

INSTITUTIONAL CAPACITY BUILDING (IN RELATION TO PROMOTING GOOD GOVERNANCE AND INTEGRITY)

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ABSTRACT

In a quite short period Estonian Road Administration has passed serious changes in order to save its professional capability on the field of road management. Two essential goals had been set and basically solved in the years 1988-2006 – 1) transition from controlled economy to market economy 2) strategic and technical restructuring the road sector. This presentation deals both with the initial state & problems and the activities that followed & solutions. Introducing of the new conception and the new working style required adequate organization with adequate human and material resources. Structural reforms made step by step, educating and training of people, reformation of planning system and finally good cooperation with neighbours ensured the results that have been achieved up to nowadays. As one can consider by the presented examples, nothing happened at a time and all that exists now is not ideal yet. Still there are no serious problems connected to management and administering now. Some progress has taken place in relations with road users. For a while our efforts can be more concentrated on how to meet operative tasks. But reforms are not over, of course, as the following steps are expected to be done already in 2007-2008.

1. INTRODUCTION.

Speaking about Estonian experience, example or model it is necessary to state that the country is small and relatively young. Therefore some specific economic rules and procedures well-known in “old” Europe can appear unfamiliar here. Having resources which are limited, the country can meet difficulties if it will try to manage with everything alone.

In connection with that the two factors are to be mentioned: 1) Smallness is positive in this case, as a lot of things and processes are more compact and the changes can be implemented easier (all the country could be considered as an experimental field in its best sense) 2) There has been an excellent co-operation between Estonia and its Baltic and Nordic neighbours about 20 years already. Probably the progress both in the whole economy and in the road management, which has been very fast during that time and continues to be fast now, was not achieved to this extent without Nordbaltic co-operation and assistance.

2. GENERAL FACTS ABOUT THE ROAD SECTOR OF ESTONIA.

The formal (state) road system of Estonia is 89 years old being established in 1918. Since that time the road sector has operated professionally despite a lot of unwelcome changes and phenomena connected to the political system and to the economic sphere, The present road management is based on the Road Act which is valid for the first time from 1991 (current version approved in 1999). Following its main functions established by

the mentioned Act, Estonian road authority – the Road Administration – administers 16,5 th. km-s of national (public) roads, which makes 29% of the whole road and street network. It must be mentioned that the total quantity of the secondary and local roads fully meets the needs of users while the summary length of motorways (99 km) cannot be considered as normal. The traffic growing year by year (for example the growth per 2006 was 10,5%) sets more and more severe requirements regarding both the composition of the road network and single road connections. While Estonia has one of the densest networks in the region, it has unfortunately the lowest financial facilities per 1 km of roads.

3. A BRIEF INTRODUCTION TO THE PROCESS OF TRANSFORMING THE ROAD ADMINISTRATION INTO A COMMERCIALY OPERATED MANAGEMENT ORGANIZATION

Several stages can be watched in transforming the Estonian road sector and its management.

3.1. During the long period of “command” economy the branch of road management was the responsibility of the State Company for Road Repairs and Construction (1946-1988) which was 100% based on planned natural economy. It had:

- The local units for repairs and maintenance which were owners and administrators of roads at the same time;
- own constructing units (companies) without roads in their ownership;
- own units of subsidiary production (quarries, asphalt plants, concrete plants, workshops etc.) as a part of the local units or as independent ones;
- own independent design company and design groups in local units;
- own supply system;
- etc.
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The described organization used the money allocated from the state budget and ordered road works mainly internally – “from itself” to implementing everyday operations, routine maintenance, road repairs, reconstruction and construction works. Still external subcontractors were used in some cases (communications, electricity etc.).

Despite of valid totalitarian political system some technical development can be watched also in those years.

In order to get more independence in decision making, improve the general management, introduce some new details in contract relations and improve the out-of-date wage system, the existing company was reorganized in 1988^{*}.

3.2. The Association of Road Enterprises “Estonian Roads” (1988-1990) established instead of the former company was basically similar, but operated using some business-principles already. The structure of the “Estonian Roads” became a bit more complicated compared to its predecessor as certain sub-units were added.

3.3. Estonian Road Administration I, created in 1990 consisted of the central administration + 15 county administrations i.e. road offices. The ERA continued to be a self-operating customer (a “playing coach”) as to road maintenance and less complicated

^{*} At that time we did not know yet that we had actually launched a big process of changes and that the way “fluently, step by step”, chosen by chance, fortunately appeared to be the best way for later reforms.

repairs. Construction and reconstruction works were performed by contracts. Enterprises were separated and started to be privatized. During 1991 – 2000 the most part of them changed their status from full state companies into full private companies.

3.4. Estonian Road Administration II (2002 -) is the result of more serious changes. Number of road offices was reduced from 15 to 6, which operate as regional state agencies under the administration of ERA basically contracting for road maintenance works (NB! Long term contracts). Still the regional road offices have temporarily saved their duties regarding road maintenance in limited part of counties (33%) - their respective areas of location . For this purpose they have special maintenance departments which may perform also any other works stated in their statutes.

Present Road Administration of the Northern Region (also a road office on the substance) is a local institution of the Road Administration and performs an example of a poor customer. The area of its activity includes fulfilling the management and national supervision function within the scope of the duties prescribed by law, and applying enforcement powers of the state in the area of road management and traffic safety on the grounds and in the extent established by legislation in 3 counties. It does not perform maintenance works, but acts as the contracting authority for such works. The RA of the Northern Region is an example for the rest of the road offices concerning their future.

All the mentioned agencies are legal bodies. Their detailed functions are stated in the statutes of the appropriate agency.

The main functions of the road offices include:

- organisation of supervision over the management of national roads and creation of the conditions required for safe traffic.
- road management of national roads on the basis of the road management plan and the approved budget;
- administration of national roads and other state property transferred into the possession of the road office;
- creation of conditions required for safe traffic on national roads;
- organisation of supervision over the management of national roads and creation of the conditions required for safe traffic.

The agencies issue permits, consents and approvals, perform owner surveillance on maintenance works and road management works not requiring a plan, submit proposals for preparing road management plans, organise and coordinate activities related to traffic control and traffic safety on national roads, counsel the management of local roads and streets and private roads.

3.5. The Estonian Road Administration III (all the regional units similar to the present Road Administration of the Northern Region) is coming in the nearest future – probably during 2007-2008. After that the regional offices will be dispossessed of the duties to perform any physical road work and the whole ERA will act only as a representative of the state (owner of road network), and administrator.

4. POLITICAL RECOGNITION OF KEY PROBLEMS AND OWNERSHIP OF THE REFORM PROCESS .

Privatization started in Estonia basically at the same time with entering into force the first respective legislation (i.e. 1990-1991).

Not all the branches of Estonian national economy had equal characteristics regarding privatization.

The road system belonged to the part of them which were developed very carefully and with relatively low speed, though both politicians and the public recognized the need for restructuring. This fact has had inevitably positive impact as all the changes were to be made keeping "nonstop traffic".

Before the establishing ERA I there was a lot of people occupied in the state system and some considerable shortcomings could be found in the activities of the organization:

- Efficiency of personnel small; business operations in a state authority more and more limited by the legislation;
- The principle "order from yourself" unacceptable for market economy;
- Excessive amount of properties, their using inefficient.

Still the former system could stay on use for a certain period considering that it was manageable, acquired and adopted during a long time. Similar examples could be also found in some European countries. But the two arguments become resolute: 1) principles of market economy which were actively introduced in the whole country 2) previous inefficient using of resources.

As the result of the measures launched in 2002-2004,

- just 6 regional agencies were established instead of 15 county agencies;
- number of public employees was reduced 60 % (1990 - 5391, 2001 - 1740, 2006 – 696)
- principles of enterprise introduced
- ownership of the road network not changed
- ownership of the most part of machinery, equipment, buildings, production bases etc. transferred to contractors
- apprehension of mission replaced with contract obligations

As the result of the last mentioned changes:

- number of state (public) employees reduced
- customer/contractor tasks clearly separated;
- professional specialization;
- contradictions existed so far between the principles of market economy and administering were eliminated.

Giving any assessment to the practical work and working style of the period 2002-2004 as the period of the most serious changes it must be stated that there were no opposition, disagreements or hostile applications among the decision-makers or between them and the rest of the personnel as well.

5. FORMULATION AND IMPLEMENTATION OF ROAD PLANS AND DEVELOPMENT OF FINANCING SYSTEMS.

Estonian Road Authority has two times outlined serious long-term plans for developing and upgrading of the national road network. The first document was prepared by the former system for the period 1985-2000 considering only the needs. The second one was worked out for 1995-2005 considering both needs and somewhat resources. These outlines gave

good imagine about that what was needed to do, but the expectations regarding financial, organizational and material resources were too optimistic in order to be realized. Only certain part of the planned works was implemented and even smaller part was implemented in planned time. Still the basic strategy which had been worked out then, has stayed on use up to the present time. By the mentioned strategy, the priorities in road management can be described in the next order:

- road operations
- repairs of main roads – projects related to foreign assistance funds,
- preservation of the existing pavements – regular protective surface dressing and repairs of gravel roads;
- repairs of the asphalt pavements of basic and secondary roads; repairs of bridges;
- paving of gravel roads.

After the 1992-1993 crisis had passed the dynamics of the road financing turned into positive direction.

Still the state budget was limited in order to cover all the costs. Therefore also credits and loans had been used to get additional financial resources. Two credits of the World Bank – for Estonian Transport Project I (1995-1997) and II (2000-2003), one credit from European Investment Bank for Ikla-Tallinn-Narva Road Rehabilitation Project (2001-2004), one credit from Nordic Investment Bank for Estonian Road Maintenance Project (2002-2004), PHARE assistance for the part of Via Baltica (1997) and Paldiski Access Roads Project (1998). Starting from 2002 EU funds have been used: 2002-2004 – ISPA, and later, after becoming an EU member state in 2004 – cohesion fund and regional development fund. During the period 1994-2006 ERA has used 150 MEUR additional resources in total or 17% of the whole road financing. It must be stated that PPP which is quite popular issue at the moment is not used in Estonia up to the present. No prognoses can be done, but as the domestic financial potential is growing and necessary legal measures are expected to be launched, the circumstances changes more and more opportune to take in use also this way of financing though we realize, of course, that PPP is not an end in itself but just arrangements in certain case.

Present planning represents officially approved road management programme for a shorter time (in correlation with EU planning period) + strategic vision about development of the road network. Considering changes in economy the mentioned programme is yearly revised.

Concerning the separate road projects being implemented in last years, rehabilitation projects make more essential part of them. The biggest one of them has been completed in 2006 with the capacity 84 km of asphalt-concrete pavement and total costs 44 MEUR. Coming projects will basically keep the same order. Still some of them will amount to 100 MEUR level and one (Tallinn-Tartu road upgrading) is estimated to need investments over 250 MEUR.

6. INVOLVEMENT OF THE PUBLIC IN PLANNING PROCESSES TO GAIN CREDIBILITY

The road management programme is to be harmonized with local authorities before the approval by the government. When the described planning system was launched (~2000 year) the harmonizing took long time and was extremely difficult due to plurality of opinions and requirements. At present the partners have got used to the respective culture, and the

procedures are running more fluently. By the way contacts between the road administration and local authorities are now permanent and not limited only by specific harmonizing.

Already in the end of the former political system (i.e. more than 20 years ago) we started to use public debates in order to find the technical solutions (e.g. for by-passes, straightenings etc.) which could satisfy the most part of local inhabitants.

The regular large press conferences are arranged two times per year. Topics of such conferences are either seasonal works or some coming project. Often some focal point connected to respective topic is chosen as the place for such conference.

Description of the plans and projects concerning the main road network or information of other more important works is published on the web-site of ERA. The web-site is also used to educate the public regarding some technical requirements.

ERA's internal quarterly "The Road Paper" has got the special additional edition reflecting the news of coming Tallinn-Tartu Road project.

An official press representative belongs to the staff of ERA several years already. The duties of this person are contacts with road users, replying to various inquiries, preparing public events and forming the information to be published on the web-site and in printed editions.

7. TRAINING OF STAFF ON PROCUREMENT AND CONTRACT MANAGEMENT

Though the contract management in principle has been familiar to every Estonian road engineer from earlier time, some applications, especially connected to procurement and tender procedures appeared about 1994 when we started prepare the I Estonian Transport Project with using the WB credit and a bit later when the Estonian Public Procurement Act entered into force. Training of the special staff on any issue of market economy can be classified in two parts:

- training in general problems of road management
- single-purpose training in contract management

During the period 1990-1994 the ERA received training assistance from our colleagues from Nordic countries, especially Finland and Sweden.(e.g. "Strategy and Management of Organization" in Sweden 1992 and 1993) There were arranged 2-3 seminars per year, special workshops for managerial staff, single consultations on application, we had 3 long-term trainees-on-job, and got a lot of useful information in written form.

After the first contacts with the World Bank and launching the first loan-project, the WB took care of educating the respective persons connected to the implementation of the project. During 1994-2000 , four our representatives passed long-term training on contract management in USA as fellows of IRF, all the staff of the loan-project implementation unit (4 persons) passed twice special seminars, 5 engineers participated in seminars on contract management and later in seminars on contract maintenance, arranged by the world Bank and IRF. After the year 2000 similar trainings were regularly arranged under the auspices of EU particularly for the staff of project implementation unit both in Estonia and in abroad (e.g. "Instrument for Structural Policies for Pre-Accession", Tallinn 2000). When starting to prepare and implement the first projects with using loan and foreign

assistance also Finnish and Swedish consultants were used to prepare some part of documents.

A particular reference connected to training and cooperation together has to be done on the project NordBalt. An important part of this cooperation project launched between Baltic and Nordic countries consists of common seminars both on economic and technical issues. The seminar on restructuring road management in 9 countries must be considered as the most essential one of them. This seminar, which has been arranged in 2002 and 2005 has become traditional now and will be organized in 2008 again. Not only Estonia but also the other partners have got a lot of benefit from this forum.

8. GOVERNANCE TO ENSURE EFFECTIVE SECTOR MANAGEMENT

This part of the issue is the most indefinite either to specify problems or to describe respective measures to be realized.

Transparency in all transactions to enable accountability is ensured by existing and strict following of job descriptions, rules of procedure and other official instructions.

Public control of private enterprises is implemented by the Tax and Customs Board and the Public Procurement Office both directly and via respective legislative acts.

Concerning the development of payment discipline all payments of ERA (and also of the other state authorities) are made via the Ministry of Finances. Accounting principles and accounting control are continuously improved.

Legislation and regulations to avoid corruption are effective. The question is how the Public Procurement Act and the Anticorruption Act are observed in practice. By the data of 2005 Estonia occupied the 27th position (among 158 countries) in the table of International Corruption Perceptions Index.

Let us expect only the best in future!