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Effectiveness and Financial Costs of Voluntary Separation Programs in Brazil: 1995-1997*

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1. INTRODUCTION AND OVERVIEW

Brazil is in the process of consolidating the macroeconomic stabilization begun in 1994. The government is conscious about the dangers of persistent fiscal imbalances and is trying to promote fiscal discipline in public expenditures. One of the main concerns in this regard are personnel expenditures, which have been long identified as an important source of over-spending. But due to constitutional constraints, little has actually been done. The 1988 Constitution disallows layoffs of public servants without "just cause" and limits considerably the government's ability to control personnel expenditures.

The federal government is now trying to pass an administrative reform bill in the Congress revoking job tenure rights for public civil servants. Concurrently voluntary severance programs (PDVs - *Programas de Demissões Voluntárias*) have been implemented at both the federal and local government levels to encourage voluntary job separations. Similar attempts have been implemented in some public utilities and official banks. This paper documents this experience with public sector retrenchment in Brazil during the period 1995-1997. In particular, we analyze ten experiences of retrenchment in the public sector, assessing the rationale behind each of the retrenchment programs such as fiscal constraints, the targeting mechanisms involved, the nature of the programs (e.g., the degree of involuntariness) the financial costs, and the payback period. The programs selected are from the states of São Paulo, Rio Grande do Sul, and Pernambuco, thus representing a broad economic spectrum; also included is the Federal Government and Banco do Brasil. The programs were chosen so that the sample was representative: four of the programs are for public administration, and six are for state-owned enterprises (three banks and three public utilities). The three public enterprises are FEPASA - São Paulo railways company, CEEE - Rio Grande do Sul electricity company, and CESP - São Paulo electricity company. The public sector banks included in the study are Banco do Brasil; Bandepe - Bank of the State of Pernambuco; and Banrisul - Bank of the State of Rio Grande do Sul.

As public sector downsizing is rapidly becoming a major policy issue for both industrialized and developing countries (see Rama, 1997), the experiences summarized here may provide important lessons for these and other states and even for other countries. The next section describes the PDV programs implemented by the federal government and by three state governments. Section 3 describes PDV programs in three public enterprises and three official banks. Section 4 provides a schematic summary of the experience, and section 5 contains the main conclusions. Standardized tables summarizing each program's main features are presented in the Annex.

2. SEVERANCE PROGRAMS IN PUBLIC ADMINISTRATION

2.1 THE FEDERAL GOVERNMENT

The federal government's voluntary separation program was launched on November 21, 1996. The program remained open for a period of 28 days and was closed on December 18, 1996, with a total of 9,499 volunteers, representing only 3% of the target group. Several factors worked against the success of the federal government's PDV, for example, conditions in the outside labor market (particularly for low-skilled/well-paid public workers who composed the bulk of the target group), a limited package of financial benefits, and the lack of a "credible threat" (in the sense that the government could not legally dismiss workers with tenure who decided not to join the program). However, this was the first separation program to be implemented in the public administration at the federal level and the downsizing effort deserves some credit. A positive aspect of the program is that it may have encouraged or improved similar initiatives by local governments to reduce personnel expenditures.

Objectives of the Program - The separation program of the federal government was part of a broader modernization project (*Plano Diretor da Reforma do Aparelho do Estado*) aimed at increasing efficiency in the public sector and reducing public expenditures. The redundancy program was designed and implemented by the Ministry of Federal Administration and Reform of the State (MARE) which had identified an excess of public civil servants with secondary education in almost all areas of the federal administration and a shortage of workers with higher education in areas considered strategic for the government. As a result, out of an approximate total of 550,000 civil servants in the federal administration, some 327,000 fell within the eligible group. The expectation of the government, however, was that a maximum of 30,000 workers would join the redundancy program.

Target Group - The original idea of the federal PDV was to make redundant all civil servants working in areas not considered "strategic" for the public sector. Thus, instead of defining eligibility criteria for participation in the PDV, the government listed all careers in the federal administration whose members were *not* allowed to join the redundancy program. These included most civil servants with higher education in the following careers: general-attorney; national treasury; specialists in public policies, research, and finances and control; science and technology; national defense; agricultural engineering; fiscal inspectors; teachers and lecturers; doctors in the health ministry, education ministry and university hospitals; fuel inspectors; labor inspectors; central bank; foreign affairs. All eligible workers received a Participation Request Form (PA - *Pedido de Adesão*) with an estimate of the financial indemnity s/he would receive in case of voluntary separation. If the worker decided to join the PDV the PA had to be filled in and returned for processing. The great majority of takers (6,862) came from workers in intermediate careers (requiring only secondary education); 5,631 leavers were over 40 years of age, and 3,504 were between 30 and 40 years of age; and 60% were male.

The Package of Financial Benefits - Benefits varied with the number of years of tenure:

(a) up to 14 years, one-month's salary (i.e., the base salary plus any permanent benefits related to a specific position and any additional benefits related to working conditions) per year of service;

(b) from 14 to 24 years, one month's salary per year of service up to 14 years and 1.5 month's salary per year of service which exceeded 14 years; and

(c) over 24 years, 1 monthly salary per year of service for the first 14 years, 1.5 month's salary per year for the period between 14 and 24 years, and 1.8 month's salary per year of service which exceeded 24 years.

In all cases above, the worker would also receive a bonus of 25% of the value of the indemnity if he/she joined the PDV before December 5, 1996, a 5% bonus if s/he joined between December 6 and December 10, 1996. There would be no bonus if take-up occurred after December 10.

The average package for an individual was R$ 23,487 (nearly half of that offered by Banco do Brasil) and the total cost of the program was estimated at R$ 183 million. The separations resulted in a reduction of R$ 9.3 million per month in the federal government's wage bill and the total cost of the program would be recovered within 20 months of its implementation. Considering that the federal government's wage bill amounts to R$800 million per month, the PDV was responsible for monthly savings of 1.2% of payroll.

Other Features of the Program - The federal government's attempt to encourage voluntary job separations did not achieve the expected success. Some of the factors that might have contributed to undermine the program are listed below:

(a) *Unfavorable conditions in the outside labor market*: open unemployment rates started to rise in 1996 after two years of relative stability. Despite the fact that average real earnings were also growing in 1996, the actual remuneration of public servants is estimated to be 30% greater than that paid in similar occupations in the private sector (see Barros, et. al., 1997). Also, the target public of the government's PDV was formed by people who actually composed the bulk of unemployment, with few years of formal education and over 40 years of age. Thus, it does not appear as a surprise that participation in the program was not so high since the prospects of finding as good a job were not promising.

(b) *Political environment*: The political environment at the time of launching of the PDV has been raised as one of the reasons for the low rate of participation. According to officials at MARE, had the redundancy program been launched after the issue of re-election of the President of the Republic was resolved in the Congress and after the Administrative Reform bill was approved, their program would have had more success.

2.2 STATE GOVERNMENTS

2.2.1 SÃO PAULO

The separation program carried out by the São Paulo State administration was open from June to August 1996. The main rationale for this program was to reduce the State's expenditures on personnel to limits allowed by the *Camata Law* (which stipulates that personnel expenditures as a share of net revenues for all levels of government must not be greater than 60%) and to improve civil service efficiency. The São Paulo program was launched without defining any target group. There was no pressure on workers considered negligent or redundant. From a total of 576,764 employees, about 12,500 joined the program; most of them (9,466) worked in education and health secretariats. PDV takers in São Paulo had more than 10 years of service, were between 31 and 45 years of age, had generally completed secondary education; roughly 70% of volunteers were female.

Program Design and Effects- The package of financial benefits was different for *estatutarios* (civil servants hired through formal selection exams, and who have tenure under current laws) and *CLTistas* (employees governed by the labor code for the private sector). Basically, those joining the PDV were offered one month's salary for each year of service, but this benefit was capped at 12 monthly salaries. There was a cash bonus of 25% of the total benefit if take-up occurred between June 25 and July 9, or 15% if the worker joined the program between July 10 and July 24. Those with less than 4 years of service would receive 400% more than the normal benefit. The total cost of the program was estimated at R$ 68.36 million and the monthly wage bill for PDV workers at R$ 14.3 million, giving an estimated recovery period of 5 months. The average benefit per person was R$5,452. The State government provided some support for those who joined the program in the form of extended medical assistance (for one year after leaving employment) and help for takers to find new jobs (through the *Secretaria de Emprego e Relações de Trabalho* - SERT).

2.2.2 RIO GRANDE DO SUL

In Rio Grande do Sul, the voluntary separation program was launched with the explicit objective of reducing personnel expenditures, which represented over 80% of net revenues in 1996. Concurrent measures included a cut of 25% in the number of commissioned positions, phasing out some activities and the payment of the 13th salary in two installments (instead of one). The program was open from April 16 to May 17, 1996 but before it was actually launched, the State government put some pressure on workers it wanted to see joining the PDV.

The strategy of pressure included the transfer of workers to functions which they were not used to, sending out short-notice letters (*aviso-prévio*) to targeted workers, implementation of an electronic time monitoring system, revoking the concession of unpaid leave and special privileges for a period of two years, and defining targets to be met by employees. The PDV helped to reduce the monthly wage bill by some R$ 5 million. The initial target of the PDV program was to make some 13,700 workers redundant (10,300 *estatutarios* and 3,400 *CLTistas*); actual figures added up to 9,953 *estatutarios* and 2,718 *CLTistas* totaling 12,671 takers. On average, PDV takers in Rio Grande do Sul had 15 years of service, 38 years of age and 56% were female.

Program Design and Costs- Targeted workers were offered three different options: (i) voluntary separation (DV - *Demissão Voluntária*); (ii) special leave to qualify workers for early retirement (RF - *Reconversão Funcional*); and (iii) voluntary retirement (AV - *Aposentadoria Voluntária*). Workers could choose only one of these options.

(i) In the case of voluntary separation (DV), the taker would receive 1 month's salary per year of service, capped at 20 monthly salaries; there was an extra cash bonus of 25% of the benefit if the person volunteered for the PDV between April 16-30, or 15% if he/she joined between May 1-15.

(ii) Under the special leave (RF) option, eligible workers were given a special paid leave of up to 5 years at 20% of monthly salary. To qualify for this temporary job separation scheme, male workers had to have 20-25 years of service, and female workers 15-20 years of service. During the leave period, as soon as the worker qualified for a proportional retirement scheme, s/he would resume his/her duties and within two months apply for proportional retirement or return to the government all money received during the leave period.

(iii) Alternatively, a worker could opt for the voluntary retirement scheme (AV) and receive an indemnity equivalent to 5% of his/her remaining wages (that is, 5% of last monthly salary multiplied by the number of months remaining for retiring on full pension). Eligibility for this scheme was only for male workers with more than 30 years of service and female workers with more than 25 years of service.

Assistance after job separation took the form of extended medical benefits (for a period of one year after separation) and training courses provided by SENAI, SENAC and SENAR (the government paid a maximum of R$300 per course). The costs for Rio Grande do Sul separation program amounted to R$216 million and the monthly wage bill for PDV takers was estimated at R$14.3 million. The average package per person totaled R$ 17,055 and the recovery period was estimated at 16 months.

2.2.3 PERNAMBUCO

The State of Pernambuco has launched two versions of its PDV program. The first program (PRODESI-I *Programa de Desligamento Incentivado*) was effective between August 5-31, 1996, and the second (PRODESI-II) between December 4-20, 1996. The main objective of these programs was to adjust the State government's expenditures on personnel (at about 74% in 1996) to the limit of 60% of net revenues established by the Camata Law. Concurrent measures to cut personnel expenditures included firing employees who had not reached tenure rights under the 1988 Constitution, eliminating 1,571 commissioned positions (yielding estimated savings of R$ 920,000), establishing ceilings for the salaries of civil servants - in each branch of government, salaries could not exceed the wages of a state deputy (legislative), a state secretary (executive), and a general attorney (judiciary), and a restrictive policy of wage adjustments.

Program Design and Costs – The two versions of PRODESI were basically identical. The package was differentiated for *estatutarios* and *CLTistas*. The financial benefits for *estatutarios* included: (a) a cash bonus of 4 monthly salaries for takers between August 5-20; 2 monthly salaries for takers between August 21-28; and 1 monthly salary for takers between August 29-31; plus (b) 1 monthly salary per year of service. In the case of PRODESI-II, the cash bonus was 4 monthly salaries for takers between December 4-17, or 2 monthly salaries for takers between December 18-20. Assistance after the program was provided in the form of extended medical benefits (for a period of one year after leaving employment) and training courses to prepare workers to return to the labor market. The program was treated as voluntary quit for all workers.
For *CLTistas*, the package of benefits included (a) payment of 1 monthly salary; plus (b) indemnity, calculated as follows:

(i) 1 monthly salary per year of service for workers with less than 10 years of service;
(ii) 10 monthly salaries plus 70% of a monthly salary per year of service in excess of ten years of service for workers with more than 10 and less than 20 years of service;
(iii) 17 monthly salaries plus 40% of a monthly salary per year of service for the period in excess of 20 years of service. *CLTistas* did not benefit from extended medical assistance.

The government of Pernambuco distributed questionnaires and asked public employees if they would be willing to join a voluntary separation scheme. About 18,000 civil servants answered that they would join a PDV scheme if they were paid 1 month's salary per year of service. The total cost of the program in case all 18,000 were made redundant was initially estimated at R$137 million. However, the target established by the government was 11,000 participants , with a total cost of roughly R$89 million. Following the experience of Rio Grande do Sul, Pernambuco State government used mild pressure to encourage participation of targeted workers, e.g., by setting up an electronic monitoring system and transferring workers to different functions.

In the first redundancy program (PRODESI-I), 2,729 workers (2,328 *estatutarios* and 401 *CLTistas* - half of the *estatutarios* were from education and sports secretariat) decided to quit and take the package of benefits offered. The first PRODESI was responsible for a reduction of R$2.3 million in the state's monthly wage bill, costing R$29 million. The average salary of takers was R$838 and the average package per person was R$10,665. In the case of PRODESI-II, participation amounted to 831 employees at a total cost of R$ 10.3 million. The two programs yielded a reduction of R$ 3.33 million in the state's monthly wage bill. The total cost of R$39.3 million indicated that the investment could be recovered in approximately 12 months. The programs were entirely funded through loans with *Caixa Econômica Federal*. According to the state administration, the low participation rate in the second PRODESI was due to significant delays in the payment of benefits in the first program, because of delays in the release of the funds to the state by *Caixa Econômica*.

3. SEVERANCE PROGRAMS OF PUBLIC ENTERPRISES AND BANKS

3.1 PUBLIC ENTERPRISES

3.1.1 FEPASA

In the case of FEPASA (*Ferrovia Paulista S/A*), the redundancy program which started in January 1995, was part of a restructuring plan to prepare the company for privatization. The conditions in which job separations would occur were set forth in the 1995/1996 collective bargaining agreement celebrated between the trade union and FEPASA administration. There was no target in terms of specific categories of workers expected to join the program. Since the beginning of the program in early 1995 baseline employment has been reduced by 48%, from 17,029 to 8,862 workers in February 1997. The total laid off was 4,524 workers; 2,892 of them decided to quit voluntarily, and 1,632 were dismissed involuntarily. Part of the reduction in total employment was due to transfers (1,458 workers) and other causes such as firing, attrition etc. (2,185 workers). Baseline expenditures on personnel have been reduced by 47%, from R$ 24.7 million (January 1995) to R$ 13.3 million (February 1997).

Program Design and Costs – The package of financial incentives increased with the years of service. Workers with 4 years or less of service were not allowed to join the program. Workers with more than 4 and less than 10 years of service received 1 monthly salary per year of service. Those with more than 10 and less than 20 years of service received 2 monthly salaries per year of service, and those with more than 20 years of service received 2.5 monthly salaries per year of service. If the worker quit voluntarily, s/he received a cash bonus of 33% of monthly salary per year of service, plus 180% of the funds in the FGTS account. If the worker was dismissed involuntarily, s/he received 180% of the FGTS account. There was no cap on benefits, but for actuarial reasons no workers with more than 23 years of service were allowed to leave. The average package per worker has been estimated at R$ 29,870. The cost of all job separations so far has been estimated at R$ 135 million and the period for recovery of the investment at 24 months, on average.

3.1.2 CEEE

At CEEE (*Companhia Estadual de Energia Elétrica do Estado do Rio Grande do Sul*), the voluntary severance program was implemented in June 1996. The motivation for the redundancy program at CEEE was a state government recommendation to all public agencies to implement a 10% cut in personnel. CEEE managed to reduce total employment by 5% as a result of its redundancy program. From a total baseline employment of 8,979 workers in June 1996, 568 decided to join the program. Personnel expenditures were reduced by 8.5%, from R$ 47.3 million to R$ 43.3 million. The average tenure of takers was 22 years of service and they were 46 years old; 30% of them were female.

Program Design – Job separations under CEEE's redundancy program were treated as unjust dismissal and all workers who joined received 140% of the funds in their FGTS accounts. The financial incentive was the same for all workers and corresponded to 60% of a monthly salary per year of service. The benefit, however, was capped at 15 monthly salaries. Workers with near retirement age were offered 10% of all remaining wages up to the date of retirement if applied for early retirement. The average package per worker was R$ 41,900 and the total cost of the program was estimated at R$ 12 million. The monthly wage bill for the workers made redundant was R$ 850,824 and the recovery period was estimated at 14 months.

3.1.3 CESP

Since 1995, CESP – the electricity utility of São Paulo (*Companhia Energética de São Paulo*) has managed to reduce its workforce by some 28%, from a baseline of 13,977 employees in December 1994 to 10,069 in April 1997. This cut in personnel was obtained through the implementation of two redundancy programs, *Programa de Saída Incentivada* (PSI) in February 1995 and *Programa de Demissão Voluntária* (PDV) in March 1996, and also a constant incentive for early retirement[1].

Scope of the Program - The *Programa de Saída Incentivada* (PSI) was implemented in February 1995 aiming to make redundant workers who had been hired prior to December 31, 1988 and who would not have reached the limit age for retirement by May 1995. Volunteers for the PSI amounted to 400 workers and the financial benefit for leavers corresponded to 50% of a month's salary for up to April 30, 1995 or 40% of a month's salary for take-up between April 30 and May 31, 1995. There was no cap on benefits. Job separations were treated as *unjust dismissal* and thus PSI takers were allowed to withdraw the funds in their FGTS accounts and received the penalty of 40% over the balance of the FGTS account.

The profile of leavers was normally distributed by schooling and time of service; 77% of them were male. 27% of leavers had completed higher education, 58% had secondary education and 15% less than secondary education. In terms of tenure, 15% of leavers had less than 10 years of service, 77% had more than 10 and less than 20 years of service, and 7% had more than 20 years of service. CESP provided some assistance for leavers after the program in the form of extended medical benefits for a period of six months as well as job placement counseling.

The PDV program was implemented in March 1996 and was responsible for 94 job separations. The target of this program was

[1] Unfortunately, CESP officials were not able to provide detailed quantitative information on these programs. No data on the costs of the redundancy programs nor on adhesion to the retirement programs were provided.

the same as the PSI. The financial incentive offered to takers was based on the number of years of service. Workers with less than 10 years of tenure received 50% of a month's salary per year of service, and workers with more than 10 years of tenure received 60% of a month's salary per year of service capped at 12 monthly salaries. Job separations were treated as *unjust dismissal* and thus leavers received 140% of the funds in their FGTS accounts in excess to the financial benefit. Assistance after the program was given in the form of extended medical benefits for a period of six months after job separations, renewable for a further six-month period if the person could prove s/he had not found a new job.

3.2 GOVERNMENT BANKS

3.2.1 BANCO DO BRASIL

Banco do Brasil's 1995 Voluntary Separation Program (PDV - *Programa de Desligamento Voluntário*) has been considered by its administrators as the most successful redundancy program implemented in Brazil. The program was launched on July 3, 1995 and aimed at making some 15,000 employees redundant out of a total workforce of 114,000 employees by July 14, 1995. Due to reactions against the program, including bomb threats and legal actions against the PDV, the program was slightly delayed, but by July 21, 1995 a total of 13,388 employees from Banco do Brasil had joined the bank's PDV and been effectively dismissed at a total cost to the bank of R$335 million. In what follows, we examine the details of its implementation.

Objective of the Program - The idea to undertake a redundancy program at Banco do Brasil was part of a broader strategy to promote a process of internal re-structuring in order to improve efficiency and regain market share. According to the bank's management, the PDV was only one out of a total of 32 major projects aimed at improving the bank's performance. Specifically, the PDV aimed at reducing administrative costs and increasing productivity. The need to promote the downsizing of its workforce was a direct consequence of the fact that the bank's monthly wage bill amounted to R$458 million in July 1995, representing over 85% of its administrative expenditures (compared to an average of 65% in private commercial banks). Furthermore, paternalistic human resources policies (such as automatic career promotions per years of service, job stability, and the certainty of annual wage adjustments regardless of performance) helped to develop an internal labor market which was not conducive to productivity improvements.

Box 1: Profile of Banco do Brasil Workers Who Joined the Voluntary Separation Program

Characteristic	Description
Age	78.4% were over 35 years of age.
Sex	30.7% were female and 69.29% male.
Years of Service	84.9% of the eligible contingent had more than 11 and less than 25 years of service; the average was 16 years of service.
Schooling	84.5% had secondary education or higher.
Occupations	96.4% were from administrative occupations.
Status	63% were support staff in these occupations ("postos efetivos") and 37% held commissioned positions, of which 87% were from branch offices.

Source: Banco do Brasil - Human Resources Division.

Target Groups - In general, Banco do Brasil's PDV targeted workers with above average tenure, mainly those at the base of the administrative structure and at mid-management level. Eligibility for the program depended on the number of years of service, as follows: (a) administrative personnel with more than 12 years of service; (b) cash-tellers and commissioned administrative staff with more than 14 years of service; (c) mid-management staff with more than 17 years of service; (d) all personnel from technical-scientific careers; and (e) all personnel in the "auxiliary services" career. Overall, some 55,000 employees met these eligibility criteria, but only 15,000 employees (+/- 10%) would be allowed to leave. The profile of those who have actually joined the program is outlined in Box 1.

The Package of Financial Benefits - Workers were encouraged to join the program was encouraged by a package of benefits which amounted to an average of R$50,000. The package included all the legal benefits to which the worker would normally have access to in case of involuntary separation, plus the following:

- a variable cash bonus, depending on the number of years in service: for those workers with up to 15 years of tenure, 30% of the monthly base salary (this did not include any commissions or any other type of additional remuneration) per year of service; from 16 to 20 years of tenure, 50% of the monthly base salary per year of service; and over 21 years of tenure, 100% of the monthly base salary per year of service;
- proportional "licença prêmio" (statutory paid leave related to years of service);
- medical assistance for a period of 18 months after separation with all costs borne by Banco do Brasil; and
- the right to cash 98% of the balance of the worker's own contributions to Previ (Banco do Brasil's pension fund). Workers who contributed for more than 15 years to Previ could opt to have Banco do Brasil pay both shares (the worker's and the bank's) to the pension fund up to retirement.

The total cost of the program was R$335 million and the 13,388 separations resulted in a reduction of R$37 million in the bank's monthly wage bill. Thus, the whole cost of the voluntary separation program would be recovered within 10 months of its implementation.

Other Features of the Program - Besides the generous package of financial benefits, other features of Banco do Brasil's PDV program were:

(a) *Favorable conditions in the outside labor market*: by 1995, open unemployment in the main metropolitan regions of Brazil was relatively stable at an average 4.5% per month as opposed to 5.4% in 1994. Actually, unemployment rates in 1995 were the lowest since 1992. It is also important to notice that the bulk of unemployment was for people with up to 35 years of age and less than 8 years of schooling. At the same time, real earnings were growing fast reflecting the benefits of declining inflation. If one considers that the average Banco do Brasil worker who decided to join the PDV program had at least 12 years of tenure in the bank, possessed skills in the banking business, was over 35 years of age, and had at least secondary education, outside labor market conditions were not at all adverse.

(b) *An early advertisement program*: Banco do Brasil was careful enough as to start an advertisement campaign explaining the aims and scope of its PDV program to both bank staff and to the public. This advertisement campaign started before the PDV was launched and included constant releases to the media, appearances of senior bank officials on TV, elaboration and distribution of a manual to all bank staff with questions and answers about the program (eligibility, incentives, prospects outside the bank), and setting up an internal electronic mail system to provide on-line calculations of the financial package to potential candidates to the PDV. The efficient dissemination of information about the redundancy program and the transparency in which it was conceived certainly helped take-up.

(c) *Orientation for those who joined the PDV*: Banco do Brasil was also concerned with the transition period likely to be faced by those who decided to join in the redundancy program. The main support programs offered by the bank included: (i) outplacement counseling with the help of a foreign consultancy firm (Drake, Beam, and Morin); (ii) joint seminars involving the bank's Career Advisory Center and the Brazilian Service for Support of Small and Micro Enterprises (SEBRAE) to brief candidates to the redundancy program on steps involved in the process of starting an own business; and (iii) a databank on job opportunities outside the bank which would be kept for six months after the deadline of the redundancy program. Senior management officials of Banco do Brasil believe that this orientation package had decisive influence on the results of the PDV program.

Banco do Brasil has continued to encourage job separations from eligible staff even after the PDV was concluded, mainly through an early retirement scheme. The package of benefits, however, has been considerably reduced. For example, after the PDV, workers willing to take early retirement: (i) were allowed to benefit from the bank's medical assistance plan for one year only, as opposed to one and a half years under the PDV; (ii) received a cash bonus 20% lower than those who joined the PDV; and (c) had Banco do Brasil pay their contributions to the Previ pension fund after separation for a maximum of four years. As a result of the continuing downsizing effort, Banco do Brasil had in January 1997 a total of 84,778 employees, which represented a reduction in personnel of approximately 35% in 18 months (taking July 1995 as base).

3.2.2 BANDEPE

The redundancy program at Bandepe (the official bank of the State of Pernambuco) was implemented between February 21-28, 1996 and served as reference for the PDV program carried out by the state administration later in the year (see section 2). The main objective of the program was to reduce personnel expenditures to increase efficiency. Bandepe used pressure to encourage workers to join the redundancy program and signaled them that further personnel cuts were programmed as part of an ongoing restructuring strategy. The bank carried out an extensive performance evaluation of all its employees and those with unsatisfactory performance were strongly encouraged to take the redundancy package.

Total employment at Bandepe before the program was launched was 3,268 employees. Bandepe targeted 2,000 employees for severance, most of them with more than 10 years of service and low performance. Participation in the program amounted to 1,117 employees and the reduction in the monthly wage bill obtained was R$ 5 million, which represented a cut of 46% in payroll. On average, those who joined the redundancy program had more than 30 years of age, more than 10 years of service, and 40% of them were female. The total workforce after the program was 2,151 employees. The average package paid to each taker was R$ 21,930 and the total cost of the program amounted to R$ 30 million. The monthly wage bill for PDV workers was R$ 5 million and the estimated period for the recovery of expenditures with the program was between 5 to 6 months.

Program Design - Job separations in the context of the redundancy program were treated as unjust dismissal and thus workers received the penalty of 40% on funds of their FGTS account. The financial benefit offered to takers was 4 gross monthly salaries, which were paid in 18 months. The package of financial incentives made no distinction between workers with more and less years of service. The only discrepancy in terms of the indemnity received could be due to different balances in a worker's FGTS account. Other benefits included a foodstuff allowance for a period of 18 months and extended medical benefits also for a period of 18 months after leaving employment. Special loans for small businesses (totaling R$ 1.3 million) were provided by the bank as part of an assistance program for employees made redundant. Special courses on setting up own businesses were also offered with the support of SEBRAE, SENAI and SENAC.

For those workers retiring in the 18 months following the redundancy program, Bandepe paid the employer's share to BANDEPREV (Bandepe's pension fund) up to retirement; for those retiring in the following 3 years, Bandepe paid both shares from the 18th month up to the 36th month prior to retirement. Workers taking up INSS early retirement received 2 gross monthly salaries as bonus; if s/he was under the age of 55, s/he received 80% of her/his gross monthly salary and also had the bank pay the employer's share to BANDEPREV until legal requirements to receive full pension were reached.

3.2.3 BANRISUL

The bank of the State of Rio Grande do Sul (Banrisul) implemented its voluntary separation program between July 3-21, 1995. The objective of the program, as in other cases, was to reduce personnel expenditures and increase efficiency. The program was not directed to a specific category of workers, but aimed to promote a 10% cut in personnel following a state government recommendation that all public agencies should reduce personnel expenditures by that percentage. From a total baseline of 10,316 employees, 1,079 joined the separation program. The reduction in personnel expenditure was R$3.3 million, which represented a reduction of 12% in the monthly wage bill. On average, those who joined the separation program had more than 17 years of service, more than 36 years of age, and more than 8 years of formal education; 40% of total takers were female. The total cost of the program was estimated at R$ 63.4 million and the average package per person was R$ 58,712. The period for recovery of the investment was estimated at 19 months.

Program Design - At Banrisul, participation in the program was treated as unjust dismissal and workers were allowed to withdraw the funds in their FGTS account and received the penalty of 40% over the balance of this account. The package of financial benefits was differentiated per years of service. Workers with up to 20 years of service received one monthly salary per year of service (capped at 15 salaries); workers with more than 20 and less than 30 years of service received 20 monthly salaries; and workers with more than 30 years of service received 15 monthly salaries. Additional benefits included a foodstuff allowance for a period of 6 months and one year's medical assistance after leaving employment. Additionally, the bank allowed takers to cash 100% of their own contributions to Banrisul's pension fund (*Fundação Banrisul*).

4. SUMMARY OF FINDINGS

Tables 1 to 3, which summarize the results of the detailed study of these programs prepared for this report, can be used to identify the performance of the PDVs which have been implemented.

Take-up rates - Overall, state enterprises and banks have had more volunteers for their severance programs as they were able to offer more attractive packages than those offered by federal and state governments. From Table 1, the federal government's program had the lowest take-up rate (1.7%), followed by São Paulo administration (2.2%). Pernambuco and Rio Grande do Sul administrations obtained more than double these rates: the ratio of total job separations to baseline employment was about 5% and 6.5%, respectively. Amongst public enterprises, FEPASA managed to reduce employment by almost 27% while CEEE's ratio was only about 6%. Official banks, with substantially greater financial incentives, averaged higher take-up rates. Bandepe had the highest take up rate of about 34% of pre-program employment among the PDVs analyzed. Banco do Brasil averaged about 12% and Banrisul 10.5%. Overall, governments aimed to lay off low-skilled and negligent workers while the main target of official banks were workers with above average tenure (i.e., older workers). Public enterprises simply aimed at reducing baseline employment without specifying any particular target group.

Main Design Features - Table 2 summarizes the main features of the programs studied. Financial incentives varied from case to case but were usually based on the number of years of service. Bandepe was the exception to this rule, paying only the equivalent to four gross monthly salaries to those who joined the voluntary separation program, regardless of years of service. Enrollment for the programs in the federal and state administrations was treated as a voluntary quit or a justified dismissal. As a consequence *CLTista* workers leaving public employment through the PDVs were not paid the 40% penalty over the balance of their FGTS accounts. On the other hand, public enterprises and official banks have treated voluntary separations as unjust dismissals and paid substantially higher financial incentives relatively to the ones offered by public administrations. Due to a collective bargaining agreement, FEPASA paid 180% of FGTS account balances for PDV takers.

Average Benefits- Among public enterprises and official banks, Banrisul paid the highest package per person (R$58,700) followed by Banco do Brasil (R$50,000) and CEEE (R$41,885). Among public sector enterprises, average benefits were lowest for Bandepe (R$21,930). The federal government offered the highest package amongst public administrations paying roughly R$23,500 per person; Rio Grande do Sul paid an average of R$17,055 while Pernambuco and São Paulo paid R$10,665 and R$5,500, respectively (see Table 3). Nonfinancial assistance for PDV takers was offered in all cases except FEPASA. The most common form of assistance was extended medical benefits (usually for one year after leaving employment), training programs, and help with business start-ups. Banco do Brasil contracted a firm specializing in job search assistance to help PDV takers to find other jobs while Bandepe only offered special loans for PDV takers interested in starting small businesses.

Total Costs and Savings - Table 3 provides a summary of financial costs of PDV programs. The biggest outlay was for Banco do Brasil program which had a total cost of R$350 million, and the smallest was that of Bandepe at R$30 million. Following Banco do Brasil, other large programs were those of Rio Grande do Sul (R$216 million), the federal government (R$183 million) and FEPASA (R$135 million). The highest saving in monthly wage bill was obtained by Banco do Brasil which managed to reduce its monthly payroll by some R$35 million. The lowest saving was achieved by Pernambuco State government (R$3.3 million). The federal government's PDV program has had limited success in reducing payroll expenditures with the monthly wage bill for PDV takers amounting to R$9 million (out of a total monthly payroll of about R$800 million). In the case of Pernambuco, considerable delays in releasing the financial benefits due to PDV takers undermined the credibility of the program and limited the number of volunteers.

Reported Recovery Period - With regard to the period necessary to recover PDV expenses - as reported by the enterprise/agency - public sector banks presented the best performance relative to both public enterprises and administrations. BANDEPE, for example, estimates that it would recover PDV spending in 5 months; for Banco do Brasil, the recovery period was estimated at 10 months and for BANRISUL at 19 months. In the case of public enterprises, the average recovery period was estimated by its administrators at 24 months for FEPASA and 14 months for CEEE. Amongst state governments, São Paulo had the shortest recovery period of about 5 months. Pernambuco and Rio Grande do Sul report that they would recover their expenses within 12 and 16 months, respectively, and the federal government's program had an estimated recovery period of about 20 months.

Table 1: Size and Target Group

	Total Takers	Total/ Baseline (%)	Targeting Mechanism	Average Tenure
Administration				
Federal	9,179	1.66	Workers with less than secondary education	
Pernambuco	3,573	4.91	Pressure on negligent workers	10 years
São Paulo	12,538	2.17	No target group	15 years
Rio Grande do Sul	12,671	6.36	Pressure on negligent workers	
Public Enterprises				
FEPASA	4,524	26.56	No target group	Not available
CEEE	568	6.33	No target group – aim to have 10% cut	22 years
CESP	494	n.a.	No target group.	Not available
Banks				
Banco do Brasil	13,380	11.74	Workers with >12 yrs of service and in branches to be closed	16 years
Bandepe	1,117	34.18	Workers with > 10 yrs of service and low performance	10 years
Banrisul	1,079	10.46	No target group – aim to have 10% cut.	17 years

Table 2: Program Design

Fundamentals	Severance under CLT		Pension Related		Assistance After Program
			Early Retirement	Pension Fund	
Federal Administration	1/1.5/1.8 monthly salary for 0-14/15-24/+24 years of service, calculated cumulatively.	Treated as voluntary quit.			Training courses; small business seminars provided by SEBRAE
Pernambuco	Payment of 1 monthly salary; plus indemnity, calculated as: 1/0.7/0.4 of a month's salary per year of service for workers with 0-10/11-20/+20 years of service.	Treated as voluntary quit.			1 year's medical benefits and training courses to prepare workers to return to the labor market.
São Paulo		Treated as voluntary quit.			1 year's medical benefits. Job placement provided through SERT
Rio Grande do Sul	1 month's salary for each year of service: 25 June-9 July, 25% more; 10-24 July, 15% more (400% more if < 4 years of service). (1) DV:1 month's salary per year of service: April 16-30 25% more; May 1-15 15% more. (2) RF: for men with 20-25 yrs & women with 15-20 yrs service, state paid 20% of wages.	Treated as voluntary quit.	(3) AV: For men with 30-35; and women with 25-30 years, state paid 5% of remaining wages.		1 year's medical benefits; workers given R$300 maximum for training; training provided by SENAI, SENAC, SENAR and FDRH.
Public Enterprises					
FEPASA	1/2/2.5 monthly salaries for 4-10/11-19/+20 years of service If worker quit voluntarily, s/he would receive a cash bonus of 33% of monthly salary per year of service, plus 180% of FGTS account.	If laid off involuntary received 180% of FGTS account.			
CEEE	60% of 1 monthly salary per year of service	140% of FGTS account	10% of remaining wages plus 140% of FGTS account.		Training offered but no interest on the part of workers.
CESP	50% of 1 monthly salary per year of service if < 10 years; 40% if >10 years.	140% of FGTS account			

Table 2: Program Design (continued)

Fundamentals		Severance under CLT	Pension Related: Early Retirement Fund	Pension Related: Pension	Assistance After Program
Banks					
Banco do Brasil	0.3/0.5/1 monthly salary for 0-15/16-20/+21 years of service	140% of FGTS account	Workers who contributed for more than 15 years to Previ could opt to have Banco do Brasil pay both shares (the worker's and the bank's) to the PREVI up to retirement	The right to withdraw 98% percent of own contributions to closed pension fund account	Job placement services provided by Drake, Beam and Morin.
Bandepe	4 gross monthly salaries to be paid in 18 months	140% of FGTS account	Workers taking up INSS early retirement received 2 gross monthly salaries as bonus; if under 55 years of age, received 80% of his/her gross monthly salary; bank paid employer's share to BANDEPREV until employee reached legal requirements to receive full pension.	Bank paid the employer's share up to the 18th month for those retiring in the next 18 months; and both shares from the 18th up to the 36th for those retiring within 3 years.	Special loans for small businesses (R$1.3 mi); courses on setting up own businesses (support of SEBRAE, SENAI, SENAC).
Banrisul	1 monthly salary 1-20 years of service (capped at 15 salaries); 20 monthly salaries for 21-30 years of service; 15 salaries for 31-35 years of service.	140% of FGTS			1 year's medical benefits; foodstuff allowance for a period of 6 months.

Table 3: Accounting and Economic Costs

	Total Costs R$ million	Unit Costs R$ Thousands	Monthly Wage Bill R$ million	Recovery Period in Months	Average Benefit $Reais Thousands	Average Benefit XMonthly Salary
Administration						
Federal	183	23.48	9	20	23.49	23.95
Pernambuco	46.5	10.66	3.33	12	10.67	11.55
São Paulo	68.36	5.45	14.3	5	11.41	4.78
Rio Grande do Sul	216.1	17.05	14.3	16	8.29	15.11
Public Enterprises						
FEPASA	135	29.86		24	30.00	20.00
CEEE	12	41.85	0.850	14	32.95	17.94
CESP	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Banks						
Banco do Brasil	350	50.00	35	10	43.16	19.11
Bandepe	30	21.93	5	5	21.93	4.90
Banrisul	63.35	58.71	3.3	19	51.96	19.21

5. CONCLUSIONS AND POLICY IMPLICATIONS

5.1 CRITICAL FEATURES OF PUBLIC ADMINISTRATION PDVS

Severance amounts paid are small relative to saving in payroll expenses - The most striking finding is that the potential benefits of PDV programs - in terms of reduced salary and pension bills - dwarf the costs of existing programs. While the potential saving for these groups ranges between R$34,000 (for least educated women) and R$265,000 (for educated men), the average benefits being paid range from $5,000 and $25,000. One of the main reasons is that governments are cash-strapped, and cannot afford to pay much more. As a consequence, though, take-up rates are low, and a promising source for reducing the long-term fiscal burden on state and federal governments remains largely untapped.

There is little or no pressure on employees to take the program- In general, state governments do not apply pressure on redundant employees to accept severance packages. It cannot be fully determined whether this was due to legal reasons (i.e., it was unlawful for these programs to have even a semblance of coercion for *estatutarios*) or because of a lack of political will on the part of program administrators (*"cultura"*). But the relative success of the Rio Grande do Sul program indicates that political will is the more important factor. This program is exceptional among the public administration PDVs in that negligent or redundant workers were explicitly targeted by the program and pressured into leaving (e.g., by instituting a new system for monitoring attendance for all workers, informing workers whose performance was less than satisfactory that they were being monitored and by re-assigning them to other jobs). The program had the highest take-up rate (about 7% of baseline employment), both because of this pressure and because the payments were somewhat higher than those of other administrations.

Nontenured employees obtain better severance packages than those with tenure - In most cases, *CLTista* employees of public administrations - who technically do not have tenure or *"estabilidade"* - obtained higher severance benefits than tenured *estatutarios*. This is because while special incentives (indemnity payments) under the schemes were the same for CLTistas and estatutarios, CLTistas also often obtained at least 100% of their accumulated FGTS balance (i.e., the separation was treated as a justified dismissal). For example, in the Sao Paulo state program, any worker with a monthly salary of $500 and ten years of service got R$6,250 if s/he volunteered during the first two weeks (one month's pay for each year of service, plus the 25% early volunteer bonus). But if the worker was a CLTista, s/he would also receive more than R$5,000 in FGTS benefits, with the exact figure depending upon the profile of earnings over the last ten years. The Rio Grande do Sul state program was exceptional in that it did not allow participants to withdraw funds from their FGTS accounts, i.e., treated the separation as a voluntary quit.

When pensions are considered, benefits of state PDV programs are greater than if only saving in salaries is considered - Government saves more when an *estatutario* takes a PDV package than when a CLTista leaves. This is because public pension benefits are more generous than INSS pensions. We estimated - under reasonable assumptions - the saving in salaries and pensions for groups of workers according to their sex, education, and tenure. Table 4 lists results of this exercise for six groups: men and women with, respectively, 0-8, 9-11, and 12+ years of education. In the case of men, it is assumed that the PDV taker has

17.5 years of service. In the case of women, this is assumed to be 15 years. These numbers are similar to actual tenure levels of participants in these programs. When pensions are considered, the savings due to an *estatutario* leaving government employment are about 12%, 10% and 23% higher for men with 0-8, 9-11 and 12+ years of education. For women, the corresponding numbers are 25%, 21%, and 21%. Pension-related savings are greater for highest wage males because private sector pensions are capped at 10 times the minimum salary, and the cap is binding only for this group. Other than this group, savings are greater for women because the expected length of retirement is greater for women. These numbers would be even greater if we take into account the fact that while pension contributions are zero in the public sector, they can be as much as 20 percent of earnings for private employees.

Table 4: Implications of Reducing Public Employment
(Average earnings, transfer of obligations, and DPV* of savings, in thousand reais)

Education Level	Consolidated Government Saving			Transfer of Obligations to INSS**	State Government Saving	
	Salaries	*Pensions*	*Total*		*Pensions*	*Total*
		Males, with 17.5 years of service***				
0-8 years	51.6	6.0	57.6	17.4	23.4	75.0
9-11 years	89.7	8.8	98.4	29.1	37.9	127.5
12+ years	215.5	49.7	265.1	41.9	91.6	307.0
		Females, with 15 years of service***				
0-8 years	27.1	6.7	33.8	14.5	21.2	48.3
9-11 years	51.4	10.9	62.3	25.1	36.0	87.4
12+ years	97.5	20.1	117.5	54.0	74.1	171.5

These estimates are based on estimated earnings profiles of private and public sector workers in a nationwide sample drawn from the 1995 PNAD survey (see Paes de Barros, et. al., 1997).
* A 6% discount rate was used to calculate present values.
** These transfers do not take into account the expected contributions of these workers (and their employers in the case of salaried employees) to the INSS system.
*** Men are assumed to retire from public employment after 35 years of service, and receive pensions for 20 years; women are assumed to retire after 30 years of service and receive pensions for 25 years.

Separation programs for estatutarios involve large state-to-federal government transfers of pension obligations- For *estatutarios* who leave under these programs but do not qualify for early retirement, there is an uncompensated transfer of pension obligations from the state administration to the national INSS scheme. This is because these employees carry over their years of service into the private system. Thus a male PDV participant with 17.5 years of service would be eligible for reduced INSS pensions after only 12.5 more years of work in the private sector, and for full pensions after only 17.5 years. The present value of these obligations for men and women leaving public employment mid-career are about R15,000 to R$17,500 for low wage workers, R$25,000 to R$30,000 for medium wage workers, and R$42,500 to R$55,000 for high wage workers. Thus, for example, a state PDV for 10,000 estatutarios drawn from all education/salary categories could imply a transfer of obligations of more than R$300 million in current terms from the state to the federal pension system. To some extent, this transfer of pension obligations would be offset by payroll contributions. But under the current rules, the INSS system never recovers the "lost contribution" of these estatutarios, viz., what they and their employers would have contributed had they belonged to the INSS system during their years of service with the government. If one assumes that the INSS system is actuarially fair for workers who make full contributions for 30/35 years, this means that the INSS is "owed" employee and employer contributions (which add up to about 20% of earnings) for their years of tenure. The estimated present values of "lost" contributions are R$11,000, R$28,000, and R$52,000 for men with 0-8, 9-11 and 12+ years of schooling who take PDV packages after 17.5 years of service; and R$9,000, R$17,000 and R$36,000 for the corresponding groups of women with 15 years of service. Naturally, these numbers would be smaller for PDV takers with lower tenure levels, and greater for those who have been civil servants for longer.

Administrators are aware of the problem of adverse selection, and have taken measures to address it- Despite being legally or constitutionally constrained, program administrators have taken some measures to counter the problem of "good" workers leaving and "bad" workers staying on. The main instruments were encouraging some workers to volunteer for the program, and by discouraging "good" workers who had volunteered from leaving, and even refusing them the package. Among these two, the latter appears to have been the more effective way to address this problem.

5.2 CRITICAL FEATURES OF PDVS OF PUBLIC ENTERPRISES

Matters are both simpler and more complicated for calculating the saving from PDVs in public enterprises. They are simpler because these workers are all CLTistas, so the issue of transfer of pension obligations from states to the federal government does not arise. They are more complicated because many public enterprises have "closed" or company pension funds (called the "complementary" social security system), which give generous benefits that imply increasing company contributions. Severance schemes that entail shedding company responsibility to pay pensions thus imply a saving for the government. But because these closed pension schemes vary from company to company, we do not address this problem here.

Severance amounts paid are small relative to saving in payroll expenses- As with the PDVs of state administrations, the potential benefits of PDV programs - in terms of reduced salary bills - appear to be significantly greater than the costs of existing programs. While the potential saving ranges between R$27,000 (for least educated women) and R$215,000 (for better educated men), the average benefits being paid range from $22,000 and $52,000, a large part of which are from FGTS balances and not government or company funds.

Generally, there is little or no pressure on employees to leave- As with PDVs of public administrations, state enterprises generally do not apply pressure on redundant employees to accept severance packages. In this case, however, it is clear that this is not due to legal reasons: the law permits firing of public employees because they are CLTistas. So the voluntary nature of downsizing programs is obviously because of political reasons. Bandepe's program is exceptional among the public administration PDVs in that negligent or redundant workers were explicitly targeted by the program and pressured into leaving (mainly by instituting an evaluation system to identify unmotivated or mismatched workers, who were advised to take severance packages). Despite having the lowest average indemnity payment, this pressure resulted in Bandepe's program having a high take-up rate of all PDVs (about 33% of baseline employment).

Severance programs always provide more than what is legally required- For employees of public enterprises, the FGTS scheme provides the mandated minimum benefits to be paid to workers upon dismissal. Collective bargaining agreements - e.g., in the case of FEPASA - specify additional payments. But in all the schemes studied, workers were paid indemnity payments in addition to their FGTS-related benefits. These payments were usually a multiple of monthly wages: thus higher wage workers got considerably more than workers with low salaries. The payments also generally increased with years of service, implying added compensation to what they already received under the FGTS scheme. The only case where workers received indemnity payments that were not related to their tenure was Bandepe's program: not coincidentally, this program also was the only one where participation was not entirely voluntary.

Voluntary separations are treated as unjust dismissals- Despite there being little or no pressure on employees to participate in PDVs, those volunteering to leave were treated as though they had been dismissed *sem justa causa.* As a result, they were allowed to withdraw their FGTS balances, and get 40% more as a penalty from the firm. In FEPASA's case, where participation in the program was somewhat involuntary, a collective bargaining agreement resulted in the penalty being doubled, so that participants got 180% of their FGTS balances, plus special indemnity payments.

Severance payments are considerably greater than in PDVs of public administrations- As Figure 1 shows, the average benefits as a multiple of monthly wage was considerably higher for public enterprises than for administrations. The exceptions are the federal administration - where benefits were 24 times the average monthly salary and hence greater than PDVs of public enterprises - and Bandepe, where benefits were only five times average monthly salaries and hence smaller than any other PDV (these benefits do not include the FGTS account, and the 40% penalty). Participants in PDVs of public enterprises also had higher average salaries than those of administrations. This is consistent with the greater disincentives facing *estatutarios* who expect to earn very high pensions to leave voluntarily, due to the ceiling (eight times the minimum salary) on private sector pensions being binding.

5.3 IMPLICATIONS FOR FUTURE PDVS

The range of experience with voluntary severance programs within Brazil is broad. No two programs were alike, so it is difficult to generalize and draw implications for future programs. Nonetheless, some findings appear to be quite general and, if interpreted carefully, will help in guiding future efforts at downsizing. The main implications of these findings for future PDVs are:

Downsizing is a financially profitable strategy- Under reasonable assumptions, financial benefit-to-cost ratios exceed ten for many worker categories. Current benefit levels imply that the costs of severance packages are recovered within three years. When both the saving in salaries and pensions are considered, few investments are as rewarding as downsizing programs, even under fairly constrained legal circumstances.

Reducing salaries has a much smaller financial payoff than reducing employment- The average worker's salary would have to be reduced to about half its current level to have the same financial impact as inducing the worker to leave public employment under a generous voluntary separation scheme. For example, comparing the reduction in payroll expenses of lowering employment by one person, with the alternative of lowering the same worker's salary by 10%, we find that downsizing has about 7.5 times the financial return, when severance payments are not considered. Even when severance payments twice as large (e.g., with payments averaging 48 months' salaries) as those found in the programs studied are used, downsizing is between 5.5 and 6.5 times more rewarding than a 10% cut in the worker's salary.

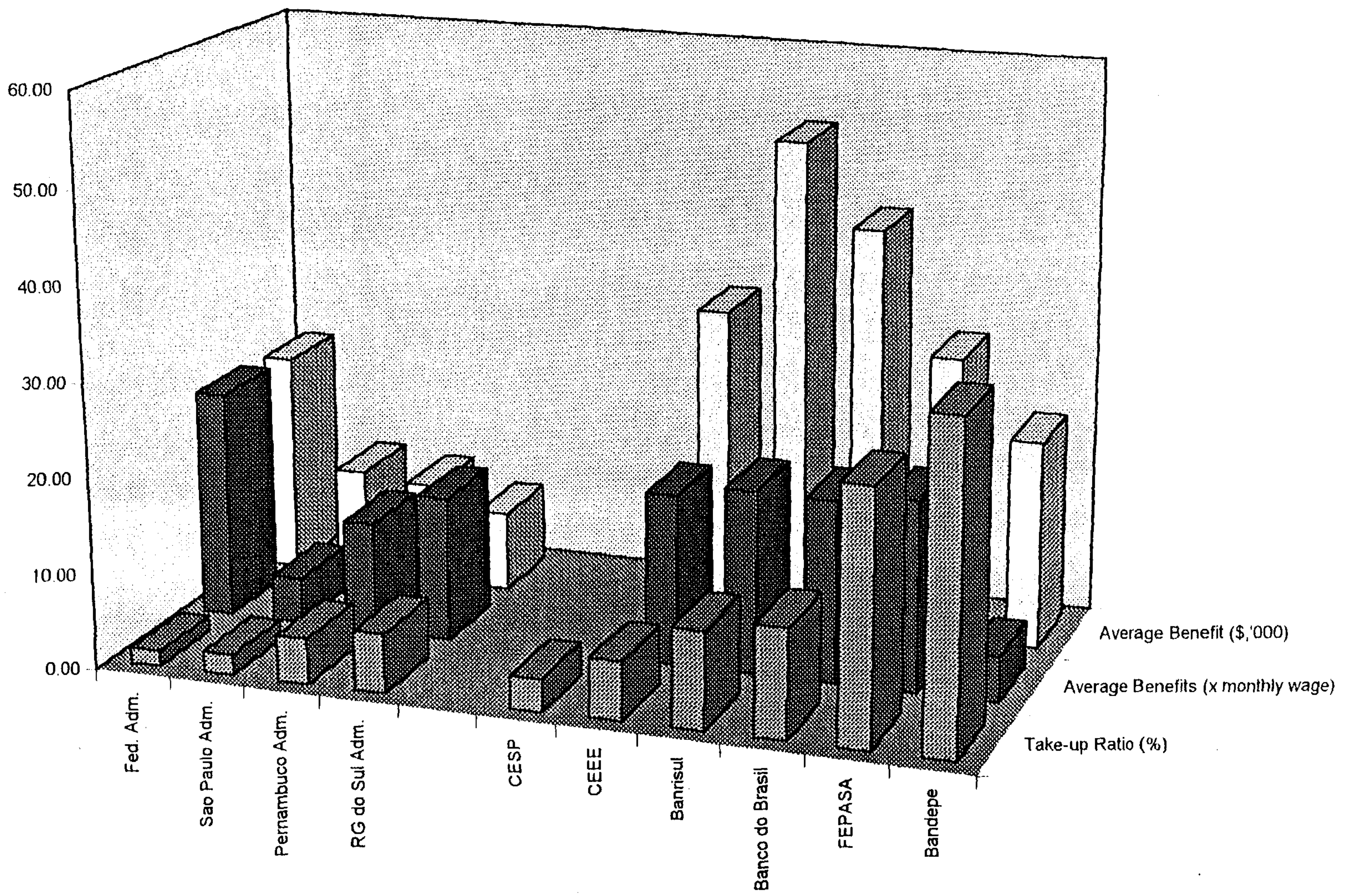
An element of involuntariness is necessary for increasing take-up and containing costs- The programs surveyed show that some pressure has to be used to ensure that the take-up rates are reasonably high, and that those leaving are largely those who should leave. For PDVs of both public administrations and enterprises, those that used pressure (Rio Grande do Sul administration and Bandepe) were most successful in reducing employment and payroll expenses.

Even under existing laws, it is possible to use pressure on negligent public employees to leave with modest severance benefits- The cases of Rio Grande do Sul and Bandepe indicate that constitutional reform is not strictly necessary to carry out a successful public sector downsizing operation. With careful planning and execution, both programs have reduced the number of workers and avoided litigation. The experience of state PDVs implies that administrative reforms that are being debated in Congress - while lowering the cost of downsizing - may not be strictly necessary for successfully reducing the public sector wage bill.

Severance payments for CLTista employees are more than what is legally necessary, and those for estatutarios less than what is sufficient under current tenure and pension laws- On equity and efficiency grounds, *estatutarios* should get at least as much as similarly qualified CLTistas. But because under current laws they cannot easily be fired, *estatutarios* have to be bought out. Other things being equal, therefore, *estatutarios* should be getting higher severance benefits than *CLTistas*. In fact, the opposite often holds. States could reallocate some of what is now being spent on *CLTistas* to get *estatutarios* to volunteer for the program. While on equity considerations these payments should at least be equal, on efficiency grounds it makes sense to spend more to induce an *estatutario* to leave than a *CLTista* with similar attributes (e.g., salary, age, sex, education, and tenure).

Figure 1

VOLUNTARY SEPARATION PROGRAMS IN BRAZIL: TAKE-UP RATES AND BENEFIT LEVELS



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ANNEX: PROGRAM SUMMARIES

<table>
<tr><td colspan="5">VOLUNTARY SEVERANCE PROGRAMS (PDVs)
Public Administration: Federal Government</td></tr>
<tr><td colspan="5">Dates: November 21-December 5, 1996
Main rationale: (a) Change in government's mandate due to new constitution of 1988 requires phasing out some activities; (b) Reduce public expenditures; (c) Increase efficiency.
Concurrent measures: Administrative Reform bill ending job stability of public civil servants</td></tr>
<tr><td></td><td colspan="2">Quantitative measures</td><td colspan="2">Comments</td></tr>
<tr><td>EMPLOYMENT
Baseline total
CLTista
Estatutario

After program total
CLTista
Estatutario</td><td colspan="2">
552,000

538,629</td><td colspan="2">
Mostly estatutarios, though many not selected through nationwide selection exams (concursos).</td></tr>
<tr><td>Targeted workers

Actual take-up

Characteristics of group</td><td colspan="2">30,000

9,179

Av. tenure: ?? years; over 30 years of age; average education: 8 years; 40% female.</td><td colspan="2">Mostly workers with < 8 years of education.

Mainly from intermediate occupational groups requiring only secondary education; mainly from Mid-West and South-East regions.</td></tr>
<tr><td>Baseline Expenditures (R$ 1,000)
After program total</td><td colspan="2">R$ 42,792,675

R$ 41,376,567*</td><td colspan="2">Figures at September 1996 prices.

* Estimate for December 1996.</td></tr>
<tr><td>Program design
Tenure-related payment

Assistance</td><td colspan="2">
1/1.5/1.8 monthly salary for 0-14/15-24/+24 years of service, calculated cumulatively.

Training courses; small business seminars provided by SEBRAE</td><td colspan="2">No cap on benefits.
Extra cash bonus to encourage early take-up: an extra 25% of the total indemnity if joined up to December 5; and an extra 5% if joined between December 6 - 10, 1996.
Indemnity exempt from income tax.</td></tr>
<tr><td>Reported Costs
Total accounting costs

Unit accounting costs

Payback period</td><td colspan="2">
R$ 183 million

R$ 23,487 average per person

20 months</td><td colspan="2">Figures as of April 02, 1997.

Does not include transfer of pension obligations to INSS

Monthly wage bill for PDV workers was R$ 9 million</td></tr>
<tr><td>Full Costs
Benefit: Worker*
Cost: Fed. Govt*</td><td>Aver=?? yr</td><td>Tenure=18 yrs
20W
20W</td><td>Tenure=27 yrs
34.4W
34.4W</td><td>Tenure=34 yrs
47W
47W</td></tr>
<tr><td colspan="5">* Calculated as the sum of: (1) = $1*W*T_o$ for $0<T_o<14$; (2) = $1.5*W*T_1$ for $15<T_1<24$; and (3) = $1.8*W*T_2$ for $T_2 > 24$.</td></tr>
</table>

VOLUNTARY SEVERANCE PROGRAMS (PDVs)
Public Enterprise: Banco do Brasil

Dates: July 3-21, 1995
Rationale: (a) Falling market share, higher costs compared to private competitors; (b) wage bill growing at 4.75% per year; (c) difficult to dismiss workers, though employees were CLTistas.
Concurrent measures: Closing unprofitable branches, other consolidatory steps; new strategy

	Quantitative measures	**Comments**
EMPLOYMENT		
Baseline total	114,000	All CLTistas, though many employees selected through nationwide selection exams.
CLTista	114,000	
Estatutario	0	
After program total	84,778	Not all reduction due to program: attrition, firing etc. accounted for more than 50% of reduction
CLTista	84,778	
Estatutario	0	
Targeted workers	15,000 (workers told target)	Workers with >12 years service and in branches to be closed
Actual take-up	13,380	
Characteristics of group	Av. tenure: 16 years; age > 35 years; av. education: > 8 years; 31% female.	Mainly from administrative occupational groups.
Baseline Expenditures	R$ 6.930 billion	% of personnel in total expenditures: Bradesco 65%; Banco do Brasil 85%.
After program total	R$ 6.303 billion	
Program design		
Tenure-related payment	0.3/0.5/1 monthly salary for 0-15/16-20/+21 years of service	Benefit cap at 14 monthly salaries
Severance under CLT	140 percent of FGTS account	Treated as unjust dismissal
Pension	The right to withdraw 98% percent of own contributions to closed pension fund account OR *Workers who contributed for more than 15 years to Previ could opt to have Banco do Brasil pay both shares (the worker's and the bank's) to the PREVI up to retirement.*	
Other benefits	Proportional paid leave ("licença prêmio"); Medical benefits for 18 months	Up to a maximum of 5 years.
Assistance	165 training courses:1400 people 186 small business semnars:2400	Job placement services provided by Drake, Beam and Morin.
Reported Costs		
Total accounting costs	R$350 million	Does not include transfer of pension obligations to INSS
Unit accounting costs	R$50,000 average per person	Exclusive of 140% of FGTS payments
Payback period	10 months	Monthly wage bill for PDV workers was R$35 million

Full Costs	Avrge=16.5 yrs	Tenure=5 yrs	Tenure=15 yrs	Tenure=25 yrs
Benefit: Worker*	5.25W + 46.2W	1.5W + 14W	4.5W + 42W	12W + 70W
Cost: Agency/State**	5.25W	1.5W	4.5W	12W

* Calculated as sum of (1) Incentive:30%/50%/100% of 1 monthly salary for each 0-15/16-20/+21 year of service (T) = %W*T; capped at 14; plus (2) FGTS: 140% of FGTS fund (.08W*12*T + interest) = 1.4*W*T plus (3) 98% of own pension fund contribution = .98*.12W*12*T + interest= 1.4*W*T.
(1) + (2) + (3) = %W*T + 1.4W*T + 1.4W*T = %W*T + 2.8*W*T.
** Excludes worker's own pension fund contributions and 140% of FGTS.

VOLUNTARY SEVERANCE PROGRAMS (PDVs)
Public Enterprise: Banco do Rio Grande do Sul - BANRISUL

Dates: July 3-21, 1995
Main rationale: Reduce personnel expenditures.
Concurrent measures:

	Quantitative measures	Comments
EMPLOYMENT **Baseline Total** **After Program Total**	 10,316 9,237	 All CLTistas
Targeted Workers Actual take-up Characteristics of group	No target 1,079 Av. Tenure: 17 years; age > 36 years; average education > 8 years; 40% female	No target group, but the aim was to have a 10% cut in personnel following a State government's recommendation.
Baseline Expenditures After program total	R$ 27.701 million R$ 24.403 million	Reduction of 12% in the monthly wage bill.
Program Design Tenure-related payment Severance under CLT Other benefits Pension	 1 monthly salary 1-20 years of service (capped at 15 salaries); 20 monthly salaries for 21-30 years of service; 15 salaries for 31-35 years of service. 140% of FGTS Foodstuff allowance for a period of 6 months. 1 year's medical benefits Workers were allowed to cash 100% of their own contributions to Banrisul's closed pension fund.	 Treated as unjust dismissal
Reported Costs Total accounting costs Unit accounting costs Payback period	 R$ 63.351 million R$ 58,712 average per person 19 months	 Includes 140% of FGTS Monthly wage bill for PDV workers was R$ 3.298 million

Full Costs	Avg = 17 yrs	Tenure = 5 yrs	Tenure = 25 yrs	Tenure = 35 yrs
Benefit: Worker*	15W + 23.8W	5W + 7W	20W + 35W	15W + 49W
Cost: Agency/State*	15W + 23.8W	5W + 7W	20W + 35W	15W + 49W

* Calculated as sum of (1) Incentive: 1*W*T **capped at 15** for 1-20 years of service; plus (2) FGTS: 140% of FGTS fund (0.08W*12*T+interest) = 1.4*W*T.
(1) + (2) = 1*W*T + 1.4*W*T for 1-20 years of service; for 21-30 years of service: benefit = 20W + 1.4*W*T; for + 30 years of service, benefit = 15W + 1.4*W*T

VOLUNTARY SEVERANCE PROGRAMS (PDVs) Public Administration: State of Rio Grande do Sul								
Dates: April 16 to May 17, 1996. Main rationale: (a) State above Camata Lei limit (at about 83%); (b) Change in government's mandate due to new constitution of 1988 requires phasing out some activities. Concurrent measures: Measures to improve civil service efficiency.								
	Quantitative measures				**Comments**			
EMPLOYMENT **Baseline total** CLTista Estatutario	163,000 (January 1996)				Mostly estatutarios on direct payroll; some CLTistas on indirect payroll, many with near tenure rights since 1988.			
After program total CLTista Estatutario	156,300 (November 1996)				Figures for direct administration only			
Targeted workers Actual take-up Characteristics of group	13,700 workers targeted. 12,671 Av. tenure: 15 years; age 38 years; 56% female				Some pressure put on workers considered negligent or redundant before program began, but workers in specific categories not allowed to take package Normal distribution by age, sex, and years of service.			
Baseline Expenditures After program total	R$ 109 million (January 1996) R$ 102 million (November 1996)				Wage bill reduced by R$7 million			
Program design Tenure-related payment	(1) DV:1 month's salary for each year of service: 16-30 April, 25% more; 1-15 May, 15% more. OR (2) RF: for men with 20-25 yrs, & women with 15-20 yrs service, state paid 20% of wages. OR (3) AV: For men with 30-35; and women with 25-30 years, state paid 5% of remaining wages.				Benefit cap at 20 monthly salaries To qualify worker for reduced pensions upon reaching age 60/65. To qualify worker for full pension upon reaching age 60/65 years.			
Other benefits	1 year's medical benefits				CLTistas not allowed to withdraw funds in FGTS account			
Assistance with job search	R$300 maximum for training; 679 approved; 263 actually took training				Provided through SENAI, SENAC, SENAR, FDRH.			
Reported Costs Total accounting costs	R$ 216.1 million				Does not include transfer of pension obligations to INSS			
Unit accounting costs	R$17,055 average per person				Monthly wage bill for PDV workers was R$14.3 million			
Payback period	15-16 months							
Full Costs	Avg.=15 yrs		Tenure=5 yrs		Tenure=16 yrs		Tenure=25 yrs	
	Estat.	CLT	Estat.	CLT	Estat.	CLT	Estat.	CLT
Benefit: Worker*	15.0W	15W	5W	5W	16W	16W	20W	20W
Cost: State	15.0W	15W	5W	5W	16W	16W	20W	20W

* Calculated as: 1 monthly salary for each year of service (T) = W*T; capped at 20.
DV=Voluntary separation; RF="Reconversão Funcional"; AV=Voluntary retirement.

VOLUNTARY SEVERANCE PROGRAMS (PDVs) Public Enterprise: CEEE - Companhia Estadual de Energia Elétrica - RS				
Dates: June 1996 Main rationale: Reduce personnel expenditures following recommendation of State government.				
	Quantitative measures		Comments	
EMPLOYMENT **Baseline total** **After program total**	8,979 (June, 1996) 8,492 (August, 1996)		All CLTistas Reduction of 5% in personnel	
Targeted workers Actual take-up Characteristics of group	No target. 568 Av. tenure: 22 years; age 45.7 years; 30% female.		No target group, but the aim was to have a 10% cut in personnel, following State government's recommendation	
Baseline Expenditures After program total	R$ 47,273,450 (June, 1996) R$ 43,267,574 (August, 1996)		Total wage bill reduced by R$ 4 million.	
Program design Tenure-related payment Severance under CLT Early retirement Assistance	60% of 1 monthly salary per year of service 140% of FGTS account 10% of remaining wages plus 140% of FGTS account.		Benefit cap at 15 monthly salaries. Treated as unjust dismissal To qualify worker for early retirement scheme Training offered, but no interest from workers.	
Reported Costs Total accounting costs Unit accounting costs Payback period	R$ 12 million R$ 41,855 average per person 14 months		Does not include FGTS payments Monthly wage bill for PDV workers was R$ 850,824	
Full Costs	Tenure = 5 yrs	Tenure = 10 yrs	Tenure = 15 yrs	Tenure = 25 yrs
Benefit: Worker*	3W + 7W	6W + 1.4W	9W + 21W	15W + 35W
Cost: Agency/State**	3W	6W	9W	15W
* Calculated as sum of (1) Incentives: 60% of 1 monthly salary per year of service (T), capped at 15 salaries: 0.6W*T; plus (2) 140% of FGTS fund: (.08W*12*T + interest) = 1.4W*T (1) + (2) = 0.6W*T + 1.4W*T ** Does not include 140% of FGTS account.				

VOLUNTARY SEVERANCE PROGRAMS (PDVs) Public Enterprise: FEPASA				
Dates: December 1994 Main rationale: Part of restructuring program to prepare company for privatization.				
	Quantitative measures		**Comments**	
EMPLOYMENT **Baseline total**	17,029 (December, 1994)		All CLTistas.	
After program total	8,862 (February, 1997)		Reduction of 48% in personnel	
Targeted workers	No target.		Trade unions accepted restructuring program in the form of a legal labor contract.	
Total laid off	4,524			
Total transferred	1,458		Voluntary: 2,892	
Attrition, firing, etc.	2,185		Involuntary: 881	
Characteristics of group	Not available		Unjust Dismissal: 751	
Baseline Expenditures	R$ 24.723 million (January/95)		47% reduction in baseline expenditures.	
After program total	R$ 13.208 million (February/97)			
Program design Tenure-related payment	1/2/2.5 monthly salaries for 4-10/11-19/+20 years of service If worker quit voluntarily, s/he would receive a cash bonus of 33% of monthly salary per year of service, plus 180% of FGTS account.		No cap on benefits, but no workers with more than 23 years were not allowed to leave.	
Severance under CLT	If laid off involuntarily received 180% of FGTS account			
Reported Costs Total accounting costs	R$135 million		Does not include FGTS payments.	
Unit accounting costs	R$29,868 average per person			
Payback period	24 months on average			
Full Costs	Tenure = 15 yrs Voluntary	Tenure = 15 yrs Involuntary	Tenure = 20 yrs Voluntary	Tenure = 20 yrs Involuntary
Benefit: Worker*	62W	57W	93.6W	86W
Cost: Agency/State	35W	30W	57.6W	50W

* Calculated as sum of (1) Incentive: 1/2/2.5 monthly salary (X) for 4-19/11-19/+23 years of service (T) = XW*T; plus (2) 100% of FGTS fund (.08W*12*T + interest) = 1.8W*T and 1/3 of a salary if quit voluntarily; or (3) 180% of FGTS fund if quit involuntarily = 1.8*W*T.
Voluntary Quit (4-19 yrs): (1) + (2) = 2W*T + 0.33W*T + 1.8W*T = 4.13W*T
Voluntary Quit (+20 yrs): (1) + (2) = 2.5W*T + 0.33W*T + 1.8W*T = 4.68W*T
Involuntary Quit (4-19 yrs): (1) + (3) = 2W*T + 1.8W*T = 3.8W*T
Involuntary Quit (+20 yrs): (1) + (3) = 2.5W*T + 1.8W*T = 4.3W*T

VOLUNTARY SEVERANCE PROGRAMS (PDVs)
Public Administration: São Paulo

Dates: June 25 to August 23, 1996.
Main rationale: (a) State above Camata Lei limit (at about 62%); (b) Change in government's mandate due to new constitution of 1988 requires phasing out some activities.
Concurrent measures: Measures to improve civil service efficiency.

	Quantitative measures	**Comments**
EMPLOYMENT		
Baseline total	576,764 (June, 1996)	Direct payroll ("secretarias") are assumed to be estatutarios; those on indirect payroll ("autarquias") are assumed to be CLTistas, many with near tenure rights since 1988.
CLTistas	32,367	
Estatutario	544,397	
After program total	568,858 (December, 1996)	
CLTista	29,642	
Estatutario	539,216	
Targeted workers	No targeting	No pressure put on workers considered negligent or redundant; some volunteers refused package.
Actual take-up	12,538 (11,090 estatutarios)	
Characteristics of group	Av. tenure: 10 years; age 60% 31-45 years; education: 69% > secondary complete; 68.7% female.	9,466 takers were in education and health ministries; normally distributed by age, time of service, and education.
Baseline Expenditures	R$ 563.01 million	Ativos 68 percent
After program total	R$ 901.36 million	Ativos 66 percent
Program design		
Tenure-related payment	1 month's salary for each year of service: 25 June-9 July, 25% more; 10-24 July, 15% more (400% more if < 4 years of service).	Benefit cap at 12 monthly salaries
Other benefits	1 year's medical benefits	
Assistance with job search	Provided through SERT	
Reported Costs		
Total accounting costs	R$ 68.36 million	Does not include transfer of pension obligations to INSS
Unit accounting costs	R$5,452.5 average per person	Does not include 100% of FGTS payments
Payback period	5 months	Monthly wage bill for PDV workers was R$14.3 million

Full Costs	Average=10 yrs		Tenure=5 yrs		Tenure=16 yrs		Tenure=25 yrs	
	Estat.	CLT	Estat.	CLT	Estat.	CLT	Estat.	CLT
Benefit: Worker*	10W	10W	5W	5W	12W	12W	12W	12W
Cost: Agency/State	10W	10W	5W	5W	12W	12W	12W	12W

* For CLTistas and Estatutários, calculated as: 1 monthly salary per year of service (T), capped at 12 salaries, 1*W*T.

SEVERANCE PROGRAMS (PDVs) Public Enterprise: Bandepe (Pernambuco)		
Dates: February 21-28, 1996 Main rationale: Reduce personnel expenditures; increase efficiency. Concurrent measures: Evaluation of employees' performance; restructuring program.		
	Quantitative measures	**Comments**
EMPLOYMENT **Baseline total** CLTista Estatutario **After program total** CLTista Estatutario	 3,268 3,268 0 2,151 2,151 0	Workers were encouraged to join the redundancy program to avoid being made redundant afterwards (without the benefits) as part of the ongoing restructuring program.
Targeted workers Actual take-up Characteristics of group	2,000 1,117 Average tenure: + 10 years; age + 30 years; 40% female;	Workers with >10 years service and low performance. Age structure similar to baseline employment
Baseline Expenditures After program total	R$ 10,835,000 R$ 5,835,000	Reduction of 46% in wage bill.
Program design Financial Incentive Severance under CLT Pension (BANDEPREV) Other benefits Assistance	 <u>4 gross monthly salaries to be paid in 18 months</u> 140 percent of FGTS account Bank paid employer's share up to 18th month for those retiring in the next 18 months; and both shares from 18th up to the 36th for those retiring within 3 years. Medical benefits for 18 months; Foodstuff allowance for 18 months. Special loans for small businesses (R$1.3 million); courses on setting up own business (support of SEBRAE).	Treated as unjust dismissal. Workers taking up INSS early retirement received 2 gross monthly salaries as bonus; if under 55 years of age, received 80% of his/her gross monthly salary; bank paid employer's share to BANDEPREV until employee reached legal requirements to receive full pension. Provided through SENAI, SENAC
Reported Costs Total accounting costs Unit accounting costs Payback period	 R$ 30 million (estimate) R$ 21,930 average per person 5 months	Monthly wage bill for PDV workers was R$ 5 million Costs do not include additional benefits under CCT ("Contrato Coletivo de Trabalho")
Full Costs **Benefit:** Worker **Costs**: Contractual Incentives	 R$ 21,930 R$ 11,700 R$ 10,230	

VOLUNTARY SEVERANCE PROGRAMS (PDVs) Public Administration: Pernambuco				
Dates: Phase I - August 5-31, 1996; Phase II - December 4-20, 1996 Main rationale: (a) State above Camata Law limit (at about 74%); (b) change in government's mandate due to new constitution of 1988 requires phasing out some activities; (c) increase efficiency of public services. Concurrent measures: Several restrictive measures to cut payroll expenditures.				
	Quantitative measures		**Comments**	
EMPLOYMENT ***Baseline total*** CLTista Estatutario **After program total** CLTista Estatutario	 72,773 9,460 63,313 69,200		 Mostly estatutarios, though many not selected through nationwide selection exams (concursos).	
Targeted workers Actual take-up Characteristics of group	11,000 3,573 Not available		Pressure put on workers hired without selection exams (concursos); electronic time monitoring installed. PRODESI-I: 2,742 PRODESI-II: 831	
Baseline Expenditures After program total	R\$ R\$			
Program design Tenure-related payment Assistance	*Estatutarios*: (a) a cash bonus of 4/2/1 monthly salaries for adhesion between August 5-20/21-28/29-31; plus (b) 1 monthly salary per year of service. Under **PRODESI-II**, cash bonus of 4/2 salaries for take up between December 4-17/ 18-20. *CLTistas*: (a) payment of 1 monthly salary; plus (b) indemnity, calculated as follows: 1/0.7/0.4 of a month's salary per year of service for workers with 0-10/11-20/+20 years of service; Extended medical benefits (for a period of one year after leaving employment) and training courses.		No cap on benefits. Job separations treated as just dismissal. *CLTistas* did not benefit from extended medical assistance.	
Reported Costs Total accounting costs Unit accounting costs Payback period	 R\$ 46.5 million R\$ 10,665 average per person 12 months		 Does not include transfer of pension obligations to INSS Monthly wage bill for PDV workers was R\$ 3.3 million	
Full Costs (CLTistas) **Benefit:** Worker* **Cost:** Agency/State**		Tenure=5 yrs 1W + 5W 6W	Tenure=15 yrs 1W + 13.5W 14.5W	Tenure=25 yrs 1W + 15.5W 16.5W
* Calculated as sum of (1) Incentive:1 monthly salary; plus (2) indemnity: 1 monthly salary for each year of service up to 10 years of service; 0.7 of a monthly salary for time of service between 11 and 20 years; and 0.4 of a monthly salary for the period in excess of 20 years of service.				