



# SOCIAL IMPACT ASSESSMENT OF CROATIAN RAILWAY REFORMS

Poverty and Social Impact Analysis (PSIA)

Prepared by: GfK Croatia



## ACKNOWLEDGEMENTS

This report was prepared by GfK Croatia (a market research company, under the guidance of a World Bank team that included Daniel Owen, Vanja Frajtic, Jorge Villegas and Jean-François Marteau.

The team would like to give special thanks to the staff of the three Croatian Railways companies, HZ Cargo, HZ Infrastructure and HZ Passenger Transport and the Ministry of Maritime Affairs, Transport and Infrastructure for providing valuable support and cooperation in the preparation of this report.

The team would also like to thank the Poverty and Social Impact Analysis Multi Donor Trust Fund for Europe and Central Asia for funding this assessment.

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## 1. EXECUTIVE SUMMARY – MAIN FINDINGS

By joining the European Union (EU), the Croatian Government's 2013 Economic Program committed to the Europe 2020 "smart, sustainable and inclusive" growth strategy which emphasizes reforms that promote macroeconomic stability and competitiveness as the basis for accelerated recovery. However, the global economic crisis exposed Croatia's macroeconomic vulnerabilities and Croatia went through six consecutive years of recession. In early 2015, Croatia returned to growth supported by external demand and personal consumption. These two factors on the demand side and a slow recovery in the construction sector on the supply side are likely to support the 2015 growth outlook, with growth projected at close to 1 percent. Lower oil and food prices, a personal income tax cut, and the gradual improvement in the labor market are boosting disposable incomes and private consumption. Although the current account balance improved in early 2015, on the back of transfers from the EU and retained profits, external vulnerabilities remain high as foreign debt reached a ten-year high, led by government borrowing. Fiscal vulnerabilities deepened in 2014 with the deficit at 5.6 percent of gross domestic product (GDP) and estimated public debt at 89.2 percent of GDP in 2015. The economy requires robust structural reforms to secure macro stability, underpin employment and reduce poverty.

Government investments in the transport sector over the past fifteen years have mostly targeted the development of the motorway network, which is now almost completed. The Government is currently formulating strategic documents for the whole transport sector as part of the overall EU 2014–2020 programming perspective. Finalizing this strategy in line with EU objectives (to be completed by the end of 2016) is a condition for the disbursement of EU funds in the sector. The railways still represent a significant share of traffic and have strong potential, in spite of a recent decline. However, it is essential to arrest the decline in market share for passenger transport and to tap into the solid transit freight flow potential.

In June 2012, the Ministry of Maritime Affairs, Transport and Infrastructure (MMATI) adopted a five-year restructuring plan for the Croatian Railways Holding, compliant with EU directives, dissolving the Holding and dividing it into three independent entities – HŽ Infrastructure (HZI), HŽ Cargo (HZC) and HŽ Passenger Transport (HZP).

However, the reform of 2012 is not enough for the Croatian public railways to survive and grow in the large and competitive EU transport market. The sector's productivity is still behind its peers, and additional efficiency measures are needed to make it sustainable and competitive. To help with further reforms of the Croatian railway sector, over the period 2011-2013, the World Bank was engaged in dialogue with the Croatian Government and the Croatian Railway companies which resulted in a Croatian Railway Policy Note. The recommendations of the Note were translated into the World Bank supported Sustainable Croatian Railways in Europe Project which is assisting the three railway companies to improve their operational efficiency and financial situation in order to deliver better services in a financially sustainable way. The project complements major investments in infrastructure

on international corridors funded by the EU by focusing on the overall sector restructuring and the sustainability of the public companies, which is in line with the Government's EU agenda. The Project is also supporting the railway companies with labor force restructuring to respond to market changes and make the companies more efficient.

The research was conducted to meet the main goals set by the PSIA (Poverty and Social Impact Analysis) involving an analysis of the consequences of policy reforms on the wellbeing or welfare of different social groups, with particular focus on the poor and vulnerable (in this case, on railway restructuring in Croatia taking in the three related companies – HŽ Infrastructure, HŽ Cargo and HŽ Passenger Transport).

PSIA offers a set of analytical and process tools that: (a) determine distributional impacts to improve the analytical underpinnings of policy making; and (b) engage appropriate stakeholders in the policy making process.

The main aims of this survey are:

- **to assess the potential positive and negative social impacts of the restructuring process in Croatian Railways;**
- **to identify the best measures to increase the workers' chances of re-engaging in economic activities after leaving Croatian Railways.**

In order to adequately answer the set research goals, we conducted qualitative research to assess the deeper problematic of the set goals.

The results of the survey to determine the social impact of the railway reform show that in the restructuring process so far most workers left voluntarily. Further, most of those leaving retired: they either went on full or early retirement (except those from HŽ Cargo, who were declared technologically redundant). Most workers do not feel any loss on leaving Croatian Railways (because of the good severance pay, the disrupted interpersonal relations in Croatian Railways, etc.). However, they are not satisfied with how the restructuring was conducted. They believe that problems and dissatisfaction will arise since workers who are due to be released will not leave voluntarily, and, given the high unemployment rates in the country and the lack of retraining/training, it will not be possible for them to be re-employed quickly.

#### **1. Options for leaving Croatian Railways**

- **Most former employees voluntarily left HŽ** (from HŽ Passenger Transport, HŽ Infrastructure and HŽ Cargo) by signing a mutual agreement. In addition to voluntary departure in HŽ Cargo, a list was made with the names of people who had been made redundant. These people either

took severance pay or waited for the legal deadline after which they were dismissed from HŽ Cargo (in order to have the right to compensation from the Croatian Employment Service).

- **All those who left Croatian Railways took various factors into consideration** beforehand and saw how much they would gain by leaving, how many years they had left until early or full retirement, and they attempted to assess whether or not this really would be the last severance pay, and thus made a decision about leaving. Most of those who still had a short time to go before retirement benefited from taking the offered amount of severance pay.

Upon leaving **Croatian Railways**, workers had the opportunity of either taking severance pay or joining the Railwaz Fund (HŽ Fund) under predefined conditions:

#### **Severance pay:**

- **A large majority of former employees of Croatian Railways are satisfied with what they received upon leaving the companies.** They are satisfied with the amount of severance pay considering the situation in the country and given that many other companies do not provide severance pay at all, and especially not in such an amount. Those who are dissatisfied are mainly younger people who are still able to work and who left for various reasons: either because of the tense human relations and threats of dismissal by the management, or because of the uncertainty about whether in the next round of layoffs they would receive severance pay. The unions believe a question mostly arises about “taking care of workers who had been already taken care of”, that is, those who were already entitled to retirement. In their opinion, severance pay should have corresponded to the conditions under which the workers were leaving **Croatian Railways** (lower severance pay for those who were retiring).
- **The three companies (HŽ Cargo, HŽ Passenger Transport and HŽ Infrastructure) did not offer the same financial packages to the employees that left** (e.g. in 2014 the maximum severance pay in HŽ Passenger Transport and HŽ Infrastructure was HRK 200,000, while in HŽ Cargo it totaled HRK 140,000).

#### **Railway Fund:**

- **Mostly younger workers join the Railway Fund because they hope to be re-employed in Croatian Railways companies. The respondents are not completely familiar with the conditions in the Railway Fund therefore most of them accepted severance pay.** They are aware that they can be members of the Railway Fund for a maximum of three years, during which they receive HRK 4,000 gross per month and they are obligated to respond if called by any of the three railway companies. Workers can also leave the Railway Fund, and they are entitled to 50% of the agreed amount for the remaining period.

Union representatives believe that the Railway Fund should conduct retraining and training for workers in order to provide a purpose for their presence in the company. However, in order to do this, a workplace analysis should first be conducted. Along with the lack of a workplace

analysis, a lack of funds is also mentioned by Railway Fund representatives as one of the main obstacles for conducting retraining (the Railway Fund is funded from the resources of the three companies HŽ Cargo, HŽ Passenger Transport and HŽ Infrastructure. Together with the above, some workers were able to receive unemployment benefit from the Employment Service. This depended on the company they worked for and on the date they left (HŽ Passenger Transport – from April 2014; HŽ Cargo – from August 2014). According to HŽ Passenger Transport payments received by workers while they are in the Fund exclude benefits received from the Employment Service.

**Generally speaking, workers are not adequately informed about their right to receive unemployment benefits from the Employment Service after leaving Croatian Railways.** The mentioned unemployment benefits were given only to persons who signed mutual agreements on the termination of employment relationships (although generally when such an agreement is signed there is no entitlement to unemployment benefits) and only if it was stated that the agreement was signed for technological redundancies, that is, because of the collective agreement on the termination of employment relationships (Article 127 of the Labour Act).

#### **The main objections of workers during the restructuring process:**

**The creation of tense relationships among workers, the lack of due and full information and the lack of a systematic and planned release of workers were the most common objections that workers had during the restructuring process of the three companies.**

- **Tense relationships have been created among workers** in the past few years (some even mentioned 10 years, but more often in the last 5 to 6 years) due to the constant introduction of a new systematization of work positions. This has led to poor interpersonal relationships among workers and a loss of trust because everyone was fighting to keep their jobs.
- **In parallel with laying off workers, new people were hired.** The workers object to being released from the companies on account of technological redundancy, while at the same time new people were hired. In their opinion, if it was necessary to release workers because they were redundant, they would not need to hire new workers.
- **Workers also object to Croatian Railways on the stress created by the sense that every severance pay could be the last.** In this way, people were forced to opt to leave, even though they did not have the conditions for retirement, nor did they want to leave the companies.
- Some workers, mostly those in HŽ Cargo, say that **they had to decide whether or not to leave the company within two days.** According to HŽ Cargo workers were given from one to six months to make a decision whether they wanted to leave and in HŽ Infrastructure they were given at least one month or longer.
- **There was a sense of lack of support from Human Resources and Legal Services, which resulted in workers being unaware of their rights.**

- **The workers believe that the systematization and job cuts were not conducted according to a predetermined plan and program.** There was no analysis of work positions and processes (an entire strategy) based on which the release of workers could be conducted.
- **They also believe that one of the consequences of releasing workers would put traffic safety into question (among those released were switchmen, those responsible for carriage control, etc.).**
- **The unions mention that the main goal was only to downsize the personnel, irrespective of their occupation and job positions.** Because most workers left voluntarily, it happened that some job positions now have too many workers, and some lack workers.

**The results show that upon releasing workers there were few differences in the structure of the released workers (for example, in gender, age, etc.)**

The only finding about differences obtained from the respondents shows that women were in a somewhat unfavorable position regarding jobs in administration. As administrative functions were the first to be rationalized and they mostly consisted of women, they automatically found themselves in a more unfavorable position than men. It should be noted that in the railway sector the majority of operational work is more suitable for men.

### **c) – Sources of income after leaving Croatian Railways**

**For the majority of the released workers, either pensions or unemployment benefits from the Employment Service are the main sources of income.**

- Some released workers receive neither compensation nor a pension. However, they are registered at the Employment Service while waiting to meet the requirements for retirement. Those with the lowest income have the help of the severance pay to survive. **A large portion of the respondents settled existing debts, such as loans and the like, with the money received.** Most have no additional sources of income, except those who live in the countryside where they breed animals, keep bees and so on.
- **In addition to financial loss, the second biggest drawback on leaving the companies was the sudden departure.** Those who had to decide within 2 to 3 days found themselves overnight no longer employed but in retirement. They did not have time to mentally prepare for the new situation, and some of the respondents felt useless, lost, and still not adapted to their new living conditions.
- **Although the majority are satisfied with the received severance pay, many of them cannot live up to the same standards they enjoyed during their employment** (pensions or unemployment benefits from the Employment Service are significantly lower than the salaries they had, and the severance pay was mostly used to settle debts (loans, etc.). Consequently, they have cut nearly all their expenses, from clothing and shoes, to using their car, going out for coffee, and some have even changed their heating method (they have started to use wood).



Given that Croatia in general has a high unemployment rate, they have to use their low incomes to financially support their children who cannot find a job.

#### d) Finding new jobs

- **The main obstacles in finding a new job are: the high unemployment rate in Croatia in general, age and their specific occupation (engine drivers, switchmen etc.).**
- **Those who managed to find jobs (two respondents from Zagreb) did so by using their contacts and connections.**
- The readiness to change their place of residence for another workplace varies among the respondents. Such readiness mostly depends on the offered salary and on the traffic connections between that other location and their place of residence.
- Because of the lack of employment opportunities, some workers were ready to perform entirely different jobs in order to survive (for example, as caregivers in nursing homes in Germany).
- **Potential problems in finding a new job arise in the provision of the mutual agreement on the termination of employment relations signed by the workers and which states that they cannot be employed in any company in Croatia that is financed from the state budget** (because they received severance pay which is funded from the same budget). In other words, they cannot find work in any public company.

#### e) Programs and training for released workers

**In order to create an efficient retraining/training program, it is necessary to analyze work positions in the railway companies.** The analysis should be conducted both with regard to the the companies (concerning future workplace requirements based on new technologies and the strategy) and the Railway Fund.

- **Railway companies offered no systematic program of training or retraining for redundant workers, nor assistance in finding new jobs.** The respondents believe that there were no programs for retraining because there was a surplus of people in all work positions, and thus there was no need for retraining. As additional training, respondents mentioned a variety of courses such as foreign language courses, computer skills, training for work on new machines, accounting programs (SAP and similar). However, these courses were conducted during their years of service and no training was organized during the new systematization of work. **Up to now, the Employment Service has been seen as the key player in the organization of retraining/training**, both on its own initiative, and through its mobile teams which were hired by the Railway companies.

#### f) Impacts of the railway reforms on the broader community

- **Workers believe that railway traffic reform, and especially releasing workers, could result in endangering travel safety, in the suspension of railway traffic due to lack of**

**manpower, and in the emigration of young people, all of which could have a negative impact on related fields such as tourism, cargo ports, etc.** They also consider that the problems of laid-off workers still lie ahead, because the older workers have mostly left, and now young people will need to leave and they will not be able to find new jobs.

## 2. INTRODUCTION

**In Croatia, initial steps to reform the railway sector date back to the middle of the first decade of the 2000s, with the formation of Croatian Railways as a holding company.** Two regulatory bodies, respectively overseeing traffic safety and standards, and fair access to the market, were later established in line with EU regulations. To accelerate the reform agenda prior to EU accession, the Ministry of Maritime Affairs, Transport and Infrastructure (MMATI) adopted a five-year restructuring plan for Croatian Railways in June 2012. Croatian Railways are now split into three independent companies: HŽ Infrastructure (HŽI), HŽ Cargo (HŽC) and HŽ Passenger Transport (HŽP).

Labor productivity at the sector level has been constantly falling since 2008. In 2011, Croatian Railways allocated more than 75% of its operating revenues to cover labor costs (in Europe this is around 40%). The Restructuring Plan prepared by HŽ Holding in 2012 proposed significant staff retrenchment over 5 years.

To help with further reforms of the Croatian railway sector, over the period 2011-2013, the World Bank was engaged in dialogue with the Croatian Government and the Croatian Railway companies which resulted in a Croatian Railway Policy Note. The recommendations of the Note were translated into the World Bank supported Sustainable Croatian Railways in Europe Project which is assisting the three railway companies to improve their operational efficiency and financial situation in order to deliver better services in a financially sustainable way. The project complements major investments in infrastructure on international corridors funded by the EU by focusing on the overall sector restructuring and the sustainability of the public companies, which is in line with the Government's EU agenda. The Project is also supporting the railway companies with labor force restructuring to respond to market changes and make the companies more efficient. Currently, retrenchment plans and HR strategies for the three Railway companies are being developed and implemented.

The PSIA (Poverty and Social Impact Analysis) is an analysis of the intended and unintended consequences of policy reforms on the wellbeing or welfare of different social groups, with particular focus on the poor and vulnerable. PSIA offers a set of analytical and process tools that (a) determine distributional impacts to improve the analytical underpinnings of policy making; and (b) engage appropriate stakeholders in the policy-making process. By engaging stakeholders, PSIA aims to create space for public dialogue on reforms and, as a consequence, to contribute to increased transparency and accountability in policy formulation.

Conducting PSIA downstream can help clarify the likely impacts of a specific reform proposal on the poor and vulnerable, allowing for the introduction of measures to help mitigate negative impacts and enhance positive ones.

Regarding this, the objectives of this PSIA are to:

1. capture the social, economic and distributional impacts of the planned railway sector restructuring as perceived by different social groups, including released staff, households, and, if relevant, other community members indirectly associated with railway employment; and
2. gauge the perceptions of users of railway transport on closed lines and the observed impact of replacement transport services.

## 2.1. Main research goals

**The objective of the survey is to discover:**

1. how the released staff left the Railway companies (under what conditions, how the conditions were explained, how long before they left, etc.);
2. the main losses upon leaving (material and non-material);
3. how the released staff face their new situation (after leaving the companies);
4. the possibilities of transferring to another workplace (interest in changing place of residence, possibilities of finding new jobs, ways of finding new jobs);
5. the programs and institutions which offer training/retraining in order to find new jobs;
6. the socio-demographic structure of users of railway lines which were closed or of passengers of trains that were taken out of operation;
7. the severity of the loss for users of those lines and the possibilities for alternative transport.

From the obtained results, it is necessary to formulate recommendations to more efficiently take care of the released workers.

In order to complete the set objectives, the intention was to conduct qualitative and quantitative research (in order to complete objectives 6 and 7). However, during the research, after the conversation with HŽ Passenger Transport representatives, we found that the closed lines had very few passengers daily. Besides, HŽ Passenger Transport provided alternative transport for all closed lines with buses which travelled alongside the railway line (from one railway station to another). (See Chapter 2.6 – Closed/reduced lines.)

Qualitative research was conducted using two methods: group discussions and in-depth interviews:

1. qualitative research with methods of group discussions and in-depth interviews. In total, 7 group discussions were held with released workers in 6 towns (objectives: 1 to 5) (detailed information about group structures and IDI can be found in the section Methodology);

2. qualitative research with methods of in-depth interviews. In total, 8 in-depth interviews were conducted with representatives of different organizations.

Group discussions were conducted in the period from February 4th to February 16<sup>th</sup>, 2015, and in-depth interviews in the period from March 3<sup>rd</sup> to April 30<sup>th</sup>, 2015.

The report is divided into two sections. The introduction provides information on the economic situation in Croatia, including unemployment rates and pensions, the situation of the railway sector and data on the restructuring process of the Croatian Railways companies. This section also includes data on the research methodology.

The second section (Results) contains the results obtained from the group discussions and in-depth interviews which are divided into four parts: the circumstances upon leaving the Railway companies, after leaving, transferring to a new workplace, and the broader impacts on the community, including the impacts of closed/reduced lines.

The last part of the second section contains recommendations based on the obtained results.

## 2.2. Process and research methodology

**In order to meet the set research goals, we used qualitative research**, consisting of discussion groups and in-depth interviews. In total, 7 group discussions and 8 in-depth interviews were held. The qualitative research method was chosen since in this way it would be possible to assess the problem in depth and discover the emotional components of the researched problem. Qualitative research mostly answers the questions “How?” and “Why?”. Respondents were also asked to explain their findings/perceptions, which is not possible in quantitative research, where most of the results are seen in percentages. If some of the obtained data need to be quantified, it may be possible to conduct such research in the future.

Selection of respondents for discussion groups:

Participants for the discussion groups were selected based on lists which the three Railway companies (HŽ Passenger Transport, HŽ Infrastructure and HŽ Cargo) delivered to the Client – The World Bank. The companies were informed about the research conducted by the World Bank, and about the interviews conducted with former employees. All respondents signed the research participation agreements.

In interpreting the results, it is important to consider the structure of the respondents who participated in the discussion groups: these were persons whose average age was 57, with 37 years of service on

average, most of whom had completed secondary education and among whom 22 met the requirements for retirement.

Based on the lists, GfK selected the places (cities/towns) where the group discussions would be held. A criterion for choosing the cities/towns was to cover as much of the Croatian territory as possible, and also for as many of the people on the list as possible to live in the same city/town (to ensure 6–8 participants in each of the discussion groups).

Two discussion groups had 8 participants, and the remaining 5 had 7 participants.

**Questionnaire guidelines were produced to conduct the group discussions. The guidelines included the following parts:**

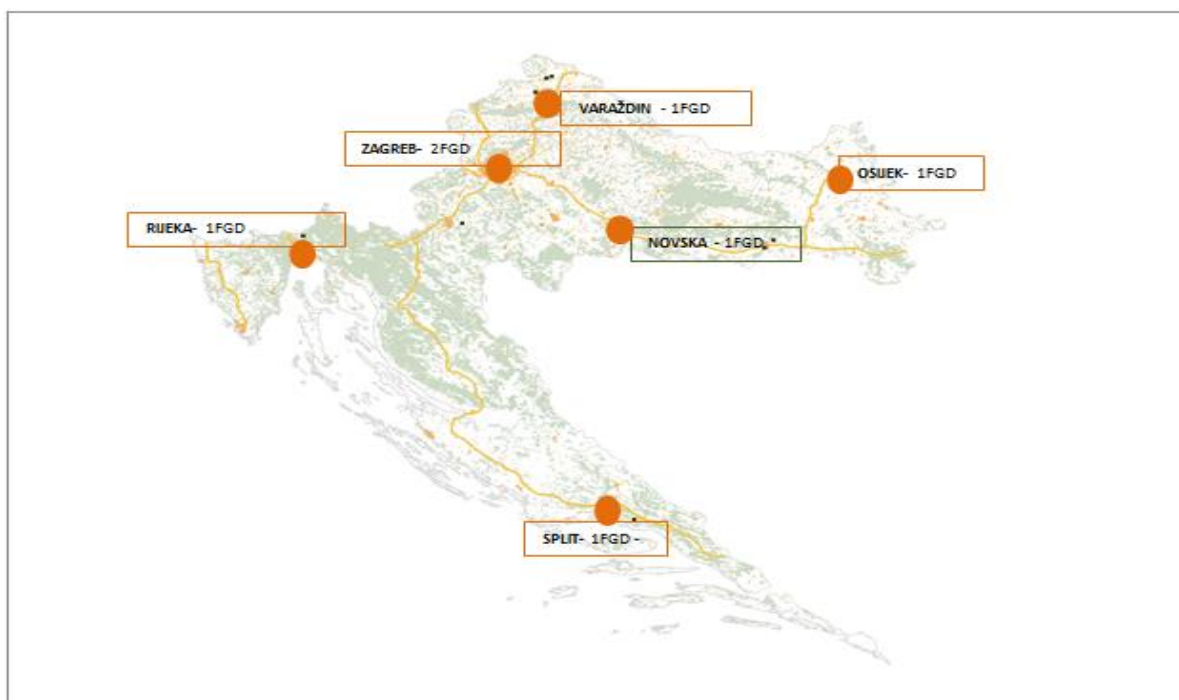
PART 1: Circumstances upon leaving Croatian Railways: (how the released staff left the Railway companies, what conditions/options were offered).

PART 2: After leaving the companies: the most important losses, current sources of income, strategies for facing the new situation.

PART 3: Transferring to new workplaces, readiness to change places of residence for other job opportunities, retraining/training programs.

PART 4: Broader impacts on communities.

**Figure 1: Cities/Town in Croatia where the group discussions were held**



**Table 1: Group structure by city/town, gender, education and HŽ company**

		Zagreb	Split	Osijek	Rijeka	Novska	Varaždin	TOTAL
Gender	male	10	8	5	5	6	5	39
	female	5	0	2	2	1	2	12
Average age of the respondent		58	57	59	57	54	58	57
Average –number of years of service		35	47	34	38	34	36	37
Education	primary school	1	3	0	1	2	0	7
	high school	9	5	6	6	5	4	35
	college/university	5	0	1	0	0	3	9
HŽ Company	HŽ Passenger Transport	6	4	4	3	1	6	24
	HŽ Infrastructure	5	1	1	1	5	1	14
	HŽ Cargo	4	3	2	3	1	0	13
TOTAL		15	8	7	7	7	7	51

Eight in-depth interviews were conducted along with the group discussions:

- One interview with representatives of the Employment Service
- One interview with representatives of the CARGO organization - Centre for development of knowledge and skills
- One interview with a representative of the Railway Fund
- One interview with representatives of HŽ Passenger Transport
- Four interviews with representatives of the following unions: The HŽ Infrastructure Union, the HŽ Cargo Union, the Union of Croatian Railways, the Trade Union of Technical Inspection of Wagons and Trains

Each in-depth interview took on average one hour.

**Besides the group discussions and in-depth interviews, a workshop was also held where the research results were presented.** The aim was to encourage dialogue between the participants in order to find the best solution regarding terminating employment relations and meeting the needs of released workers in the future. Representatives of the World Bank, the unions, Railway companies (HŽ Cargo and HŽ Infrastructure), NGOs and the Ministry of Finance participated in the workshop.

## 2.3. Background

This part of the report covers facts that are essential to understand the restructuring process in Croatian Railways. Data are also presented on the economic situation in the country in connection with unemployment trends and the number of pensioners.

### 2.3.1. Economic context of the country

**Croatia became the 28th member state of the European Union (EU) in July 2013 after six years of challenging negotiations.** EU accession presented a unique opportunity to address the country's needs by providing an incentive to adopt reforms, harmonize legislation with the EU *acquis communautaire* and to access EU structural and cohesion funds amounting to more than 3 percent of GDP per year. The Government's 2013 Economic Program committed the country to the Europe 2020

“smart, sustainable and inclusive” growth strategy and emphasized reforms promoting macroeconomic stability and competitiveness as the basis for accelerated recovery.

**The global economic crisis exposed Croatia’s macroeconomic vulnerabilities.** Croatia experienced six consecutive years of recession through to 2014. In early 2015, Croatia returned to growth supported by external demand and personal consumption. These two factors on the demand side and a slow recovery in the construction sector on the supply side are likely to support the 2015 growth outlook, with growth projected at close to 1 percent. Lower oil and food prices, a personal income tax cut, and the gradual improvement in the labor market are boosting disposable incomes and private consumption. Although the current account balance improved in early 2015, on the back of transfers from the EU and retained profits, external vulnerabilities remain high as foreign debt reached a ten-year high, led by government borrowing. Fiscal vulnerabilities deepened in 2014 with the deficit at 5.7 percent of gross domestic product (GDP) and public debt at 86 percent of GDP in March 2015. The economy requires robust structural reforms to secure macro stability, underpin employment and reduce poverty.

### 2.3.2. Unemployment and pensions

The registered unemployment rate in December 2014 was 19.6 percent (whereas it was 19.2 percent in the previous month), where the unemployment rate for men was 17.4 percent and 21.9 percent for women.

Among the unemployed in Croatia, there are somewhat more women than men, where the overall figures include larger proportions of those with 1- to 3-year vocational high school education, while the highest absolute number of unemployed persons was registered in the County of Split-Dalmatia, in the City of Zagreb and in the County of Osijek-Baranja.

The current population of Croatia is 4,284,889 (according to the 2011 Census). In January 2015, the retired population consisted of 1,131,163 citizens, which is 26.4% of the total Croatian population. The number of those retired is constantly increasing (data from January 2015 show that the employed and retired ratio in Croatia is 1:1.13). The average pension for February 2015 was HRK 2,234.06.<sup>1</sup>

### 2.3.3. Railway sector context

The Government is currently formulating strategic documents for the whole transport sector as part of the overall EU 2014–2020 programming perspective. Finalizing this strategy in line with EU objectives (to be completed by the end of 2016) is a condition for the disbursement of EU funds in the sector. The railways still represent a significant share of traffic and have strong potential, in spite of the recent decline. It is essential to arrest the decline in market share for passenger transport and to tap into the solid transit freight flow potential. In June 2012, MMATI adopted a five-year restructuring plan for the

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<sup>1</sup> Croatian Pension Insurance Institute, Central service.

Croatian Railways Holding compliant with EU directives, dissolving the Holding and dividing it into three independent entities – HŽ Infrastructure (HZI), HŽ Cargo (HŽC) and HŽ Passenger Transport (HŽP).

However, the reform of 2012 is not enough for the Croatian public railways to survive and grow in the large and competitive EU transport market. The sector's productivity is still behind its peers, and additional efficiency measures are needed to make it sustainable and competitive. To help with further reforms of the Croatian railway sector, over the period 2011-2013, the World Bank was engaged in dialogue with the Croatian Government and the Croatian Railway companies which resulted in a Croatian Railway Policy Note. The recommendations of the Note were translated into the World Bank supported Sustainable Croatian Railways in Europe Project which is assisting the three railway companies to improve their operational efficiency and financial situation in order to deliver better services in a financially sustainable way. The project complements major investments in infrastructure on international corridors funded by the EU by focusing on the overall sector restructuring and the sustainability of the public companies, which is in line with the Government's EU agenda. The Project is also supporting the railway companies with labor force restructuring to respond to market changes and make the companies more efficient.

In this context, the WB Group is playing an important role in helping the Government reach its objectives while complementing the actions and financing from European institutions.

#### **2.3.4. Basic facts about the restructuring of Croatian Railways**

**The most significant social issue relates to the reduction of the workforce in all three companies (HŽI, HŽP and HŽC) and some of their subsidiaries.** As of January 2015, the three companies together, including subsidiaries, employ more than 12,000 people. The target is to reduce the total workforce by approximately 16 percent between 2015 and 2019. Tables 2 and 3 and Figure 3 show the number of employed workers in all three companies, their gender structure and average age, as well as the plan of laying off workers until 2018.

Initial reform steps had already been taken in the middle of the first decade of the 2000s, with the formation of Croatian Railways as the holding company with four lines of business. This process included the breaking up of the historical public monopoly by separating infrastructure management from operations, and separating core business activities (freight and passenger services). This complex process required the establishment of an effective regulatory framework to regulate access for new operators and the ensuing competition. Two regulatory bodies, respectively overseeing traffic safety and standards, and fair access to the market, were later established in line with EU regulations. In June 2012, MMATI adopted a five-year restructuring plan for the Croatian Railways Holding. The Croatian Railways Holding was split into three independent entities – HŽ Infrastructure (HŽI), HŽ Cargo (HŽC) and HŽ Passenger Transport (HŽP), all limited liability companies owned by the Republic of Croatia, and the holding company was dissolved.



**The Restructuring Plan** for Croatian Railways Holding, which was prepared by the Holding itself, was adopted by the Holding's Assembly (headed by the Minister of Transport) on June 30, 2012. The most important outcome of this program was the division of the Railways Holding into three independent companies: HŽ Infrastruktura, HŽ Cargo, and HŽ Passenger Transport. For each company, the Restructuring Plan outlined a detailed program to be implemented over the period 2012–2016.

Retrenchment is regulated by multiple Croatian laws, and at the same time the retrenchment process involves continuous negotiations with unions, leading to collective agreements.

The institutional reforms have now mostly been completed. However, in recent years, the companies' managements have mostly focused on separation and solving the immediate financial difficulties or bankruptcy (HŽC, and the subsidiaries of HŽI and HŽP) with much less emphasis on the reorganization of services and operations, commercial policy or medium-term planning. Experience in Europe also shows that operational restructuring takes a great deal of time.


**Figure 2: Railway map<sup>2</sup>**



**Division of lines:**

International main lines - 

Other international lines - 

Regional - 

Local - 

Decommissioned - |||||

<sup>2</sup> [www.hzinfra.hr](http://www.hzinfra.hr).

Table 2: Workforce for HŽ Infrastructure, HŽ Cargo and HŽ Passenger Transport<sup>3</sup>

Workforce						
HŽ Infra	Employees Jan 1	Men	Women	Men (%)	Women (%)	Age Ave
2014	5,438	4,749	689	87	13	50
2015	5,097	4,457	640	87	13	48
2016	4,827	4,200	627	87	13	46
2017	4,717	4,104	613	87	13	44
2018	4,697	4,086	611	87	13	42
HŽ Cargo	Employees Jan 1	Men	Women	Men (%)	Women (%)	Age Ave
2014	2,686	2,227	459	83	17	46
2015	2,270	1,933	337	85	15	46
	2,114	1,800	314	85	15	46
2016	1,763	1,536	227	87	13	46
2017	1,753	1,526	227	87	13	46
2018	1,743	1,516	227	87	13	46
HŽ Pax	Employees Jan 1	Men	Women	Men (%)	Women (%)	Age Ave
2014	2,029	1,577	452	78	22	46
2015	1,905	1,479	426	78	22	44
2016	1,897	1,466	431	77	23	43
2017	1,824	1,401	423	77	23	42
2018	1,747	1,339	408	77	23	42

Table 3: Retrenchment for HŽ Infrastructure, HŽ Cargo and HŽ Passenger transport<sup>4</sup> (data are subject to change)

Retrenchment											
HŽ Infra	Total Retrenchment	Natural Attrition	Voluntary	Redundancy	Railway Fund	% Workforce	Men	Women	Men %	Women %	Average Age
2014	391	37	354			7	323	68	83	17	56
2015	260	100	160			5	234	26	90	10	55
2016	210	70	140			4	189	21	90	10	55
2017	200	100	100			4	180	20	90	10	54
2018	110	50	60			2	99	11	90	10	54
<b>TOTAL</b>	<b>1,171</b>	<b>357</b>	<b>814</b>	<b>0</b>	<b>0</b>		<b>1,025</b>	<b>146</b>	<b>88</b>	<b>12</b>	<b>54.8</b>
HŽ Cargo	Total Retrenchment	Natural Attrition	Voluntary	Redundancy	Railway Fund	% Workforce	Men	Women	Men %	Women %	Average Age
2014	615	30	282	110	193	23	471	144	77	23	46
2015	847	7	153	348	339	39	642	205	76	24	49
2016	349	10	0	0	339	20	253	96	72	28	50
2017	349	10	0	0	339	20	253	96	72	28	50
2018	160	10	0	0	150	10	121	96	76	24	50
<b>TOTAL</b>	<b>2,320</b>	<b>67</b>	<b>435</b>	<b>458</b>	<b>1,360</b>	<b>19</b>	<b>1,740</b>	<b>580</b>	<b>75</b>	<b>25</b>	<b>49</b>
HŽ Pax	Total Retrenchment	Natural Attrition	Voluntary	Redundancy	Railway Fund	% Workforce	Men	Women	Men %	Women %	Average Age
2014	249	5	236	6	2	12	190	59	76	24	57
2015	9	1	6	1	1	0	7	3	78	33	55
2016	76	8	60	5	3	4	53	23	70	30	55
2017	79	8	57	10	4	4	55	24	70	30	55
2018	59	5	45	7	2	3	45	14	76	24	54
<b>TOTAL</b>	<b>472</b>	<b>27</b>	<b>404</b>	<b>29</b>	<b>12</b>		<b>350</b>	<b>123</b>	<b>74</b>	<b>26</b>	<b>55</b>
<b>Overall Total</b>	<b>4,010</b>	<b>486</b>	<b>1,806</b>	<b>835</b>	<b>883</b>		<b>3,188</b>	<b>823</b>	<b>79</b>	<b>21</b>	<b>53</b>

<sup>3</sup> HŽ Cargo, HŽ Infrastructure, HŽ Passenger transport.<sup>4</sup> HŽ Cargo, HŽ Infrastructure, HŽ Passenger transport

Figure 3: Gender structure for workforce and retrenchment for 2014–2018 (data are subject to change)

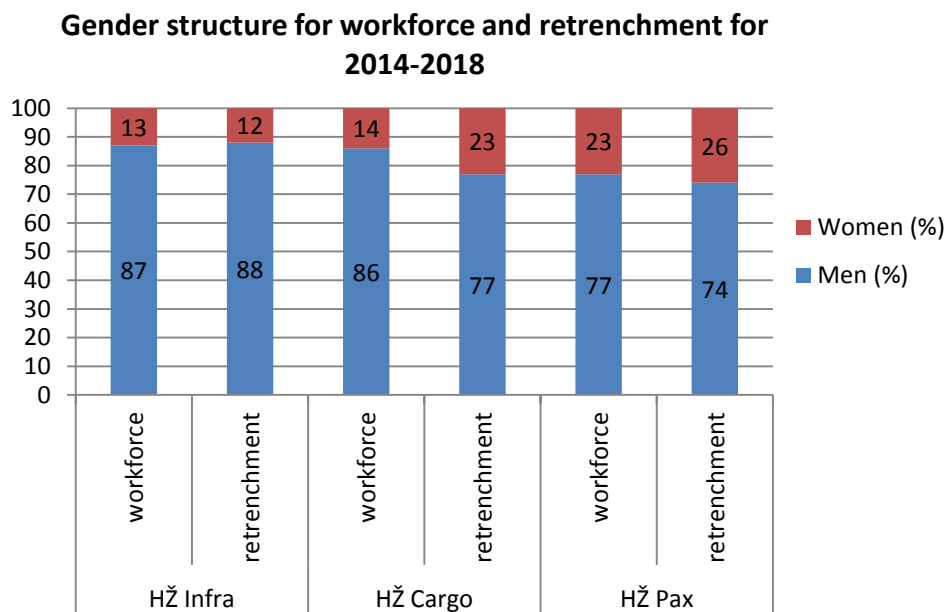


Figure 3 above shows the gender structure of the HŽ workforce and workers in the process of retrenchment. We can see the discrepancy in HŽ Cargo, where 14% of those employed are women. However, according to the retrenchment plan, 23% of those released will be women. Based on the obtained results, we cannot answer why there is a gender difference. HZ Cargo however notes that the percentages are an estimate based on the total number of workers to be retrenched and will be subject to change once a list of redundant workers is completed.

Regarding the perception of gender differences among the interviewed released workers, they mostly answered either that they did not know about this, or that they believed that more workers left administrative positions than positions which were closely related to the railways. Because more women worked in administration, they were indirectly more often declared as technological redundancies in the restructuring process. (*Respondents from Varaždin: Administration personnel were reduced the most during restructuring. There are still too many people in positions in administration. Unfortunately, this is the way it is.*)

### 3. RESULTS - Qualitative research with group discussions and in-depth interviews

#### 3.2. Circumstances upon leaving Croatian Railways

##### 3.2.1. Reasons for leaving

**The majority of respondents voluntarily left the three Railway companies, signing a mutual agreement on the termination of employment relationships.** A smaller proportion of respondents (mostly from HŽ Cargo) were forced to leave after being declared technologically redundant.

**The decision about leaving or staying on was mostly based on a calculation of gains and losses according to several factors:** already met or soon to be met retirement conditions, the amount of severance pay, uncertainty about receiving severance pay in the future, and interpersonal relations in the companies.

*Respondent from Varaždin: I received an offer to retire with the possibility of being registered at the Employment Service for 15 months. I had exactly 15 months left until retirement, so I decided to leave because it would not get any better. Honest and simple mathematics and calculation.*

*Respondent from Osijek: And of course, when the new organization came and when I saw that my position did not exist anymore, I was offered shortly after that attractive severance pay and, of course, what does one have left to do, because you never know what moves the management is going to make.*

*Respondent from Osijek: I decided [to leave] because I saw the new systematization which had started at the beginning of the year before I left. In the new systematization, there was only one worker where there were previously five. And now I am not waiting for next year for them to tell me: "Man, you meet the conditions for retirement; here are your three pay checks and goodbye."*

*Respondents from Novska: Management makes a decision about stimulating severance pay which is put on notice boards, it is publically announced by all unit directors, and one can voluntarily accept that decision.*

*Respondents from Zagreb: Either you will or you will not. Everyone decided on their own whether they would take it or not. It was the last chance because I had 15 months left, as did my wife, so why wouldn't I take those 160,000 kunas and then retire.)+*

### **3.2.2. Procedure and period of notifying workers about leaving**

**It is unclear how the workers were notified about the new systematization (there were no organized and transparent notifications).**

Respondents who worked in HŽ Passenger Transport and HŽ Infrastructure were informed several times a year (some say twice) about the conditions which were offered for leaving the companies. According to for example HŽ Infrastructure, decisions by the Management Board on the new systematization is always published, both electronically via the intranet - and through hard copy channels, However, according to the respondents' statements, it is not clear how they gained information about the new systematization (redistribution of work positions or the termination of existing work positions) and the conditions for leaving. Most say they "heard from someone" about the conditions

or that they gained information about the new systematization before it was publically available., Some mention notifications on notice boards and some mention as sources of information their superiors and union representatives who explained the situation to them and suggested leaving the company under the offered terms. They report that updates of systematizations of work positions and the restructuring, resulting in workers leaving, have been occurring in the companies for years. Some say 5-6 years, and some say even 10. These continuous updates, causing the departure of workers have disrupted interpersonal relations in the companies. Everyone's main goal was either to secure their work position or to get the most out of leaving the companies.

*Respondents from Rijeka: They went for restructuring of the railways and there was a new systematization every two months. That systematization cut the work positions. Perhaps every two months they claimed some work positions were simply unnecessary and were shut down and people were offered stimulating measures.*

*Respondents from Varaždin: We knew about that a year in advance. Everyone started to talk about that. We left in 2012, but we could have left a year before because such conditions were offered then too.*

*Respondents from Osijek: In HŽ Cargo I had been familiar with the procedure for leaving since 2006.*

**It was known who had priority during the new systematization, that is, who needed to leave the company first.** In their words, according to companies rules, those with the least work experience had to leave first, which was illogical to them, because of the current unemployment situation in the country. If anyone was in that situation (that he/she knew that someone would be laid off from his or her department, and he/she had the least work experience), he/she would calculate that it would be better to accept the severance pay. Because if he/she would not accept the severance pay, after being declared a technological redundancy, he/she would get nothing. That way, those who did not yet meet the conditions for retirement left. According to other younger respondents, some were waiting to be laid off by the companies (they did not want to sign a mutual agreement on the termination of employment) because then they would have rights to unemployment benefits from the Employment Service, although their severance pay was reduced in that case. Only workers from HŽ Cargo were declared technologically redundant (by their first and last name) and had to leave the company. They also received severance pay just like those who left voluntarily.

*Respondent from HŽ Cargo from Rijeka: we also received a memo listing us by first and last name, and it said that I was a potential technological redundancy.*

People found themselves in a variety of situations under the influence of another person, mostly a superior or a colleague from the same department. There were cases where those who stayed on experienced bullying by being forced to do unpaid overtime, and some respondents were “simply advised” to leave.

*Respondent from Zagreb: Bullying, for example. She asked me to do a job, which usually takes three months, in three days. When you work under such pressure, when you take your job home with you, even my husband was helping me during that year because, as my co-workers know, you cannot physically do that.*

*Respondents from Rijeka: our manager called me in specifically and explained the situation and what would happen, and he suggested we take the stimulus and simply leave.*

*Respondent from Varaždin: For example, I came to work on Wednesday and they told me that by Friday I must decide whether I wanted to stay or leave under those conditions.*

*Respondent from Osijek: In Cargo there was a completely different story. We were under such pressure that it was horrible. Why? Because they told us to complete the notification in two days, to decide who wants to leave in two or three days under those conditions, to immediately make a list of those who want to leave, to sign the agreements and to terminate the employment in three or four days.*

*Respondents from Split: The advice was that it would be best if we left.*

*Respondent from Split: I had the conditions for retirement and I received a call from Human Resources at 6 pm. On February 27 at 6 pm, he calls me and says: "Tomorrow is your last day at work." I say to him: "It is okay, never mind." I went there and signed what I needed to sign for that severance pay.*

*Respondent from Split: A union representative from HŽ Passenger Transport. And he told me that it would be best if I left. How can a union representative, who is paid by the state, by the management, fight for workers' rights? No chance.*

### 3.2.3. Retirement as the most common status after leaving HŽ

**Most of the interviewed former Railway workers left the company with some sort of retirement: full or early retirement or they had 1-2 years until they met the requirements for retirement.**

Among the older population, several different statuses were attributed to the former workers after leaving the companies:

- a) There are those who had reached **full retirement** and who, immediately upon leaving, started receiving their pension. These are mostly persons, for example engine drivers or older workers, to whom the accelerated retirement plan applied. Although they met the conditions for retirement, they also received maximum severance pay. The respondents are aware of the received benefits, and they are also aware that receiving severance pay upon retirement is not common practice. It happened that the companies did not treat equally workers who had the same conditions for leaving: two respondents mention that they had 5–6 days until full retirement. In one case, the deadline for leaving was moved so that the first worker could retire immediately, and for the other worker they did not show the same courtesy, so he had to go to the Employment Service for an additional year.

- b) Persons who took **early retirement**. They did not have the conditions for full retirement, but for various reasons they made some calculations and decided to take early retirement. Some retired earlier because later they would probably be declared redundant because they had less work experience, and some calculated it would be more financially beneficial and that they would have the advantage of helping their children, grandchildren, etc. Some simply feared that in the next systematization they would not be offered severance pay.
- c) Persons who had **a year or two until full retirement**. Those who left the Railway companies in April 2014. However, only those from HŽ Passenger Transport did not face problems with this because they could register at the Employment Service, where they received unemployment benefit for 15 months, so in this way they could cope until retirement. The possibility of registering at the Employment Service, however, was not offered to all employees. Some employees did not even know about that benefit (mostly those who did not live in Zagreb). Those who could not go to the Employment Service managed in various ways: some were registered as employees of friends/acquaintances who would fire them after a month, and in that way they would earn the right to receive unemployment benefit from the Employment Service (we will later give full details about the possibilities of receiving unemployment benefit from the Employment Service). Others, who could not be employed by acquaintances, registered at the Employment Service only to receive health insurance (they did not receive unemployment benefit).

The large majority (almost all) of those who registered at the Employment Service for the aforementioned reasons did not look for jobs. They were waiting to retire. It is necessary to emphasize that the workers did not quite understand the conditions they had to fulfill in order to receive unemployment benefit from the Employment Service. They were also not familiar with everything that was offered at the Employment Service, such as receiving unemployment benefit until retirement, special conditions for participants in the Homeland War, etc.

During the interview with the unions, the representatives gave their opinion about taking care of the released workers. They believe that in deciding on severance pay for workers who were leaving, attention should have been paid to the fact that those who met the retirement conditions and those who did not should not get the same severance pay. Since they were taking care of workers, this basically amounted to taking care of workers who had already been taken care of (because they had retired) and were entitled to a full pension.

#### **3.2.4. The biggest objections from workers during the restructuring process:**

**The most common objections of workers against the Railway companies during the restructuring process were that tense relationships were created among them, there was a lack of due and full information, and a lack of a systematic and planned release of workers.**

The most serious objections include:

- a) **Tensions created** among workers who suffered disrupted interpersonal relationships; the companies were working to “divide and conquer!”. For such reasons, some workers left although they did not meet the conditions for retirement.
  - *Respondents from Osijek: It was done like that so that people would tear each other apart.*
  - *Respondents from Osijek: One moral characteristic which was not at all right is pressure; to do something quickly, a psychology of fear, etc.*
  - *Respondents from Zagreb: But it just wasn't normal, for people to be afraid of what tomorrow would bring.*
  
- b) **Generally working towards making as many people as possible leave the company:** bullying included additional unpaid work, uncertainty about the future conditions for leaving, cutting salaries and removing benefits for working night hours or working at the weekend.
  
- c) **Parallel hiring of new people** (younger, inexperienced persons, or those “suitable” in one way or another).
 

*Respondent from Osijek: On one hand, they are firing people, and on the other hand, they are hiring new people. Of course, young people should be hired, but these two things do not go together.*
  
- d) **Saying that the offered severance pay will be the last one** (there will be no more in the future).
  - *Respondents from Rijeka: There was always a story that it would be the last year of receiving that financial stimulation.*
  - *Respondents from Osijek: Last severance pay. There will be no more severance pay.*
  - *Respondents from Split: The last two years it was practically constant. It was always circling around in words that it was the last one. It was done to put pressure on people.*
  - *Respondents from Zagreb: It was always mentioned that it was final, there would be no more.*
  
- e) **If they do not sign mutual agreements on the termination of employment relationships by a certain date, severance pay will rapidly decrease.**
  - *Respondents from Split: In a way that was blackmail. If you do not accept it today, severance pay will decrease.*
  
- f) **Bias during systematization** – some were offered a transfer from HŽ Cargo, where they were declared technologically redundant, to HŽ Passenger Transport, where their work position



would be more secure if they had participated in the Homeland War. According to HŽ Cargo, such transfer would not have been possible because they would contradict the Collective Agreement for HŽ Cargo (Article 73, Paragraph 5 on the Status of the Croatian Civil War Veterans) which states that workers who do not have veteran status after fulfilling the criteria from point 1-3 will be made redundant. In addition, according to HŽ Passenger Transport, pursuant to the valid contract on mutual rights and obligations, concluded between the Management of HŽ Passenger Transport and the Homeland War Veterans' Associations in the company, the workers holding a Croatian veteran status have not been in a more favorable position than other workers have at the time of retrenchment.

- *Respondent from Novska: XY wrote that all Homeland War veterans should contact him, especially volunteers, by telephone for transferring to Passenger Transport, that they should call him so that he could put them in Passenger because if they stayed here they would conduct dismissals.*

g) **Readiness to make decisions in a very short period of time** (2–3 days), mostly in HŽ Cargo.

h) **Inefficiency of the Legal Services**, which did not explain to workers their rights and opportunities according to their years of employment, early and full retirement, the conditions they had at the Employment Service, etc. The Legal Services only emphasized the possibility of receiving severance pay. Besides the inefficiency of the Legal Services, the workers also remarked on being insufficiently informed about their rights.

- *Respondents from Osijek: We did sign ourselves, but we were so bitter in a way, and angry because no one wanted to come as one man to another, sit down and say that the situation was such and such. The Legal Services did not tell us what conditions we had if we had that many years of service, no one told us anything. They only said that the severance pay was good because the next one would be lower. They mentally influenced us.*

*Respondent from Split: Someone is making big calculations, making sure that the state pays as little as possible. Concealing rights even at the Employment Service and in the company.*

### 3.2.5. Conditions upon leaving the Railway companies

a) **Severance pay** – Severance pay which was offered to railway employees when they left was not the same in all three companies, nor has it been the same in the past few years. Furthermore, severance pay depended on the employee's years of service (HRK 6,400 for each year of employment), and a maximum of HRK 200,000 for HŽ Passenger Transport and HŽ Infrastructure, and a maximum of HRK 140,000 for HŽ Cargo. The mentioned severance pay was received only if workers signed mutual agreements on the termination of employment

relationships by the date given by the management. If workers decided to leave later than that, the severance pay decreased.

In HŽ Infrastructure there was a list of conditions for receiving certain severance pay, which was related to how many years of service one had until 65 years of age (full retirement age for men). If they had a few years left, they also received lower severance pay.

Respondents also mention the possibility of automatically receiving maximum severance pay if the members dissolved their group (for health reasons), because they were not capable of performing their jobs. In this way the workers would be confident of receiving severance pay, and the employer could hire new workers for their positions.

- *Respondent from Novska: In practice, workers broke up their groups just to be sure that the employer would approve stimulating severance pay for them. We were advised, if there were any doubts about receiving stimulating severance pay, to go to the Railway Medical Centre, break up the group, and then everything could be done without the employer having to do anything.*

**Generally speaking the workers are satisfied with the received severance pay.**

- b) **Employment Service unemployment benefit - Workers do not receive adequate information about their rights from the Employment Service. Not all Railway companies offered released workers the possibility of receiving unemployment benefits from the Employment Service after they left.** Only those employees who are laid off are entitled to the unemployment benefit from the Employment Service. Unemployment benefit cannot be given to those who resigned or signed mutual agreements on the termination of employment relationships:

**Conditions for receiving unemployment benefits<sup>5</sup>**

In order for an unemployed person to receive monetary unemployment benefits:

- the person must fulfil the conditions of the previous work position;
- **employment must not be terminated through the person's own fault or on account of his/her own wish;**
- in the legal period, the person must apply at the authorized [branch office of the Croatian Employment Service](#), and file a request for financial compensation.

**Previous work:**

The right to financial compensation is granted to an unemployed individual who, upon terminating employment, has had at least 9 months of employment in the last 24 months.

**There are different experiences and information among respondents from different cities/towns regarding unemployment benefits from the Employment Service.** However, they share certain

<sup>5</sup> Source: [www.hzzo.hr](http://www.hzzo.hr)

views that the conditions and possibilities of receiving unemployment benefit from the Employment Service are not clear to railway workers and that in any case these conditions and possibilities should be explained to them.

Respondents from Zagreb mention the additional benefit given by the companies when they leave. They mention the possibility of registering at the Employment Service and receiving unemployment benefit for the following 15 months according to the Employment Service's legal rules.<sup>6</sup> They say that this was not possible in any of the previous waves of people leaving the companies. However, there are different findings and agreed conditions regarding receiving unemployment benefit from the Employment Service in the different branches of the companies (cities/town where group discussions were held). For example, in Rijeka, workers who were employed in HŽ Passenger Transport say that the company had a program of terminating employment relationships for the technological surplus in the spring of 2014, when they terminated the employment of 167 workers (approval came from Zagreb) in such a way that it granted them unemployment benefit from the Employment Service. One respondent says that in order to receive the unemployment benefit from the Employment Service, the condition had to be met of terminating the employment relationship of a group of over 20 workers, and not individuals. One group consisted of workers of the same professional specialization.

- *Respondents from Rijeka: I had previously gone to the Employment Service to ask if I was entitled to it. We were not entitled and so we called Zagreb and, anyhow, we had to create a program of terminating the employment relationship of a technological surplus which would be registered at the Employment Service. They created that for our group of 167 people because after that everyone... No one could go to the Employment Service from Infrastructure.*
- *Respondent from Osijek: Because my Agreement said it was voluntary, but that I was declared technologically redundant. Because of that I was entitled to it. But it said an attempt was made to find another workplace, but without success. I was declared technologically redundant and because of that I am entitled to unemployment benefit.)*

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## **<sup>6</sup>Unemployment benefit**

The basis for determining unemployment benefit comprises an average salary, decreased by expenses for mandatory health insurance in the three month period which preceded the termination of employment, that is, service. The basis does not include salary benefits given by special regulations. If the basis for determining unemployment benefit cannot be calculated according to the salary, the unemployed person has the basis of the minimal salary, decreased by expenses for mandatory health insurance, regulated by special legislation, depending on the percentage.

The unemployment benefit for the first 90 days is 70%, and for the remaining time, 35% of the basic salary.

The determined unemployment benefit is received in a determined amount for as long as one is entitled to it.

The highest unemployment benefit for the first 90 days cannot exceed 70%, and for the remaining time it cannot exceed 35% of the average salary in the Croatian economy for the previous year according to the last published information.

The lowest unemployment benefit cannot be lower than 50% of the minimal salary, decreased by expenses for mandatory health insurance, regulated by special legislation, except when unemployment benefit is calculated based on the percentage of the time of employment.

Among respondents from Osijek, only those from HŽ Passenger Transport who left in April 2014 were entitled to unemployment benefit from the Employment Service. Workers who left HŽ Infrastructure in the same period were not entitled to unemployment benefit. The situation is the same among former workers in Novska and Split: only those who were employed in HŽ Passenger Transport were entitled to unemployment benefit.

*A segment of the Contract of a worker where conditions for unemployment benefit from the Employment Service are mentioned:*

*Employee XX according to paragraph 39, section 1..... of the Act on Employment Mediation and Rights During Unemployment earns the right to monetary compensation as an unemployed subject.*

In order to earn the right to unemployment benefit from the Employment Service, other respondents had to be registered as employees in companies of their friends/acquaintances, who would fire them after a month. Based on that, they could be entitled to legal unemployment benefit from the Employment Service.

- *Respondents from Osijek: I did not go directly to the Employment Service after HŽ. My colleague took me on for three months, paid all expenses and then I was laid off.*

Some respondents were entitled to unemployment benefit from the Employment Service for more than 15 months, that is until they retired, based on the accelerated retirement plan.

However, we discovered from the Employment Service that the right to receive unemployment benefit until retirement was given to workers not because of the accelerated retirement plan as mentioned in group discussions, but because of years of service (a minimum of 32 years) and if they had 5 years to go until full retirement.

- *Respondent from Split: I have more than 41 years of service and more than 5 years which are counted under the accelerated retirement plan. I have the same as you and him because I have an accelerated retirement plan so I still have benefits from the Employment Service until retirement.*

One respondent from Novska says that she cannot receive the unemployment benefit from the Employment Service because the Employment Service is funded from the state budget. Because they cannot be employed in companies funded from the state budget, they cannot receive unemployment benefits from the Employment Service.

*Respondent from Novska: You are not entitled to unemployment benefit from the Employment Service because the Employment Service is funded from the state budget. It says in the decision that you no longer have the right to be employed and to receive salaries from the state budget. This means that you can be registered at the Employment Service, but you will not receive*

*unemployment benefit and you cannot be employed at the burden of the state budget. It says that in the decision about terminating employment.*

- *Respondent from Osijek from HŽ Passenger Transport: I arrived on the last day because I had that thing at the Employment Service. Two or three women were sitting there. I went to one and the first thing she said after looking at my booklet: “Sir, you do know that you are not entitled to unemployment benefit?” The other one who was sitting next to her said: “No, no, the gentleman is from Passenger, he is entitled to it.”*
- *Respondent from Novska: At the Employment Service, when I came and asked why I was not entitled to unemployment benefit, I was told that two things were problematic. One was the mutual agreement on the termination of employment relationships and the other was technological redundancy. According to technological redundancy, we were legally entitled to unemployment benefit, but according to the mutual agreement on the termination of employment relationships, we were not.*
- *Respondent from Split from HŽ Passenger Transport: In 2014 the two of them were leaving Passenger, I know that for sure, and HŽ Passenger made an agreement with the Employment Service. Yes, indeed, in Passenger they immediately register their people at the Employment Service, and I from Infrastructure and people who left Cargo had to come up with something on our own.*
- *Respondent from Split: At the top it said mutual agreement on the termination of employment relationships, and at the bottom technological redundancy, and those who were technologically redundant were covered for 15 months at the Employment Service with unemployment benefit).*

**Discussion with Employment Service staff clarified some ambiguities which appeared during the conversation with former railway workers regarding their rights at the Employment Service.**

According to the data provided by the staff of the Employment Service, every company which has to lay off more than 20 workers in a period of 90 days must write a Program of Terminating Employment Relationships with Workers and deliver it to the Employment Service. This program does not commit the Service to any further actions, but it only serves as a notification to the Service in order for them to prepare for the arrival of a higher number of people at the Employment Service. Such Programs of Terminating Employment Relationships with Workers were received by the Service from the Railway companies in March, April and July of the past year.

Based on conversations with former employees, we saw that a problematic situation was the one including entitlement to the unemployment benefit for a duration of 15 months, which was granted only to HŽ Passenger Transport employees, allegedly because of the particular signed agreement between HŽ and the Employment Service.

However, it was explained to us that the mentioned unemployment benefit was only given to persons who signed mutual agreements on the termination of employment relationships (although generally when such an agreement is signed there is no entitlement to unemployment benefits) and only if it was stated that the agreement was signed for technological redundancies, that is, because of the collective agreement on the termination of employment relationships (**Article 127 of the Labour Act**). This article was introduced into the Constitution on January 1st, 2014, and, consequently, workers who had been released before that were not entitled to the mentioned unemployment benefit from the Employment Service.

Each of the former employees who applied at the Employment Service had their Agreement individually reviewed, and, according to what was stated there, a decision was made about receiving the unemployment benefit. There was no “special agreement” between the Employment Service and Railway companies. Here we can ask why this article of the Act was used only by HŽ Passenger Transport and later by HŽ Cargo, but not HŽ Infrastructure, to allow the unemployment benefit to be received from the Employment Service.

- c) **The Railway Fund** – The Railway Fund was founded on May 8th, 2007, in order to provide for workers who were on the final list of technological redundancies. The Fund was financed by the state budget until December 31st, 2010. Since then it has been financed from the companies own resources.

From the interview with the HŽ Fund representative, we discovered that workers can stay in the Fund for a maximum of 3 years, after which they go to the Employment Service, where they can receive unemployment benefit defined by the law. A worker who is in the Fund has the right to a gross salary of up to HRK 4,000, and he/she does not have to go to work. If there is a need for workers in the Railway companies, the worker is obligated to accept the job offer if it corresponds to his/her vocation and if the workplace is not more than 100 km away from his/her place of residence.

**The worker can leave the Fund at any time, and after that he/she is entitled to 50% of the salary received from the Fund for the months remaining in the 3-year period.** Only workers from HŽ Cargo are entitled to a proportional part of severance pay which would belong to a worker if he/she opted for it.

From its beginning, the Fund had 533<sup>7</sup> workers in total, out of whom 265 left the Fund: 45 left voluntarily, 54 stayed for three years, 150 were offered new job contracts and 16 workers either retired, passed away or left for some other reason. There are currently 268 workers in the Fund, 195 males and 73 females. 51 have low professional qualifications or are unskilled workers, 207 have a medium professional qualification and 10 have a post-secondary or a higher professional qualification. **The respondents believe that most often younger people opt for the Fund in order to improve their chances of returning to one of the railway companies.**

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<sup>7</sup> HŽ Fund.

The respondents mention that workers were receiving a fixed monthly fee from the Fund (most recently a respondent mentioned HRK 3,100, although these amounts were higher before); he stayed at home and waited for a call just in case a position which corresponded with his qualifications opened up. After three years in the Fund, the worker was not entitled to severance pay. None of the respondents agreed to join the Fund because they were mostly older people.

According to the respondents, this option was taken by workers who were technologically redundant (those who had to leave), that is, younger people whose interest was to have more years of employment and eventually find new jobs. However, because nothing in the Railway companies was certain, some younger persons took severance pay in preference to joining the Fund because they were not sure if the Fund was even going to last three years.

They also mention that there was the possibility of leaving the Fund after some time. In that case, they were given severance pay reduced by the amount received from the Fund in that period.

- c) *Respondents from Rijeka: You are waiting for a call from the Fund, which usually never came, and half of them were in the Fund for a couple of months, half a year, and then they were entitled to take the second part of the severance pay reduced by the time spent in the Fund, and go home. They took the money and left. People were not sure about the Fund, how long it was going to last. Those were younger people. Why would we, who still have a couple of years left to meet the requirements, wait instead of getting that money.*
- d) *Respondent from Novska: And why would a 30-year-old man take severance pay? He would have received HRK 20,000, and then what? Sit down and cry. This way, in three years, one can find a job or something. One can be in the Fund for three years and receive HRK 3,000 per month.*

**According to a statement from the Fund representatives, one of the existing problems is that the Fund is financed from its own resources.** <sup>8</sup>They believe that workers in the Fund should be financed from loans, that is, from the sources of severance pay for workers. This should not be an obligation of the Railway companies. In their opinion, the Fund should be a priority because it takes care of workers (it provides them with financial compensation for three years) and provides potential new job opportunities in the companies. On the other hand, workers can leave the Fund at any time (it is not binding) and receive the compensation to which they are entitled according to agreed policies.

**It is also held that the problem also lies in how workers are informed about the conditions in the Fund.** We concluded from the conversation that a worker receives information about the Fund from Human Resources, which holds the worker's personal file, only when the worker is declared technologically redundant and when he/she must choose between the offered severance pay and joining

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<sup>8</sup>According to HZ Cargo, each HŽ company funds its workers in the HŽ Fund. Salaries for workers from HŽ Cargo, who have been placed in the Fund, are financed from a loan.

the Fund. A worker receives information about the conditions in the Fund in the form of a contract that needs to be signed if he/she opts for it.

**The unions believe that the existence of the Fund is necessary.** However, in their opinion, the Fund should have another dimension now, and that is the training and retraining of workers. The Fund is a good solution for the employer because in this way it has workers “in reserve”, who have specific experience, which is not easy to find if such a situation occurs. However, resources which are used in the Fund should be funded from the same sources as severance pay for workers because it is an additional burden on the employer.

#### **THE UNIONS' ATTITUDE GENERALLY ABOUT RESTRUCTURING:**

**The unions believe that workers from HŽ Cargo were in the worst situation because most of them left HŽ Cargo against their will,** unlike some workers from HŽ Infrastructure and HŽ Passenger Transport, where most workers left voluntarily. (Only workers from HŽ Cargo were declared technologically redundant.) However, the criteria for declaring technological redundancies were questionable. In the other companies, most workers left voluntarily and consequently there was an imbalance in the need for work positions and the number of workers in those work positions. In other words, because workers left voluntarily, it happened that there were too many workers leaving some work positions (where there is now a shortage of workers), while other work positions still have too many workers because not enough of them left. During restructuring, some occupations, for example engine drivers, were protected and workers with such occupations were not released. Also, after releasing workers, there was a lack of workers even when they worked overtime due to high demand and those workers were often not able to use vacation days. Due to the lack of workers in some areas, travel safety was called into question.

**The biggest problem in the restructuring of the Croatian Railways, and thus in terminating the employment relationships of workers, is the lack of work positions analysis, that is, a Human Resources strategy which follows the companies' organization and modernization strategy.** In order to plan the retraining of personnel, first it is necessary to know which work positions are abundant and which are scarce, and which work positions will be needed in the upcoming period considering the modernization and the future business of Railway companies. As part of any strategy (business, new projects, etc.), information should be gained about the human resources requirements, that is, the need for occupations and classification of workers. It is also necessary for the training system to follow the business needs. The restructuring process amounted just to the linear downsizing of personnel, that is, to fulfilling some criteria without following any strategy.

In the companies, there is no information bank on human resources, and in particular there is no human resources strategy aligned to the business strategy. Consequently, it is not possible to plan and organize the retraining of workers in order to keep them in the companies. The current situation leads to parallel



employment of new workers (who meet the needs of new jobs) and at the same time to releasing existing ones. An additional problem is that the retraining program for railway personnel is out of date, which means it does not keep up with the technological modernization of this sector.

As another part of training, there is a need for released workers to be informed about their rights and options at the Employment Service, which should be done regularly. It is held that workers are not adequately informed about their rights at the Employment Service, or about the systematization of work positions in their companies. The Railway companies should present their workers with the new forms of systematization, to raise awareness of the surplus work positions and of the workers' options regarding staying or leaving the companies. So far, such information has either come from the unions, or workers have come across it on their own in various ways.

The main task of the unions is to secure employment for Railway workers. In order to secure jobs, it is first necessary to organize the retraining of workers, whether through the Fund or another entity. The unions are aware of the need for restructuring. However, they want it to be conducted in several phases, and the starting point should be an analysis of the current situation. Some unions have also advocated the additional training of workers for technical occupations in order for them to be able to work after the systematization which led to a downsizing of their positions.

The idea of the unions was to use EU funds to finance an agency which would announce tenders, and the received money would be used to finance the Railway companies. In this way, the agency would not be in a conflict of interests (as in the case of Slovenia, for example).

**There is a lack of social dialogue between the unions and the Government, that is, the relevant Ministry.** Restructuring was imposed by Management, with already created programs, without consultation with the unions. The unions should have been involved in all phases of the process. Some of the unions have no influence whatsoever because they are not a "representative" union. At the workshop (mentioned in the Methodology section), the unions also emphasized the importance of social dialogue, as well as the need for them to be involved from the onset of the restructuring process. They also pointed out the need for synergy among the Railway companies in order to look after the interests of the workers in the best possible way.

### 3.3. After leaving the Croatian Railway companies

#### 3.3.1. Effects/losses related to losing a work position in Croatian Railways

**Based on the obtained results we cannot make conclusions on gender or age differences regarding material or non-material losses upon leaving the three companies.** The average age of respondents is 56, and the average number of years of employment is 37. It is evident that the respondents represent an older population with many years of service. Because of the mentioned

structure of the respondents, generally speaking, we can say that the majority do not feel great losses upon leaving the companies. The greatest loss is a material one, which signifies that current incomes, received from either pensions or unemployment benefits from the Employment Service, are lower than the salaries received from the three companies.

Out of 51 respondents who participated in the group discussions, 22 have retired and 26 are registered at the Employment Service where most of them receive the legally defined unemployment benefit.

- *Respondents from Rijeka: There is a big difference in finance.*
- *Respondents from Zagreb: Let's say, the ratio between the salary and the pension is 43%.*

As non-material losses, most of the respondents mention changes in lifestyle upon switching from employment to retirement. These changes relate to ending contacts with colleagues and clients, there are feelings of being useless (after terminating employment), etc. The respondents are aware that the mentioned feelings are not exclusive to the Railway companies, because they would have also emerged after retiring from any other company.

What they directly connect to their former employer, and what some experienced upon leaving (mostly the respondents from HŽ Cargo), is the lack of mental preparation for a completely different lifestyle, that is, retiring. Namely, respondents who had only a couple of days to decide whether to leave or stay did not have time to mentally prepare themselves or to plan their new lifestyles in retirement upon terminating employment. The respondents believe that people usually know the dates of retirement far in advance, and they have time during that period to mentally prepare themselves, organize their lifestyles and make financial plans based on new incomes. Those who left the companies in the space of only a couple of days lacked this entire process, and, so to speak, found themselves in retirement overnight, for which they were wholly unprepared.

**Among respondents who did not meet the conditions for retirement, there is a difference in perceiving losses upon leaving the Railway companies.** This is so because of the differing financial situations in their households. This means that those whose spouses are still employed do not feel great material losses because the Employment Service unemployment benefit is not the only source of income. Others, whose household members are either unemployed or have retired, feel a significant reduction in income, as well as in spending power. It should be mentioned that all who chose to leave and accept severance pay decided in advance what to do with the severance pay, and how it would help them to overcome the period of waiting to meet the retirement conditions.

**The majority used the severance pay to pay off their loans or some other types of debts.** In this way they took care of the mentioned expense for their retirement. Some used the severance pay to help their children in various ways, some put it into savings (in part or in total), and so interest is an additional source of income. Some use their severance pay as an additional source of income while being at the

Employment Service and receiving significantly less than the pension or if they do not receive unemployment benefit at all.

- *Respondents from Rijeka: I used the severance pay to pay off the apartment, so now we live off the unemployment benefit from the Employment Service and my husband's salary. The severance pay paid off the loans.*
- *Respondents from Split: I paid off debts for my apartment. I tried to pay off the bank loan, but I could not pay it off entirely. I also have to finance my kids.*
- *Respondents from Zagreb: So, I paid off some debts, where I was in the minus, and what was left I put in a savings account, God forbid, for some dark times.*

**Among the respondents, there are also those who do not feel any losses upon leaving the companies.** They even believe that they gained something as a result. Such feelings are most often experienced by respondents who spent their entire working life in demanding working positions, such as engine drivers. The workplace demanded both working nights and working on weekends and holidays. Considering the workplace requirements and age of the respondents, these respondents could not wait to retire and accepted the offered severance pay. Their decision to leave was also encouraged by mandatory medical appointments, which added to the uncertainty about their ability to carry out their job in the future.

- *Respondents from Zagreb: I miss nothing. I have to say that I am having the time of my life. I was an engine driver and stayed up many nights over 33 years of employment, like many of you.*
- *Respondent from Varaždin: Believe me in the past year I couldn't wait to finish this job. While we were young, it was easy to drive a train, it was not hard to drive a train the entire night, and I did not need to sleep the next day.*

One of the reasons for not feeling losses upon leaving also lies in the disrupted interpersonal relationships in the companies. Because of the continuous new workplace systematization and the restructuring, the workers grew tired of uncertainty, of the offered terms upon leaving, of the scheming among workers etc, and the existing atmosphere in the companies provoked a sense of relief upon leaving, instead of feeling a loss.

- *Respondents from Split: We are mentally saner now. Because there was such pressure then. A third of the company did not speak to each other. The services were fighting among themselves, it was creepy.*
- *Respondents from Zagreb: Of course, I was reborn. As if a burden had lifted from my back. You do not go to work with a headache.*

As an additional loss, many respondents mention losing privileges such as the reduced prices of train tickets. In fact, Railway workers were entitled to cheaper tickets for their families (so-called "utility

tickets"). They were charged small amounts for railway lines in Croatia, and they even had some free tickets for railway lines abroad.

- *Respondents from Varaždin: I am not entitled to "utility tickets" and these free international tickets; they took those away from us.*
- *Respondent from Novska: You lose transportation privileges.*

With former railway workers there is another social loss, which is related to perceiving the company as their family. That is, the majority of workers had someone working or still working in the companies, whether they were grandfathers, fathers or now sons. Those were, obviously, families who had been hired in railways for generations, and that is why they perceived the companies as another home. When they left, they not only lost their jobs, but also the sense of belonging somewhere.

**Among the respondents who were declared technologically redundant, that is, among those who left against their will, there are the greatest numbers of those who, besides losing incomes, experience some other problems.** Younger respondents who lost their jobs mention as an important loss the falling apart of their families (a respondent from Novska), and a lack of financial resources necessary for a normal life. Their problem is also the inability to finance existing obligations (for example, school for their children), paying off loans, etc.

- *Respondent from Novska: The family is falling apart, that is the biggest loss. My son went to college in Rijeka, he dropped out of college, he is still registered as living with us, he left for Zagreb and now he works as a waiter, and he cannot earn enough for himself. My wife is not employed, we are both unemployed, we live on HRK 1,200 from the Employment Service.)*

A smaller part (a few respondents) also told us about some health issues (thyroid problems for women, blood sugar problems, mental problems) which were caused by leaving the Railway companies and by losing incomes.

- *Respondent from Novska: Health. Primarily, in my situation where I have to buy medication every day, I pay additionally. I have to pay for supplemental health insurance, since I am not entitled to free health insurance, and you know how supplemental health insurance covers medication, and all that it covers.*
- *Respondent from Zagreb: A couple of months before retirement, I was experiencing severe stress. Even after a year of retirement, I was visiting doctors because they could not find out what was wrong with me since on the outside I was completely healthy.*

### 3.3.2. Sources of current income

**For 22 (out of 51) respondents, a pension (either early or full) is their main source of income, while for others the main source is unemployment benefit from the Employment Service.** Among

the respondents, there are also those who currently do not have any income (they have not yet met the conditions for retirement, and they do not receive unemployment benefit from the Employment Service). For them, the main source of income is the received severance pay. Out of other sources of income, one respondent rents out an apartment (Varaždin), two are in the beekeeping business (one from Osijek and one from Novska) and respondents who live in the countryside (from Split) keep animals and grow vegetables in their gardens.

- *Respondent from Osijek: Since I am from Ivankovo, in the countryside, I do some beekeeping, so I have some additional income.*

So, the majority do not have any additional sources of income to make up the difference between their previous salary and their current pension and unemployment benefit from the Employment Service. Some use the severance pay to make up the difference in income.

**All those who have retired have problems with the low pensions in Croatia.** That is, they can barely satisfy their basic needs. Because of the high unemployment rate in the country (for January 2015 it was 20.3%<sup>9</sup>), the respondents who retired were forced to finance and support with their low pensions their children who could not find jobs (especially in smaller settlements).

Note: in January 2015, the average pension was HRK 2,238.38<sup>10</sup> (for those who were entitled to a pension according to the Pension Insurance Act). In order to compare living costs and create a picture of the “value” of Croatian pensions, we will mention the results of GfK research<sup>11</sup> (December 2013) on monthly incomes and expenses of Croatian households. The average monthly income of Croatian households was EUR 864.4 (HRK 6,655), while the needed income should be EUR 1,155.2 (HRK 8,895). Needed income is what is required to satisfy monthly household needs. From the mentioned results it can be seen that an average Croatian household lacks EUR 288 per month to satisfy its basic needs, that is, household incomes should be 30% higher.

### 3.3.3. Strategies for facing the newly created situation (cutting expenses, etc.)

**Cutting expenses and making savings depend on the general financial situations of households, although almost all former Railway workers have to cut their expenses because their pensions (or unemployment benefit from the Employment Service) are lower than the incomes they had.** However, there are a number of respondents who have the same incomes now as when they were employed because with the pension or unemployment benefit from the Employment Service they also received severance pay with which they make up the difference in incomes. They do not need to save or cut expenses. The question is whether they will cut expenses once they spend the severance pay.

<sup>9</sup> Croatian Bureau of Statistics

<sup>10</sup> Croatian Pension Insurance Institution, Central service

<sup>11</sup> GfK Croatia: Incomes and expenses, December 2013

Those who receive neither a pension nor unemployment benefit from the Employment Service cut expenses the most. They cut all expenses, and they save where they can. That is, they mostly save on basic needs because they gave up what they call “luxuries” a long time ago. They use cars less in order to save on gasoline, they do not buy shoes and clothes anymore (since they are no longer employed, they do not need a big selection), they have reduced their telephone costs, mobile phones and some even heating (they have implemented wood heating). They do not spend money on the food (snacks) they bought when they were working. Women visit hairdressers very rarely, men do not go to bars anymore and they do not go out. They also save on food by buying cheaper brands, while those who have gardens grow their own vegetables. One respondent from Novska became unable to put his son through college in Rijeka.

They say that they basically save on themselves the most to have as much money left to finance their children who have their own families but are unemployed.

- *Respondents from Rijeka: On everything. Specifically, I have a mobile phone, but I do not call anyone. I walk to town. My daughter is unemployed and it is normal that we cut down on everything.*
- *Respondents from Varaždin: We decreased our budget on our own, we were forced to, clothes, shoes, you do not need that much anymore. Trips mostly, travelling.*
- *Respondent from Osijek: You need to prepare your family to, let's say, 50% lower incomes. It would be the best if we could find jobs for our children. This way, you need to help them, too, because they are unemployed.*
- *Respondents from Novska: Well, you cannot do as you used to, you cut down on cell phones, clothes, summer vacations.*
- *Respondents from Split: I gave up cigarettes, I do not go to cafes anymore. I do not go to the movies.*
- *Respondents from Zagreb: We still have not felt it that much because we received the money. I do not buy clothes anymore. Before we had to come nicely dressed, there was a dress code; there is no need for that now.*

### 3.4. Transferring to a new workplace

**In this report it is difficult to make conclusions about problems of finding new jobs for former Railway workers, as well as about their intentions of transferring to another workplace because we had only a few respondents who left against their will, and who are younger and still looking for a job.** All the following findings come from a few respondents who participated in group discussions. Most respondents who are currently at the Employment Service are not looking for a job, and reporting to the Employment Service is only to pass the time until retirement.

**The main obstacles in finding new jobs are:**

- a) **Generally high unemployment rates**
- b) **Age**
- c) **Specific occupations**

The **high unemployment rate** in the country is one of the biggest problems when searching for new jobs. Because unemployment surpassed 20%, it is clear that middle-age and older persons have really little chance of finding new jobs because, as the respondents say, there are no positions even for younger people, let alone for them. While at the Employment Service, their task is to look for jobs and notify Employment Service officials about their activities related to their job search. During their visits to the Employment Service, none of the employers showed any interest in hiring them. They are aware that the chances of finding new employment are small.

- *Respondents from Rijeka: I mean, I send requests, but I know no one will hire me at my age. I believe that the general situation in the country is very difficult regarding employment. High unemployment rates, big supply, small demand, regardless of qualifications and knowledge.*
- *Respondents from Osijek: And now I am at the Service, and you know, when someone opens the applications and reads 57 years, he/she crumples it up twice. There are no jobs for younger people, let alone for us.*
- *Respondents from Split: Who needs old people?*

The next important obstacles in finding new jobs are **specific work positions** related to trains, such as engine drivers, train dispatchers, etc. They say that people with a vocation like that can only be hired by a foreign company that runs trains in Croatia or by ZET (Zagreb Tram Operating Company) if they are looking for tram drivers.

- *Respondent from Split – engine driver: There is nowhere I can work.*
- *Respondents from Zagreb: I can, it is very similar to driving trams for ZET. This low-floor tram is the same as a low-floor train, a similar occupation, I could do that for example. This is a specific occupation, only those foreign companies if they came to Croatia, if they needed an engine driver.*

An additional **obstacle is the inability to work in public companies due to having received severance pay**. Only a few respondents mentioned this section of the signed mutual agreement on the termination of employment relationships probably because most former workers have retired or are about to retire, so they are not interested in finding new jobs. Anyhow, in the signed agreement there is a section which prohibits any future employment in companies funded from the state budget because of the received severance pay funded from the same budget. This prevents the potential receipt of another severance payment from another company or even from the same company, which has happened before as the respondents mention.

- *Respondent from Split: I know that it happened that people would come back and take two severance payments, various things have happened.*

Some respondents do not even know what the period of the restriction is because they mention a 5-year period. The content of this section is not very important for older workers who are retiring and are not searching for another job. However, for younger people who are leaving or are about to leave, this restriction greatly limits their chances of employment. This mostly regards small towns where most companies are public companies. In order to see the importance of this decision, it is necessary to consider that in 2013 in Croatia 1/3 of those employed were employed in the public sector (out of 1.5 million employed, half a million were employed in the public sector and one million in the private sector).<sup>12</sup>

An extract of a worker's contact containing the restriction on being employed in public companies:

*"The employee is obligated not to be employed in companies which are legal successors of the Croatian Railways and companies depending on them, as well as in legal subjects funded by the state budget of the Republic of Croatia."*

Respondents from smaller settlements, like Novska, find it much more difficult to find new work positions compared to those living in Zagreb. This is especially so because there is an abundance of public companies in Novska, and former Croatian Railways workers cannot be employed in them. For this reason, one respondent decided to go to Germany in order to work in a nursing home as a caregiver. Two respondents from Zagreb found new jobs, both via acquaintances. One worked in administration, and according to his vocation he found a similar job, which is better because of the salary. However, because it is a private company, the job is worse because of a higher workload, fewer days of vacation, unpaid overtime, etc. The other respondent (an engine driver) worked only overtime on a locomotive for a foreign company. However, because of a lack of business, the employer has no need for an engine driver at the moment.

The respondents believe that so far those who met the conditions for retirement or who were close to retiring left. However, soon they will start laying off young people who do not have the conditions for retirement, who have less work experience, and who, after leaving the Railway companies, will not have new job opportunities.

- *Respondents from Rijeka: Now it is the turn of younger employees, that is, those who still have 10 years until retirement. It is really their turn now. We got rid of the older employees, and now we only have the younger ones left. And now it is the turn of the workers... Who will hire them when they are 40 years old? No one will hire them.*

<sup>12</sup> <http://www.index.hr/vijesti/clanak/u-hrvatskoj-radi-samo-15-milijuna-ljudi-od-toga-trecina-u-javnom-sektoru/760502.aspx>



### 3.4.1. Readiness to change place of residence location for another workplace

#### **Readiness to change place of residence for another workplace varies among the respondents.**

Readiness to change residential location mostly depends on the offered salary, and on traffic connections between that other location and the residential location. Respondents from Zagreb would be ready to travel to another place to work, even to Slovenia, if the travel expenses were covered, and if they were offered satisfactory salaries. The language barrier is a problem for relocating to other countries. These are mostly engine drivers, who know people who are similarly employed in Slovenia or Austria. The situation is similar with respondents from Split.

- *Respondents from Zagreb: Yes. We also have a colleague who does just that. He lives in Zagreb, and he works for MC, an Austrian company, but he drives in Ljubljana, so he works there. He has an official car, he lives here.*
- *Respondents from Split: Only if my travel expenses were paid. Who would go to another city for HRK 3,000 if you spend HRK 3,000 on gas?*

A female respondent from Osijek would not take a job in Vinkovci due to poor transport connections, while another female respondent would gladly travel from Vinkovci to Osijek because the connections are satisfactory.

- *Female respondent from Osijek: It does not suit me at all, there are no connections with Vinkovci. If they told me, I would, because many of my colleagues went to work in Osijek from Vinkovci, and that would not be a problem for me at all.*

Female respondents from Rijeka would accept only travelling daily to work, and it would have to be somewhere near Rijeka. They would not accept relocation because of their age.

- *Respondents from Rijeka: We are not 30 anymore so that we can move to Zagreb, Split, or I don't know where, so we can go to work there, look for jobs. You mean, would I travel to work? Only places surrounding Rijeka.*

Only respondents from Novska mention that they were offered work positions in other towns, such as Virovitica and Koprivnica. However, it was impossible to work in those towns because there were no train connections to get there.

- *Respondent from Novska: I got an offer for Koprivnica and Virovitica, but in order to get to Virovitica, I would have to be Batman because the rail line was closed.*

### 3.4.2. Programs and institutions which offer assistance for searching for new work positions/retraining programs

**Former Railway workers are not familiar with any program or institution which would assist them in finding new jobs or which offered them a retraining option.** The respondents are not surprised about the non-existence of the mentioned programs because they are aware that there are

too many workers in the Railway companies in all working positions, and that it is necessary to let many of them go, so there is no room for retraining because workers have nothing to retrain for (there are no work positions which are open for new workers).

- *Respondents from Novska: There were redundancies in all working positions.*
- *Respondents from Split: No, I don't think there were because there were technological redundancies in all services, so it was not necessary.*
- *Respondents from Zagreb: They did not need that because you are redundant, why would they pay you?*
- *Respondents from Rijeka: In Croatia, who nowadays looks for a job for another person if a company is declared bankrupt?*

The respondents only mention the organization of a training group for 50+ people, which was created by former female HŽ Cargo workers in order to help persons over 50 to find new jobs. Respondents from Varaždin mention that there was training in transferring from one occupation to another. For example, assistant engine drivers were trained to be engine drivers, switchmen were trained for control, etc. However, that was all before, while they were working in the companies, not during the restructuring.

- *Respondents from Varaždin: They were assistants, assistant engine drivers, so they additionally qualified as engine drivers.*
- *Respondents from Osijek: Yes, for salary reconciliation, everything was going through SAP, finances, accounting, everything that could be done was done, we went to those classes.*
- *Respondents from Zagreb: The organization has the aim to train people at the age of 50+, so that they could potentially find jobs somewhere and still compete in the labor market.*

Regarding training within the companies, the respondents mention foreign language classes or computer classes for workers who required them for their occupations. There were some sorts of retraining which had to be paid for by the workers themselves if they wanted to be retrained.

- *Respondents from Varaždin: But lately I think about my own expenses.*
- *Respondent from Novska: I started as a maneuver man on the railways, and I paid myself to retrain as a control man, the company did not pay for that. People could retrain on their own initiative. There was an option to retrain, but the company does not pay for that.*

**The Employment Service is currently the main service provider regarding retraining/training, which is conducted based on the requirements of the labor market.**

From the interview with Employment Service representatives, we found out the following about training and retraining:

**In line with their services, the Employment Service organizes various stimulating measures upon employment, either via additional training, or via stimulating measures which employers receive when they employ different groups of people (the elderly, those with disabilities, etc.), or via stimulating measures for self-employment.**

An individual who applies to the Employment Service is assigned his/her counselor, who, together with him/her, goes over employment possibilities considering his/her profession, notifies him/her about the program in the Service and notes his/her interest.

Every year the Service writes the Training Plan (additional training) according to current market needs and, via a public tender, chooses an institution to organize the training. Most often these are various educational institutions, the Agency for Vocational Education and Training and Adult Education, etc. The procedure itself, from writing the public tender to the realization of the training, takes a very long time because it is necessary to write and publish the public tender, choose the institution, followed by choosing a group, that is, the people to take the training. In the past three years, the number of training courses has significantly decreased (per person). In 2011, 13,000 people were trained, and in the past three years 2,000 each year. The greatest reason for this is the decrease in the number of demanded work positions, that is, the need for workers, and with that for training. The estimate is that about 30% of additionally trained persons have managed to find jobs after receiving additional qualifications.

Other than the mentioned stimulating measures, the Service also organizes various types of training where the unemployed can learn about writing CVs, behavior, self-presentation at job interviews, etc. Because they were working in one company for many years, they are not familiar with the new methods required during hiring. It is necessary to additionally motivate unemployed persons to search for new jobs, to think outside the box, to leave behind already created boundaries and set opinions, for example to make a complete change of profession with additional qualifications.

**The Employment Service, via its mobile teams, participated in some types of training of Railway workers who opted for the Railway Fund, in order to inform them about their rights and possibilities after registering at the Employment Service.** The organization of mobile teams, which can hold various types of retraining or training, is possible only upon the employer's request. The Employment Service staff believes that workers who are members of the Railway Fund did not obtain enough information about how the Fund functioned, and even less about their rights after leaving the Fund.

**The Railway Fund in December of 2013 held training and information sessions in collaboration with the Employment Service on the rights which workers exercise upon arriving at the Service.** Other training courses were not conducted, and neither was retraining. Namely, the main problem in conducting training and retraining is the lack of a social development plan, which includes an analysis of the need for personnel related to new technologies (automatization). In Railway companies, there is

no such analysis to show which occupations lack workers, for which new occupations one could retrain some of the workers, and based on which one could organize additional training or retraining of workers in the Fund.

### **IN-DEPTH INTERVIEW WITH CARGO – Centre for the Development of Knowledge and Skills**

**An example of an attempt to organize training for former Railway workers is the presence of the Cargo Association.** The Cargo Association is made up of highly educated former HŽ Cargo workers who were declared technologically redundant in the restructuring wave of 2014. Its main mission is to help other retrenched workers by organizing various training and retraining courses to prepare them for finding new work positions.

From the conversation with the representatives of the mentioned Association, we concluded that in order to help the workers, it is necessary first to make an analysis of work positions and work processes in the companies, in order to determine the need for new jobs, that is, over and above the existing ones. The analysis should be conducted by a team of various experts (psychologists, sociologists, professional staff, etc.) under a strategy of managing human resources. In line with this, a defined number of people should then be additionally trained and should qualify to perform new jobs. As a source of funding for the mentioned training, they suggest a redistribution of the Railway Fund's funds (so that a part of the funds received by workers in the Fund is redirected to fund training).

In order to begin with the mentioned analysis, it is necessary to prepare statistical data on all workers (level of education, description of work position, years of employment, etc.). According to the above, one should ascertain the correspondence of the current positions, the required qualifications and the qualifications of the people employed in those positions. Workers must be notified in due time about technological redundancies, and they must be informed about their options upon leaving, as well as about their rights in the Railway companies and at the Employment Service. Criteria for declaring technological redundancies must be available to everyone and made public (put up on notice boards), and they must also conform to the restructuring plans. The Legal Services also have to assist workers if necessary.

Based on the above, it would be possible to redistribute the existing personnel in companies, remove from the companies those who do not satisfy the requirements of certain working positions, and train workers who can no longer find jobs within the companies for future jobs.

### **3.5. Broader impacts on the community**

**The respondents were asked their opinion on whether, and how much, the railway reform and especially the retrenchment of workers would impact on the broader community.** How could the railway reform and the lack of workers affect some other aspects of life?

They believe that the mentioned reform would lead to the following:

- a) Endangering travel safety
- b) Complete closure of passenger transport on the railways
- c) Emigration of young people, especially from smaller settlements, where it is impossible to find new jobs
- d) Jeopardizing related services, such as tourism, cargo ports, etc.

As an important consequence of restructuring and of the reduction of personnel, the respondents mention **endangering travel safety**. Reducing the number of workers has led to letting go those who were crucial for safe railway travel, such as switchmen and cart control, etc. During systematization, the companies either completely abolished some of the mentioned job positions, or currently one person (for example, a ticket inspector) is in charge of several working positions, where precision and accuracy are now put into question.

- *Respondents from Varaždin: They were downsizing executive personnel, and now travel safety is put into question. I think that travel safety is a lot lower. They have reduced the number of switchmen and have put safety at risk. Or, for example, they created only one working shift.*
- *Respondents from Novska: Even nowadays, checking the brakes is the responsibility of a locomotive operator, who has not received the proper training that control operators have. Is not that endangering safety?*
- *Respondents from Zagreb: Travel safety now, I think, has never been worse.*
- *Respondents from Rijeka: Wagon service is, in my opinion, a very important work position where they took care of most of the problems on site, and basically if you take care of something on site, your costs will be much lower. Then they abolished wagon inspectors. Nowadays, the conductor does everything. A conductor is a locomotive operator, a wagon inspector and he also monitors the train at the railway station.*

Other than the above, downsizing and closing down railway lines will lead to the **complete destruction of HŽ**, that is, to the complete removal of trains as a means of transportation.

- *Respondents from Rijeka: The future of passenger transport is poor and we just cannot see it.*
- *Respondents from Varaždin: But really, travelling takes too much time. One can travel from Varaždin to Zagreb in one hour and by train it takes four hours. But we all know that HŽ took little care of passenger transport so as to hold on to passengers. Investments in railways were minimal.*
- *Respondents from Osijek: There has been systematic work on the railways leading to their destruction. There have been no investments and, do not get me wrong, it is really like that. We chased away passengers by creating itineraries which made no sense.*

- *Respondents from Novska: A disaster, Novska is a railway town, everyone was employed on the railways.*
- *Respondents from Split: The railways are forced to increase their ticket prices. It was 200kn in one direction, and it takes 10 hours, who will ride on trains? And a bus ride costs 100 kn.*

By destroying HŽ Cargo, there has been an **automatic decrease in traffic and business even in ports such as Rijeka, Split and others**. The respondents believe that cargo transport in HŽ Cargo has been completely taken over by road transport (trucks and boats), which is again the result of smaller interest groups closely related to politics and politicians.

- *Respondents from Rijeka: The port takes the fall. Mostly the port. It means that, regarding cargo transport, the entire Rijeka basin suffers the consequences. The future of passenger transport is poor, and I just cannot see it.*
- *Respondents from Varaždin: The country decided on roads, the railways were placed in the margin, and that was that.*
- *Respondents from Osijek: Everything was redirected to road transport.*
- *Respondents from Novska: For roads, there are many lobbies. That was all done by the railway management. Since that management arrived, they have destroyed the railways.*

Cutting the number of workers in Railways in locations where most of the population is employed in public companies **encourages younger people to leave the country because they cannot find new jobs there**.

- *Respondents from Varaždin: In these rural areas it is much harder, they were hit much harder. Look, they had only that income. The railway employee was a provider of everything, and when he lost his job, everything collapsed.*
- *Respondents from Zagreb: First, you have a feeling that everything is falling apart, and the fact is that it is true, the same as our country. The railways are the backbone of the country, they always have been.*

### 3.6. Closed/reduced lines and their effect on passengers

As already mentioned in the introduction, railway lines in Croatia were closed because of too few daily passengers and because the lines were not profitable. This means of transport was replaced by buses driving alongside the railway route (from one train station to another), and this was organized by HŽ Passenger Transport.

HŽ Passenger Transport representatives believe that the problem of closed lines was solved by introducing buses, which follow closely the railway lines. Therefore, passengers should have no

problems with transportation, and the closing/reduction of lines did not affect the lives of people using them. In the in-depth interview with HŽ Passenger Transport representatives, we obtained the following information:

Currently 700 trains run daily (one train = one route), while in 2009, 800 ran daily.

**Table 4. Passenger traffic 2007-2014<sup>13</sup>**

	Unit of measure	2007	2008	2009	2010	2011	2012	2013	Plan 2014
<b>Passenger transport</b>									
Passengers carried	000 pax	63,131	70,961	73,545	69,564	49,983	27,668	24,265	21,839

The criteria which were considered when reducing railway lines were the following:

- Passenger needs (number of passengers)
- Human resources in HŽ Passenger Transport
- Investment costs

The usual procedure of shutting down a line is the following: HŽ Passenger Transport suggests to the relevant Ministry which lines should be closed based on an analysis according to the aforementioned criteria. Subsequently, the Ministry makes a final decision. If the Ministry decides that a certain line is important for transport, regardless of the high costs, it will pay HŽ Passenger Transport the difference between the current and commercial price.

The Ministry, based on the PSO (Public Service Obligation) contract, will pay HŽ Passenger Transport a total of HRK 504.5 million in 2015 (the same amount as in the previous year), which, when compared to 2013, is HRK 107 million less. Besides the Ministry, there is the possibility (according to the PSO) of financing lines from the resources of local government.

CLOSED LINES BECAUSE OF out-dated railway tracks:

- Daruvar – Virovitica  
Pleternica – Našice

In 2010 these lines were “temporarily” closed because they were out of date and because they needed to be renovated.

CLOSED LINES because they were not profitable (April 24th, 2014):

- Ploče – Metković
- Strizivojna – Vrpolje - Slavonski Šamac

<sup>13</sup> The World Bank

- Banova Jaruga – Daruvar
- Knin – Zadar

For all closed lines, HŽ Passenger Transport is obligated to provide substitute transport by bus, which is also financed from the PSO funds. The buses travel alongside the closed lines (from one train station to another), and the ticket price is the same as for the train. Of the remaining lines, 99% of them have reduced timetables during the weekends because only a small number of passengers travel then.

In the period 2012/2013, many international railway lines were closed because, by law, it was not possible to fund the international trains from the PSO. Instead, they were supposed to function according to market principles. From July 2013, when the law changed, many international railway lines were reinstated.

Representatives of HŽ Passenger Transport believe that the most important thing for any planning and decision making is a strategy for the Croatian Railways, which is being reviewed by the Government.

### 3.7. Recommendations

Based on the obtained data from the qualitative research using the methods of group discussions and in-depth interviews, the following recommendations can be made to mitigate the social impacts on released Railway workers:

1. Workers have to be increasingly and in more detail informed about their rights and options prior to leaving HŽ companies, as well as about their rights and options at the Employment Service. Providing information also implies explaining all parts of the Agreement.
  - 1.1. Providing information could be conducted (or must be conducted) by responsible personnel in the Railway companies (the Legal Services, Human Resources, etc.) or through workshops; and/or
  - 1.2. The information can be provided in writing in the form of printed leaflets/instructions where everything is explained to workers.
  - 1.3. The mentioned explanations should include the criteria based on which workers are released.
  - 1.4. Information on the rights of released workers at the Employment Service can be passed down to them in person via mobile teams from the Employment Service, which come only when called on by the company management, or
  - 1.5. The rights of and options for workers can be presented in leaflets printed in cooperation with the Employment Service.
2. Workers should be notified in due time about the technological redundancy lists, as well as about options for leaving. Workers should not have to decide overnight whether or not to leave.



Lists of technological redundancies (with first and last names of workers) must not be rewritten several times with changes made to the names on the lists and inadequately presented for few to see, since in this way additional tension is created among workers.

3. In order to form programs of training and/or retraining, first it is necessary to conduct a detailed analysis of the existing situation in Railway companies:
  - 3.1. To determine the educational structure of workers in the companies;
  - 3.2. To determine whether the levels of education correspond to the workers' positions;
  - 3.3. To determine whether all workers have the necessary certificates to prove their level of education;
  - 3.4. To form a team of experts made up of various profiles: psychologists, sociologists and professionals related to the nature of the business, whose task is to analyze the personnel and processes in the companies, based on which it is necessary to make a strategy for additional training and retraining. Workers from the Railway Fund should certainly be included in this analysis. Thus, information can be gained about which qualifications/work positions are needed in the companies, and what kind of workers can be retrained to perform them. In this way the need to hire people outside of the Railway companies would be decreased. Without a strategy and an analysis of work positions, it is not possible to draw up a plan for retraining and additional training.
  
4. Training and retraining programs should be conducted:
  - 4.1. In collaboration with the Employment Service, which already has a specific program.
  - 4.2. Additional training programs should also be organized. These would not require a long procedure until they came into effect (unlike the situation with the Employment Service) via various institutions which are registered for adult education.
  - 4.3. Funds intended for workers in the Railway Fund should be redistributed in order to organize retraining/training.
  
5. To rewrite the article in the Agreement based on which workers cannot be employed in any company funded from the state budget. As the article stands, workers have far fewer chances of finding jobs, and especially in smaller settlements where there are few private companies. It would be possible in the mentioned article to limit the ban of rehiring only with regard to the Railway companies and their subsidiaries.
  
6. This point concerns the specific structure of the working personnel – persons who have worked in this public company for years (for most this has been their only employer) with significantly more benefits than in other public companies, and especially when compared to any private company. These persons are mostly not familiar with the existing labor market and the offered

conditions. For these reasons, there is a need to hire professionals such as psychologists and social workers to help them face new approaches in the labor market, to redirect them from existing ways of thinking to thinking about market competition, and to inspire them and direct them in searching for new jobs.

7. To introduce independent control in order to monitor the fulfillment of the criteria for releasing workers from the Railway companies. This should help eliminate the privileges of certain individuals.
8. To monitor the work of the Human Resources Department (number of workers, corresponding level of education of workers in the department, working plans and executing the working plan), that is, to determine what the main goals of the department are and the status of their fulfillment.
9. To strengthen the social dialogue between the unions, the Railway companies and the Ministry/Government in order to find the best solution to look after the interests of workers, which is ultimately the common goal of the mentioned institutions.