workers to attend training sessions, the incentive program specified that an amount equivalent to one month's salary would be subtracted from the severance package granted an the employee who did not attend the training program.

The regional labor market in each Regional Area was studied in detail by labor market specialists of a major research and analysis institution - IPEA (Instituto de Pesquisa Econômica Aplicada), as well as by members of the Economics Department of the Rio de Janeiro Catholic University (Pontifícia Universidade Católica—PUC). The task of these two reputable institutions was to determine the nature and composition of the market, relative to supply and demand. This information was used to help organize the training and determine what was necessary to achieve optimal results from the company's efforts to help participants of the incentive program reenter the market;

Brazil does not have an institution specialized in retraining the unemployed. There are, however, three major professional/technical education centers which can provide this service: SEBRAE, SENAI and SENAC. All three are specialized in training employed workers and have branches throughout Brazil.

- ***SEBRAE (Brazilian Support Service to Small Companies).*** SEBRAE's mission is to foster the incorporation of small and medium size ventures, which are known to be responsible for the creation of a great deal of job opportunities. Therefore, SEBRAE offers training for people interested in becoming independent entrepreneurs. It provides extensive consulting services regarding business, accounting, financial and legal aspects related to the incorporation and conduction of small and medium size enterprises. Applicants must have at least a secondary degree;

- **SENAI** *(National Service for Industrial Training), sponsored by* **National Industry Confederation**. SENAI offers technical training for industry workers interested in further improving or updating their technical/professional skills. Most applicants have a secondary degree; and
- **SENAC** ***(National Service for Commercial Training), sponsored by National Commercial Confederation.*** SENAC concentrates on training workers who are interested in the services area. Typical attendees have a secondary diploma.

SENAI and SENAC are financed by a tax called Social Security Contribution Tax, levied on all the core business payroll of all legal entities. SEBRAE is financed by a similar tax levied on the companies' entire payroll. These institutions are typically retained by companies interested in retraining their employees. However, individuals who are not linked to a specific corporation may also sign up for specific training classes by paying the applicable fee.

Upon RFFSA's request, the three institutions agreed to develop new training programs or adapt their already existing programs to the needs of RFFSA's workers. Their average cost per person (including housing, food and transportation) is as follows: SEBRAE: R$ 2.000; SENAI: R$ 2,408 and SENAC: R$ 320. The training courses offered by SEBRAE and SENAI had an average duration of 150 hours. The average duration of SENAC's training courses is only 40 hours, due to a lower degree of specialization of the services (e.g., hotel services, driving, waiting, etc.). SENAI also includes an information and procedure kit to assist trainees in starting their own business. The largest demand was for SENAC's training program, since the type of training offered was well in line with the current demand in the labor market, where the fasted growing needs are in the services sector. The total cost of RFFSA's training program was estimated at about $10.5 million. An additional $2 million was needed to train the company's residual staff.

(d)Outplacement Assistance Program

The staff reduction program also provided job search assistance to those employees leaving the company, including résumés preparation and the provision of information on employment opportunities. Employees also were assisted with addressing problems concerning the negotiation of new employment contracts. A similar type of assistance was offered to those trying to start their own business or create cooperatives. Employees leaving the company were not required to attend training classes to benefit from this service.

RFFSA created a data bank which indicated all workers who had left the company under the program and those firms potentially interested in their professional skills. This service was made available to participating employees for a period of up to eight months after training. Specialized firms with representation in all Regional Areas were hired to provide this service.

The World Bank was concerned that the outplacement assistance program would not attain optimal results due to low rates of attendance at the training courses and the poor learning skills of the attendants. The World Bank then suggested that the training institutions (SENAI, SEBRAE and SENAC) be paid on the basis of success. In other words, a part of their fees would only be paid in the event that the trained worker was awarded a job in his or her field of training. However, this idea could not be implemented for several reasons, including: (i) the training agreements had already been executed before the World Bank was invited to support the Reduction In Force Incentive Program.; (ii) in order for a contingency fee system to be put into place, the contractual negotiations would have to include a reduction in the retainer fees and provide for the balance to become due on a success basis, which would certainly mean reopening the lengthy discussions and creating a new agreement; and (iii) being a state-owned company, RFFSA's management had (and still has) little, if any, flexibility to renegotiate aspects of agreements which had already been approved and executed.

As an alternative, the World Bank suggested that the firm retained to assist the outplacement assistance program could be entitled to an additional 10 to 20% success fee for every employee who managed to secure a job for a full year that was at least as good as the one previously held in the company. Unfortunately, this idea failed to address the issues that impaired the application of the World Bank's first suggestion.

To ensure that the training program would effectively help employees who had left RFFSA reenter the market, the World Bank requested that the company retained to assist the modeling of the outplacement program became responsible for its implementation. It was believed that a success fee would provide additional incentive to the outplacement assistance firm, which would then become more committed to the program's success. RFFSA's internal reorganization team would supervise and coordinate the overall process.

(e)Severance Package

In the event that the voluntary separation and early retirement incentive programs did not reach the targeted staff reduction number, RFFSA would have to start laying-off excess workers. It was clear that this part of the staff reduction program would not be concluded before the privatization. In any event, RFFSA would monitor the staff reduction process even after the privatization, up to the time when the target numbers were achieved. The workers dismissed under this third phase would receive, as severance payment, 80% of the amounts afforded by workers who voluntarily left the company. Dismissed workers would, however, enjoy all other benefits provided to the others, including outplacement assistance and training. There would be an incentive for laid-off workers to sign up for training, since their financial package would be subject to the same penalties applied to the others (*i.e.* one month's salary, if they decided not to participate in the training).

There was concern about the professional and social profiles of the workers being dismissed. The company intended to keep the best staff possible. Selection of workers to be laid off was based on the following criteria:

- record of attendance;
- frequency of penalties or suspensions;
- overall performance evaluation by the employee's immediate supervisor; and
- family situation (e.g. marital status, number of children).

These workers would still get an average of R$ 17,751 worth of legal severance rights, plus an average of R$ 400 in incentives, twenty percent less than the workers who left the company voluntarily. Added to the cost of training, the severance package would amount up to about R$ 10,000, plus legal severance rights, which represented six to eight times the average monthly wage in most regional labor markets.

(f) - Sequencing and Timing

This program was implemented separately in each region. Initially, prior to the privatization, RFFSA implemented the early retirement and voluntary separation incentive programs, which were offered only to select job categories. Then, the company started to lay off employees with redundant activities--the involuntary reduction. At this stage, RFFSA offered a severance package to these redundant workers that was equivalent to 80% of the benefits paid to employees who voluntarily left RFFSA. The second tier of the program took place after the privatization and bore the same conditions afforded by workers laid-off involuntarily. The level of headcount reduction allowed was capped by the concession bidding documents. Compensation packages for additional layoffs beyond the specified limit would be the concessionaire's responsibility. By the end of 1995, RFFSA had already reduced its employment by over 4,000, mainly through early retirement incentives, at a total cost of about US$ 40 million.

7. The implementation and the achievements so far

All six Regional Areas have now been privatized and some lessons can already be drawn from the experience. The program, as it was initially conceived, suffered several adjustments up to the time of its actual implementation, but these changes were constantly communicated to the workers and the unions. Indeed, throughout the process, the reform strategy included a major effort to inform the workers of their rights and options so that they could make the best choice. Before implementation, RFFSA distributed to every employee a small book explaining the program. Later, several presentations on the program were made by members of the company's central administration and by members of SENAI, SENAC and SEBRAE, who presented the professional training programs. As initially planned, various labor secretaries attended many of the presentations, but did not participate in the program. All of RFFSA's employees, as well as union representatives, were invited to the presentations. By that time, the unions were already aware that the program had reached a point of no return. Thus, the management of the company and union leaders argued at length over several aspects of the program, but there was no opposition to its implementation.

The company handed out a program adhesion form and provided computerized simulations of the benefits ensuing from the program. As previously mentioned, eligibility for the program was on a first-come-first-serve basis and the acceptance of an employee's application would have to be authorized by the employee's direct team leader. Curitiba was the site where the company refused the largest number of applications for the program. While the reduction target number for that site was of 300 employees, the management of the program received about 800 applications.

The rest of this section reviews the accomplishments of the staff reduction program in each one of the categories.

(a) Early Retirement Incentive Program

The early retirement incentive program was implemented in January 1995. Its success resulted from the introduction of a major social security reform in Congress when the program was about to be implemented. The reform proposed in Congress included drastic changes that altered the relative value of the staff reduction program for the average employee. These changes were basically made to adapt to the new social security legislation which implied that eligibility to retire would no longer be based on the number of years worked, but mostly on age. This change (formally passed in January 1998) would have meant that many people who had worked for over twenty years and who previously would have been entitled to a full pension would have to have to work for another fifteen to twenty years to receive the same benefits. Since the average worker already had eighteen years of company time, many ended up opting for early retirement.

This change could not be anticipated at the time the initial design of the redundancy program was being tested. Studies made during the modeling and planning stage showed that the majority of RFFSA's excessive force would leave the company through the Voluntary Separation Incentive Program. However, the fear that adverse changes in the social security law could jeopardize the retirement income of older workers led to an unexpected increase in the number of applications for the early retirement incentive program. In addition, the projections on the number of employees potentially eligible for the early retirement incentive program were based on the time of services rendered to the company, without taking into consideration the amount of time that employees' previously worked elsewhere. This clearly underestimated the potential demand for an early retirement package. The overall adhesion to the early retirement incentive program showed that a much larger number of employees had worked enough time to retire in accordance with the retirement rules established by the National Social Security Agency (INSS). Table 5 shows the difference between what was planned and what actually occurred.

TABLE 5: WORK FORCE REDUCTION		
Reduction In Force Incentive Program	Planned	Implemented (Jan. 1999)
Retirements	5,000	11,771
Voluntary Separation/Layoffs	13,000	5,886
TOTAL	18,000	17,657

(b) Voluntary Separation Incentive Program

The voluntary separation incentive program was implemented in the different Regional Areas, in accordance with the privatization program's timetable. The dates of actual implementation of the voluntary separation incentive program in the different Regional Areas and in the Central Administration were as follows:

Site	*Timetable*
West	**Feb. 01, 1996 to Feb. 16, 1996**
Midwest	**May 13, 1996 to May 31, 1996**
Southeast	**Aug. 19, 1996 to Aug. 02, 1996**
Tubarão	**Oct. 14, 1996 to Oct. 28, 1996**
South	**Oct. 14, 1996 to Oct. 28, 1996**
Northeast	**Oct. 14, 1996 to Oct. 18, 1996; and Nov. 18, 1996 to Dec. 02, 1996**
Central Administration	**Oct. 30, 1995 to Nov. 17, 1995; Jun. 17, 1996 to Jun. 28, 1996; and Apr. 14, 1997 to Apr. 30, 1997**

The planning of the voluntary separation incentive program foresaw its implementation in three phases. The last part of the program would be implemented after the privatization, during the transition period in which the Regional Areas were to be managed by both RFFSA and the concessionaires. The whole program, however, was concluded before the privatization.

The staff reduction target number was calculated on the basis of the maximum number of employees to be absorbed by the concessionaires, as established in the Privatization Bidding Documents. The number of employees established for each Regional Area, the reduction target number and the number of employees actually absorbed by the concessionaires are shown below in Table 6.

TABLE 6: REDUCTION IN FORCE		
Regional Area (*Concessionaire*)	Maximum Staff To Be Absorbed	Staff Actually Absorbed
West - *(Ferrovia Novoeste S.A)*	1,800	1,792
Midwest - *(Ferrovia Centro Atlântica S.A.)*	7,900	7,771
Southeast - *(MRS Logística S.A.)*	6,600	6,241
Tubarão - *(Ferrovia Tereza Cristina S.A.)*	250	207
South - *(Ferrovia Sul Atlântica S.A.)*	6,900	6,292
Northeast - *(Cia Ferroviária Nordeste)*	1,600	1,409
TOTAL	**25,050**	**23,712**

The difference between the number of employees due to be absorbed and the number of employees effectively transferred to the concessionaires reflects the increase in the applications for retirement, which is a legal option granted by the applicable legislation to eligible workers, against which RFFSA could do nothing.

(c) Layoff Program

In order to finally achieve the staff reduction target number, the company had to lay off eighteen employees at the Central Administration Office and 367 employees in the Northeast Regional Area. The large number of layoffs in the Northeast Regional Area was due to structural changes in that system to make it economically feasible.

But as expected, that did not end the staff reductions: the concessionaires decided to reduce employment even further. Indeed, the fact that the concessionaires received less employees than what was initially provided for in the Official Bidding Documents did not stop them from reducing their staff by another 14,000. The number of separations is summarized in Table 7.

Table 7: STAFF REDUCTIONS IMPLEMENTED BY THE CONCESSIONAIRES	
Regional Area	***Staff Reduction***
West	1,167
Midwest	5,355
Southeast	2,942
Tubarão	56
South	3,913
Northeast	787
Total	14,220

(d) Training

Implementation of the training program was somewhat troublesome. The main initial problem was the lengthy negotiations of several agreements with the three training institutions and their representatives in the different sites. This was aggravated by the fact that Brazilian legislation requires state-owned companies to justify the execution of agreements without a bidding process, which was the case since all parties involved in these agreements were public enterprises. In the end, nineteen agreements were signed between the company and SEBRAE, while 21 and 12 contracts were signed with SENAI and SENAC, respectively.

The overall training record so far is also lower than expected. Out of the 5,886 employees that were either dismissed or voluntarily separated form RFFSA, 3,046 joined the training program. This number includes the 997 employees that had been previously trained by the company before an agreement was reached on the overall program. Since each eligible employee could sign up for up to two training courses, the total number of diplomas awarded by the three institutions was 4,673.

Why did relatively few workers take the training? There are several reasons. The first is that the time that elapsed between when the workers left the company and the beginning of the training program was often excessive, as seen in Table 8.

Table 8: DELAYS IN IMPLEMENTING TRAINING

Areas	Beginning of the Reduction In Force Incentive Program	Beginning of the Training Program
Central	Nov. 95	Dec. 95
West	March.96	Jun.96
Midwest	May 96	May 97
Southeast	Sept. 96	Dec. 97
Tubarão	Nov. 96	Dec. 96
South	Nov. 96	Jun. 96
Northeast	Oct. 96	Oct. 97

The second factor is probably that the financial penalty imposed on those who did not apply for training was not correctly planned. All payments were made when the workers leaving the company were asked to state whether they would apply for training, which was before the training program began. Since the actual separation took place before the beginning of the training program, RFFSA had no control over those who decided not to attend.

This problem would have been solved if the training program had started immediately after the acceptance of the employee's adhesion to the incentive program and before the actual separation. Part of the employee's severance package should also have been withheld until completion of the training program. Unfortunately, it was already too late when the problem was detected.

Due to the distribution of skills among workers the assumption was made during the planning of the incentive program that most laid-off or voluntarily separated employees would prefer to take one of the training courses coordinated by SENAC, the more service oriented training institution. The actual distribution of trainees among the training institutions is described in Table 9. It shows that most workers were more interested in learning how to run their own business and signed up for SEBRAE.

Table 9: COST AND DURATION OF TRAINING AT EACH INSTITUTION[3]

Institution	Average Cost/Trainee (R$)	Average Duration (hours)
SEBRAE	1,617.16	166
SENAC	1,050.12	176
SENAI	753.73	143

In April 1997, the firm QUATRE Consultants was retained by the company to coordinate the training program, under the supervision of RFFSA's team. The consultants started working on the project on September 17, 1997.

The coordination of the training program by third parties was suggested by the World Bank, despite the company's opinion that it was an unnecessary measure. Staff reorganization programs are just beginning in Brazil. There are no professionals in this area who could efficiently do the job for which the consultants were hired. It took a long time before RFFSA's team managed to properly train the consultants, which have now reached a satisfactory level of efficiency. RFSSA's management is convinced that the work that the consultants were retained to do could have easily been performed by in-house personnel, therefore saving close to R$ 1 million.

(e) Outplacement Program

The same consultants hired to coordinate the training program were retained to implement the outplacement program, and their volume of activity has been large, although not as large as expected. Of the 5,886 employees that were either dismissed or voluntarily separated from RFFSA, 1,061 joined the outplacement program. The program started with a three day seminar, organized in sixteen different cities throughout Brazil, in order to facilitate the attendance by all the applicants. There were a total of 36 seminars

Despite these efforts, of the 1,061 applicants, only 172 former employees actually attended the seminars. In view of this fact, the company asked the consultants to mail the 807 books that were used in the seminars to the applicants who did not attend. The intention was to maximize the effects of the outplacement program. The answers to a questionnaire that was also mailed to the applicants would allow the program's management to send out résumés to potentially interested companies. So far, the outplacement program consultants have sent out 164 résumés, which are also available on the Internet.

[3] In addition, each trainee received a daily allowance which, on average, came to R$ 1,196.80.

(f) Survey of former employees

In order to know what happened to the former employees of RFFSA and to check if the resources allocated to training were effective in maintaining the standard of living, RFFSA's management commissioned a detailed monitoring in each region, based on field interviews. RFFSA retained the Rio de Janeiro Catholic University (PUC) to conduct these interviews. This survey began in January 1998, in São Paulo. Eventually, it covered 5,334 former employees who left the company between January 1995 and October 1997 and was distributed over 600 municipalities. The reply percentage was over 77% (including 90% of men) which is high but not complete because 1,217 workers moved without a trace. Only seven percent of the workers covered by the sample refused to cooperate

The forst survey showed that the average worker interviewed is 43 years old. The education level is quite heterogeneous and higher than the Brazilian average, with only 1% "analphabet" and 4% with a post-graduate degree. The majority (22%) had a high-school diploma. Almost half (2,301) work on their own and 20% have opened their own business. Only 18% are employees and 4% are civil servants. About 13% are employed illegally. Most found the training good but irrelevant to their new job. About 44% of these employees have been in their new job for an average of 13.2 months. Overall, they all earn less than when they were working for the railways.

A more detailed survey conducted among 675 formers employee in September 1998 was also quite revealing. Only 10% where unemployed but they count most of the older workers and/or the less educated. Also the salary structure had changed quite a bit. In particular, the survey shows that while 53% of the workers are earning less than when they were at RFFSA, 27% and making a better living. In general, the dispersion of wages increased for that sample.

(g) RFFSA's Remaining Staff Training Program

With the privatization of RFFSA's operational system, the company underwent a substantial modification of its core business. To cope with the changes and face the company's new attributions, it was crucial to retrain RFFSA's remaining staff. Retraining of the company's employees began in March 1998 and will end in December 1999

This retraining program has been managed by a consulting firm (De Consult) since December 1997. In view of the lack of a clear definition by the federal administration as to what will be RFFSA's corporate objectives or what the country's public transportation policy is, De Consult is concentrating its retraining program on tasks that are now under the responsibility of RFFSA, which are:

- Administration of the company's indebtedness and receivables;
- Sale of assets; and

- Monitoring the use of the operational assets being used by the concessionaires.

8. Summing up the main lessons of this experience

All things considered, this staff reduction program has been reasonably successful. For now, the main points are probably that the improvements in productivity that were aimed for have been achieved without major problems, through a combination of early retirement and voluntary retrenchment stimulated and sponsored by the government and a willingness by the concessionaire to make quick decisions on the number of involuntary retrenchments that they wanted to implement. The main advantage of the quick decision by the concessionaire was that it benefited from the momentum created by the prompt government implementation of its own decisions and the fair treatment of workers. The companies could have indeed waited until the contractual twelve month obligation to pay the same package as the government for involuntary retrenchment was over, which would have allowed them to only pay the legal obligations.

The main problems have come from the underestimation of the time it was going to take to agree on the strategy to implement the training and the outplacement programs. In addition, the strategy adopted provided a good incentive to sign up for the courses (one month's salary) but it did not provide much incentive to workers to show up, since they were paid up front. The informal evidence also suggests that most workers found new jobs before many of the training programs were available.[4]

[4] In February 1998, the government obtained the authorization to incorporate the Sao Paulo railways, FEPASA, into RFFSA and to implement its concession. This also involved a staff reduction program. FEPASA had 8,134 workers. Of this total, at least 2,300 were to be declared redundant and 1,576 were laid-off, out of which 1,023 asked for technical assistance, 1,251 asked for training and 711 used the outplacement service. Since then, the concessionaire, FERROBAN, has laid off another 1,400 workers.

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