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**LATVIA - NATIONAL REPORT**

**STRATEGIC DIRECTION SESSION ST1**

**CHALLENGES FOR THE SUSTAINABLE  
DEVELOPMENT OF ROAD SYSTEMS**

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## **ABSTRACT**

In 1997 the road administration funded out of the budget was reorganised into a Non-profit State Joint-Stock Company "Latvian Road Administration", which concluded an agreement of delegation on the work to be performed and duties with the Minister of Transport. Such organisation of entrepreneurial activity type for administration of the road network at once acquired several advantages in comparison with various state institutions that manage the branches. In the new status the opportunity emerged to form a greater involvement of the employees in the results of their work, methods for solving the issues of operation changed, in some cases they became similar to those applied in the private business. The number of personnel, issues of payment, volume of resources became the matter to be determined by the Company itself. The holder of capital shares of the Joint Stock Company is the State in the person of the Ministry of Transport.

The reorganisation of 2004 retained the already established system and changed the status from the non-profit organisation to a profit-earning organisation, altering also the name: State Joint Stock Company "Latvian State Roads" (LSR). The Plan for Prospective Development Strategy is being worked out, which will substantially change the inner formation of the organisation, increase the role of regional management structures, balance the centralisation and decentralisation between the centre and regions, as well as will prepare the organisation for the mastering of 2 times larger funding for the roads. The LSR is an organisation oriented towards the client, where the client is the Ministry of Transport on the one part and users of roads on the other part. The LSR administrates more than 20 thousand km of state roads and receives payment for this work and provided services from the Ministry of Transport pursuant to the contract. Since 2003 the Quality Management System of the international standard EN ISO 9001:2000 has been implemented.

The priority tasks of the Latvian State Roads are the working towards the objectives such as the ensuring of modernisation of the main state roads, mastering of the co-financing means allocated from the EU funds for reconstruction of roads, as well as attracting of new funding alternatives with the state and private partnership projects (PPP). The short-term and long-term development programs of the state road network have been prepared and are being implemented. The most significant is the Development Program of Main Roads. Others: Program for Liquidation of "Black Spots" for improvement of traffic safety, Program for Development of Regional Roads, Program for Improvement of Gravel Roads. Already in the preparation stage a political support is obtained for the programs. In the field of public relations the work is targeted at cooperation with the road users and municipalities. This includes informing the road users, receiving their proposals, assessment of the manager's work, press campaigns, public discussion of projects, inquiries and researches for finding-out of the public opinion.

# 1. INTRODUCTION

Latvia is located in the northern part of Europe, on the eastern coast of the Baltic sea and has borders with Estonia, Russia, Byelorussia and Lithuania. The eastern border of Latvia is also the eastern border of the European Union. Territory of Latvia is almost 65 thousand square kilometres and number of inhabitants is 2.3 millions. Riga is the capital city with almost 1 million inhabitants and it is also the biggest city in the Baltic region, respectable sea port and important mark of western-eastern transit roads. European roads with index E – E 22, E 67 Via Baltica and E 77 – intersect in Riga.

Total length of roads and streets in Latvia is 70 thousand kilometres, including 14 thousand km with asphalt pavement and 56 thousand km with gravel pavement. Density of road network is 1077 km per 1 square kilometre.

State road network is 29% from the total road network and its overall length is 20182 km. Asphalt-concrete and other bituminous pavements make 40% or 8108 km and gravel pavements – 12074 km. Density of the state road network is 313 km per 1 square kilometre. Road classification by importance (based on data of January 1, 2006) is shown in Table 1. The state road network (with the exception of the 2<sup>nd</sup> class roads) is shown in Figure 1.

**Table 1 - State road classification by importance**

| Road classes                | With black pavement, km | With gravel pavement, km | Total length, km |
|-----------------------------|-------------------------|--------------------------|------------------|
| Main roads                  | 1622                    | -                        | 1622             |
| Including Europe E roads    | 1068                    | -                        | 1068             |
| 1 <sup>st</sup> class roads | 3990                    | 1337                     | 5327             |
| 2 <sup>nd</sup> class roads | 2496                    | 10737                    | 13233            |
| Total                       | 8108                    | 12074                    | 20182            |



**Figure 1 - Latvian state road network except for 2<sup>nd</sup> class roads**

Automobilization grows rapidly in Latvia. During the last three years number of vehicles increased by 1.5 times and it continues to grow. In the beginning of 2006 there were 320

cars per 1000 inhabitants. The biggest traffic intensity is around Riga, in several road sections it gets close to 40 thousand vehicles per day. During the last three years traffic intensity has increased by 18 – 26%, depending on route, but farther from Riga average traffic intensity is more than 4 thousand vehicle per day and during the last three years it has increased by 20%. Total number of vehicles registered in Latvia is more than 1 million units. Traffic on roads, discipline and driving skills of drivers, as well as, conformity of road with the traffic is the cause of not a little traffic safety problems.

Even though Latvia is not a large country, distance between the most distant western and eastern points is almost 500 km. Climatic conditions are very different, from maritime climate in the west to continental in the east. Specific character of the climate has special influence on winter maintenance, constant cover of snow does not form simultaneously in the whole country, there are big differences in temperature, many thaws in the winter, temperature can cross 0<sup>0</sup> C mark at least 25 times. Variations of the maximal and minimal temperature can be possible even within +14<sup>0</sup> C and -40<sup>0</sup> C. Also the spring does not come simultaneously in the whole country. Such conditions cause many problems related to road preservation, maintenance, restriction of traffic and designing of roads.

State road administration performs administration and development of the state road network, as well as supervision of the whole road network and traffic. During the first independent republic of Latvia in 20-ties and the following years of occupation, the name and status of the road administration was changed many times. At present it is a State Joint Stock Company “Latvian State Roads” and as a commercial company it manages state roads. In my report I would like to tell you about establishing the road administration in its current status and our work experience.

## **2. LATVIAN ROAD ADMINISTRATION DURING AGES**

In August, 1919, the Highway and Soil Road Department within the Ministry of Transport with offices in provinces was established, which lasted until the beginning of the World War II. After the World War II, when Latvia was incorporated in the Soviet Union, production organizations were established, where 11 road construction and 26 road maintenance state companies were functioning under one Road Administration, later one road construction trust and later one production union „Latvian Roads”. Part of the chief personnel of the union and maintenance companies in the regions administrated the state road network. In that time the focus was more road construction tasks than road maintenance. Resources and tasks were divided to contractors by territorial principle in strict administrative order without public tenders and often by planning bigger amount of work than material and technical resources were allocated.

After regain of independence of Latvia in 1991, there was a need to organize road administration completely anew by giving up the practice of the Soviet Union. Step by step we dealt with reorganization issues of management of the road sector. We practically finished it in 1997 but some improvements are still in progress.

We started with the separation of state road administration institutions from production companies. Previously state road maintenance and construction companies subordinated to the union were directly under the Ministry, and the road administration signed contracts with them on execution of road works. Control of their work, as well as control of a customer of maintenance works was performed by 26 divisions of the road administration, one in each district. They were established for administration of the state road network, separating some of the specialists from district maintenance companies. Next step was the

privatization of state road construction companies and implementation of tenders for state procurement of road construction works. In the process of reorganization we became acquainted with the organizational structure of road administrations in Nordic countries and with their experience in road network administration, and many things were implemented in Latvia. The third step was the establishment of 4 regional state joint stock companies as routine maintenance contractors instead of 26 road maintenance companies in 1997. In 2006 they all were merged in one state joint stock company.

The fourth step followed too – reorganization of the state road administration. After creation of the State Road Fund in 1995 the financing of roads improved, but at the same time the road engineers went away. It was important to keep the road specialists in the road sector. Favourable legislation supported the reorganization and in June 1, 1997, the state institution for road administration became a non-profit state joint stock company “Latvian Road Administration”. Later, already in 2004, new reorganization was made by establishing a state joint stock company that worked with profit and had a new name – “Latvian State Roads”. Practically it means that since the June of 1997 we have worked in the status of a commercial company and we have gathered certain experience.

### **3. WHY EXACTLY A COMMERCIAL COMPANY?**

Question rises – why exactly a commercial company is chosen as a form of the state company and not government agency or anything else?

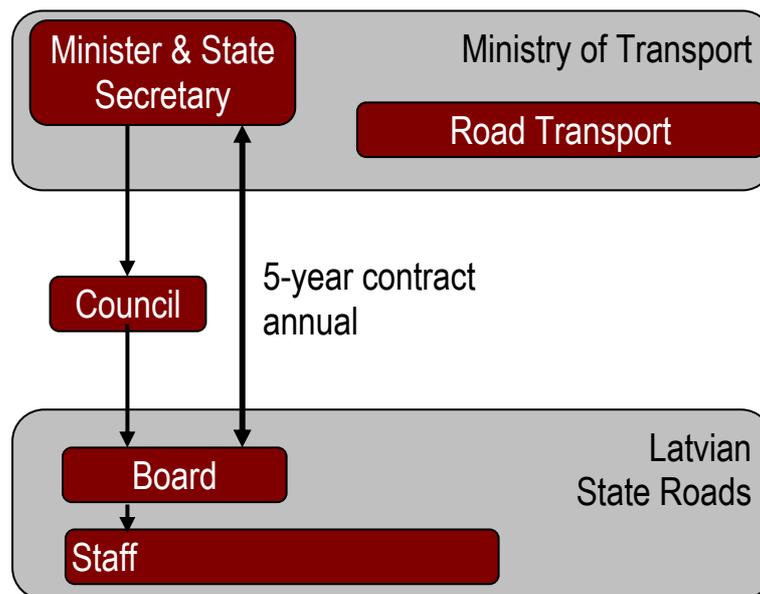
Main approach was to commercialize road administration by implementing techniques approved in business, meaning there will be clearly defined goals and effective administration.

In the middle of the nineties, when after privatization the business in Latvia was developing rapidly, many specialists left state organizations and went to work in private structures where they had better salaries. Latvian Road Administration was not an exception. Bureaucracy interfered with the work of personnel of state organizations when planning and purchasing the necessary recourses, purchase had become very cumbersome and even limited. At the same time work of some newly established state joint stock companies in other sectors proved new possibilities and advantages.

Thereby with the support from the Ministry of Transport and the Government, the State Joint Stock Company “Latvian Road Administration” was established. This act succeeded with evident benefits. Salaries of specialists became competitive with the salaries in the private sector and specialists started to come back. Funds for the purchase of necessary resources became available. Besides we could implement additional social guarantees and motivation for the employees. Dealing with the questions of inner activities of the company was improved and quickened because there was no need to waste time for coordination of such questions with the superior organization – the Ministry. Agreement “On Road Sector Management” signed with the Ministry of Transport became the basic document for cooperation and adherence to the Ministry requirements. The Agreement was concluded for 5 years and had an appendix with a list of annual work tasks for administration of the road network.

#### 4. MANAGEMENT OF THE COMMERCIAL COMPANY

100% of shares of the commercial company belongs to the state. The Ministry of Transport represents the state as the owner. The Ministry of Transport designates the Council for supervision of the commercial company. The Council elects the Board for 3 years and signs an agreement with every member of the Board. The Council and the Board review different questions in their meetings and make appropriate decisions. Supervision of the agreement “On Road Sector Management” and daily operative attention to work questions is under the authority of the Road Transport Department of the Ministry. Figure 2 shows a scheme of the management of the commercial company.



**Figure 2 - Management scheme of the SJSC “Latvian State Roads”  
Main functions and goal-oriented work**

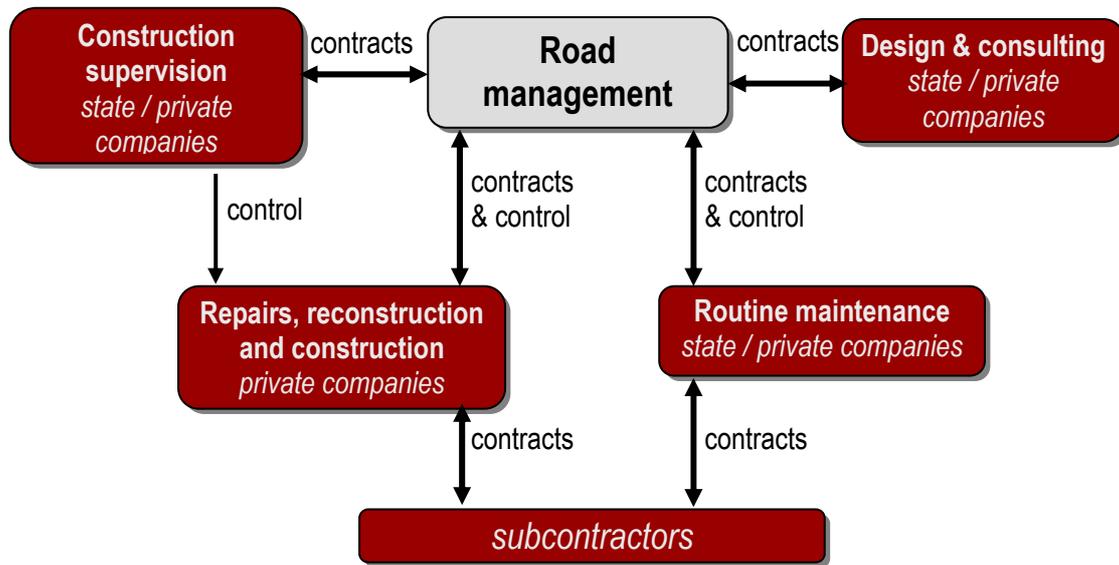
When carrying out the delegated main functions, State Joint Stock Company “Latvian State Roads” is like an “umbrella organization” in the road sector that ensures administration and development of the road network by signing contracts with consultants, maintenance and construction companies and providers of separate services. Scheme of the management of the sector is shown in Figure 3.

Basically all activities of the commercial company are oriented to one main client – the Ministry of Transport, also including road users (whole society) as clients.

On the base of the agreement “On Road Sector Management” with the Ministry of Transport, SJSC „Latvian State Roads” has the following main functions:

- To administer state road network;
- To plan costs of road works and to administrate the finances;
- To organize public procurement and to negotiate works in the state road network;
- To develop long-term and annual programs/projects of the maintenance, reconstruction and construction of the state roads;
- To control routine maintenance of roads;

- To supervise traffic organization and traffic safety in the state and municipality road network;
- To supervise municipal road network, to administrate state subsidies to it.



**Figure 3 - Scheme of the sector management, implemented by the SJSC “Latvian State Roads”**

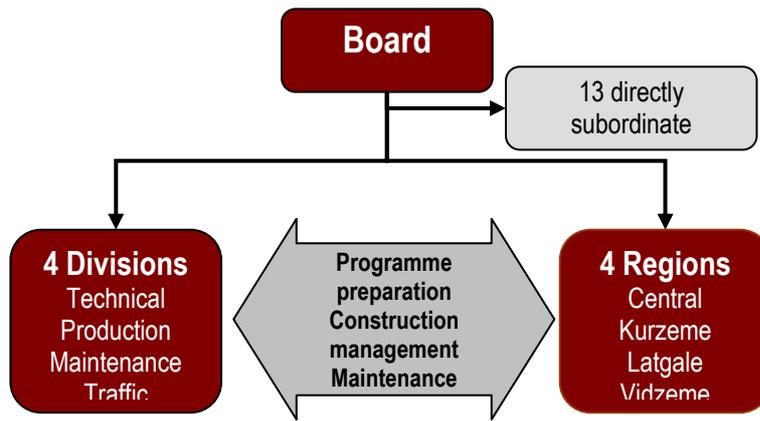
There is very small amount of works on roads of other owners. It makes only 2.3 % of the whole amount.

In 2005 the net turnover of the State Joint Stock Company “Latvian State Roads” was 8.3 million EUR with profit of 471 thousand EUR.

Work of our commercial company is getting more goal-oriented. Our mission is to administrate roads in such way that the state roads could satisfy the mobility needs of society. Naturally it is related to quality goals, long-term performance of road surfaces, providing maintenance standards, and improvements in traffic safety. In the next chapters I will review the works that need to be done in connection with orientation to goals.

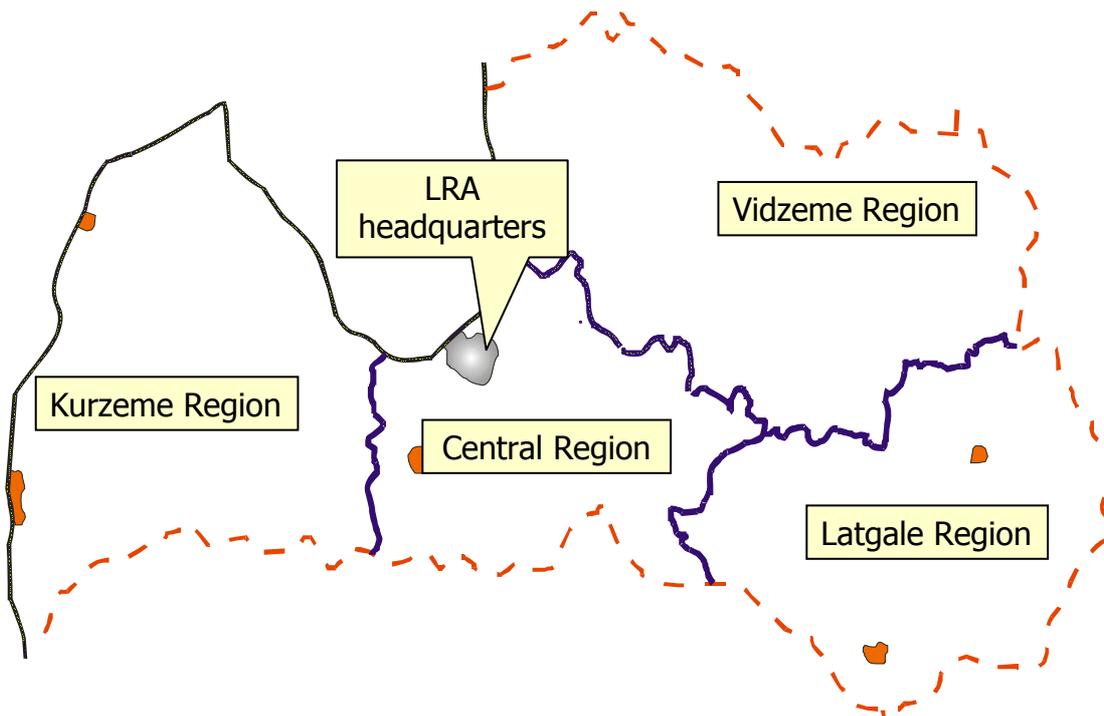
## **5. RESOURCES, QUALITY CONTROL SYSTEM AND CLIENT-ORIENTED WORK**

The most important values of the Latvian State Roads are: client-oriented, experienced, professional, and dynamic personnel, competent use of modern technologies and availability of our services in the whole country. General organizing structure is shown in Figure 4.



**Figure 4 - Managerial structure**

Every centre of a region has a personnel subordinated to the director of region but territorial units – 26 districts – have departments with 3 – 5 employees (see Figure 5). Director of region manages approximately 5000 km of state roads but head of district unit manages 600 – 900 km. With such organizational structure and division of the road network we have managed to bring the personnel of the road administration closer to the clients.

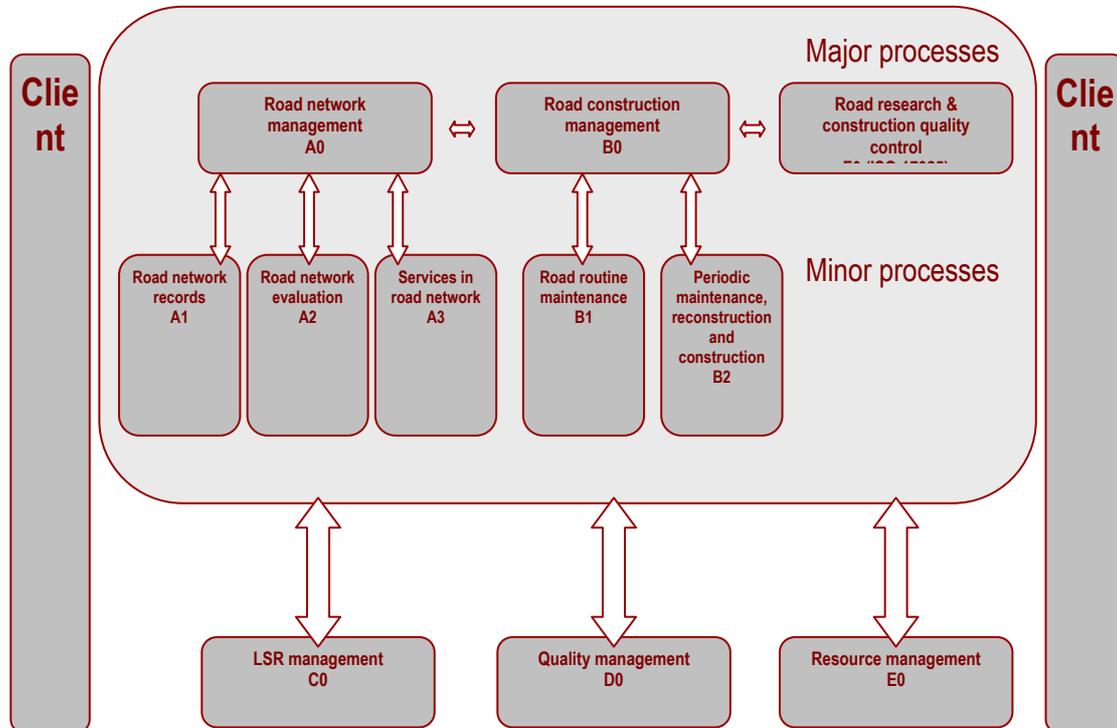


**Figure 5 - Regional division of Latvian State Roads**

Since January 2003 commercial company has a quality management system. It was implemented according to standard ISO 9001:2000, and it includes administration of the state road network, management of routine maintenance, periodical maintenance, reconstruction and construction, counting and development of roads, management of the commercial company, as well as resources, documentation and provided services (see Figure 6). The system was audited repeatedly and in January 2006 we received a new certificate, which will be valid until January 2009. Implementation of the quality management system has given very much to the road administration. We have achieved adjustment of all our processes and documentation, timely detection and correction of

nonconformities, increase of responsibility level of employees. Development of the quality management system is constantly in progress, we regularly audit it ourselves, as well as, it is being audited from outside. Correction of nonconformities or implementation of improvements follows every audit.

In June 2005 Road Research and Construction quality control was implemented in Road Laboratory accrediting by standard ISO 17025.



**Figure 6 - Scheme of quality management system**

Since road administration works as commercial company, we can provide the necessary resources for the focused work of our specialists from our earned money. It means work places equipped with personal computers and other office equipment, cars necessary for trips in road network, intranet based on our servers, e-mail, internet, computer programs, data bases. Operators in Traffic Information Centre may keep track of the activities in the road network and indications of weather information system.

Clients of the Latvian State Roads are:

- Road users (the whole society);
- The Ministry of Transport;
- Municipalities;
- Other road owners.

In 2005 proportion of the LSR work for our main client the Ministry of Transport was 97.7% (based on revenues). Information services that are organized for the road users or whole society are financed with approval of the Ministry and they are planned in the list of annual work tasks.

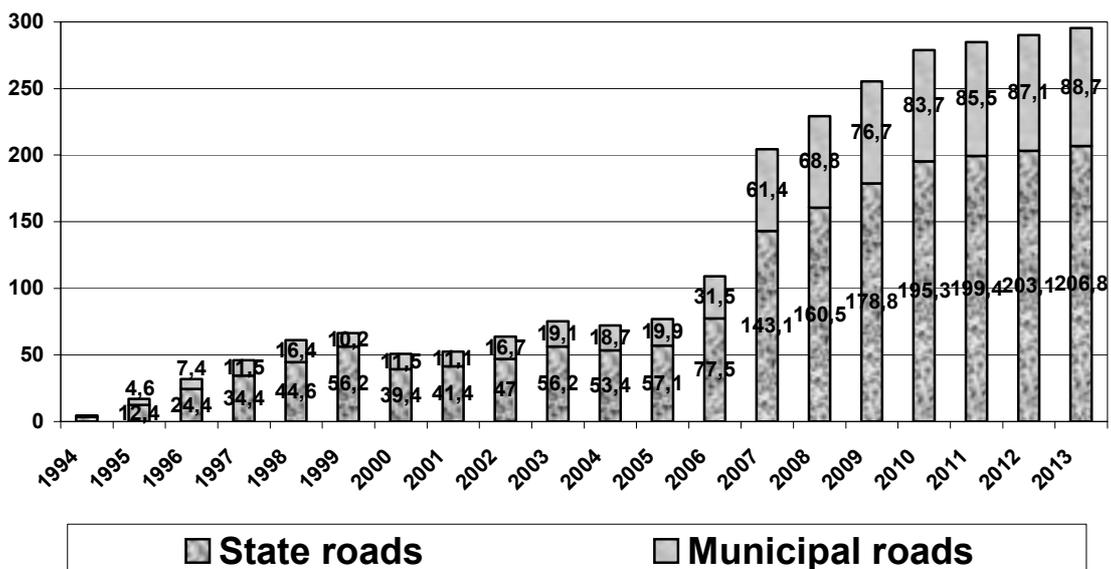
Almost all of our resources are directed to performance of work tasks given by the Ministry of Transport. According to these work tasks and following our vision we have defined main achievable goals of the Latvian State Roads:

- Providing administration and development of the road network;
- 100% realization of the planned objects, which procurement process has already started;
- Maintenance of roads according to laws and regulations.

## 6. STRATEGY OF DEVELOPMENT

In the previous time period, when country was missing political will and appropriate political decisions, too little financing was allocated to road maintenance and amount of repairs behind their schedule has accumulated equivalent to amount of works for 10 years, which is approved in state road network in 2006. Hence there is an actual contradiction between set targets and allocated financial means. Therefore in the last years in the result of pressure from society and the Ministry of Transport more advantageous political decisions have been made. They have promoted appreciable increase of the road budget. Financing for road works has increased 1.5 times in 2006 and in 2007 almost 2 times comparing to the year 2005. So rapid and huge changes are new challenges to the road administration – to make work more efficient, to attract new employees, to raise the capacity of road administration observing prognoses of finance increase for the road sector.

Currently accepted perspective prognosis for the financing of road network is shown in Figure 7.

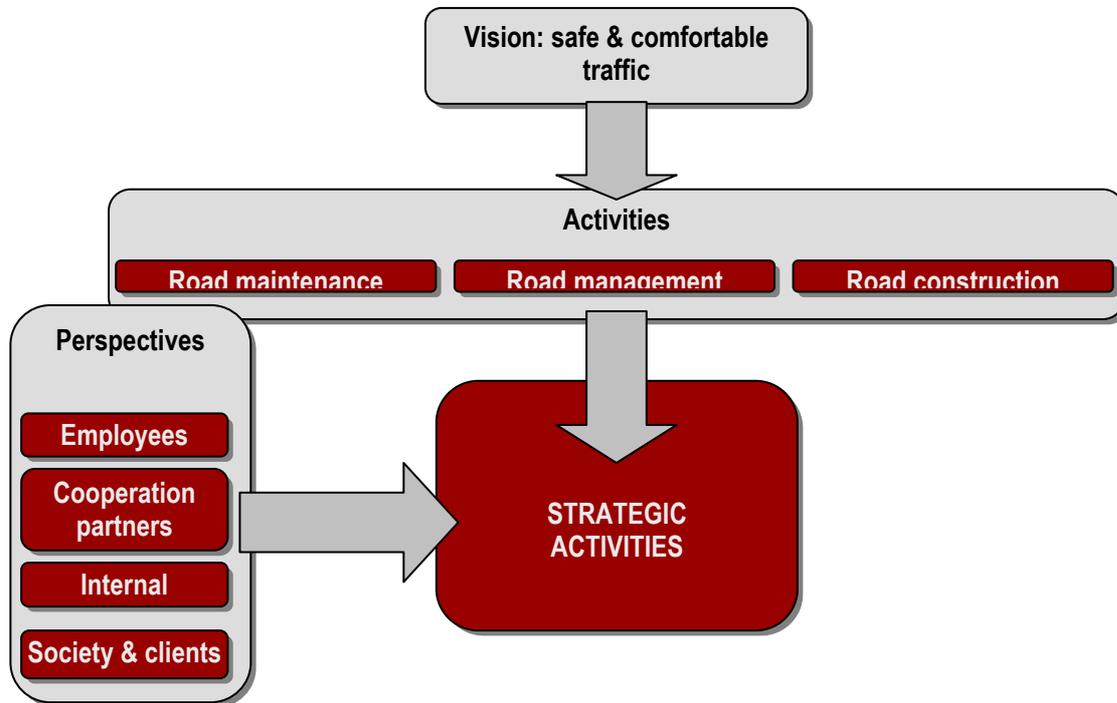


**Figure 7- Perspective financial prognosis for the road network**

In 2006 to increase the capacity of the commercial company we have worked out a strategy plan of development of the commercial company for the time period until 2013 in cooperation with experienced consulting company.

Strategy plan includes 3 branches of basic activities: road maintenance, road construction and road administration. The strategy was developed by using a balanced scorecard method (see Figure 8). In our case such balanced scorecard map of the LSR in management level includes 41 actions and balanced scorecards are composed to every branch of basic activities. Main goal is to create an organization based on the strategy. Considering that the main goal of the company is not the profit but sustainable mobility of the society, directions of development and transformation were searched evaluating four groups of perspectives:

- Perspective of society and clients;
- Perspective of inner processes;
- Perspective of cooperation partners;
- Perspective of employees.



**Figure 8 - General scheme of the strategy**

We consider perspective of the employees as one of the most important. Common urgency of the whole LSR is to increase capacity of human resources and improve the performance of the LSR. We are planning the breakthrough in the time period of 2006 – 2008. I will list the most important activities which are included in the strategy plan:

- to prepare suggestions about changes in the structure;
- to make an inventory of staff positions;
- to approve and implement the necessary plan of human resources;
- to begin development of competence models for employee groups;
- to create a mechanism for passing on the knowledge and relieve high-level personnel from technical work;
- to create motivation system for mentors;
- to raise management competences;
- to make a decision on using distance education for employee training and improvement of professional skills;
- to make the commercial company an attractive working place to the current and potential employees by improving technical and technological equipment, reconsidering wages, implementing flexible work schedule, regularly bringing personnel together in joint events;
- to gain new working space for convenient working conditions for employees and visitors.

In the further perspective (2009 – 2013) special attention will be paid to continuous rise of management competences, improvement of technical and technological coverage and other previously mentioned issues.

## CONCLUSIONS

1. The main conclusion is: the road sector and its administration are transformed accordingly to requirements of market economy.
2. Reorganization of the road sector and administration of state road network was made gradually in 4 steps and advisedly, successfully and working with human resources.
3. Over a period of ten years chosen form of commercial company has proved its viability and ability to work.
4. In the process of transformation we followed and adapted all the experience that is gathered by administrations of other countries, including recommendations of PIARC, to specific requirements of the state.
5. The commercial company has a good working mechanisms that open the door and possibilities to perform future functions under conditions of rapidly growing financing. They are: the agreement "On Road Sector Management" with the Ministry of Transport, quality management system and the strategy plan for our development. We have already studied actions that have to be performed to implement programs and plans of the road sector with efficient work of our employees.
6. In the previous period of time that lasted more than 10 years the state road network has been remarkably outworn due to absence of political will to finance and in this way to improve. Delayed works are a burden to our society, to the work of road administrator, to development of the state and regions, it creates additional problems. Nationally significant decisions adopted in 2005 give a chance to improve the situation and to have new possibilities.
7. There may be a threat and risks that politicians due to their interests or priorities can make decisions unfavourable to development of the state road network. But at the same time we should look optimistically to the role of directives of European Union that determine responsibility of the state over condition of road infrastructure and traffic safety.

In conclusion I would like to confirm that in future Latvia will continuously follow requirements of market economy and the principles of business in road administration will be developed and improved.

I see a possibility that Latvian experience with the reorganization of road administration and adaptation of form of commercial company to the state road administration could awake international interest. We are open to every inquiry.