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ESTONIAN ROAD MANAGEMENT ORGANISATION

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1. INTRODUCTION

Since 1997 the Estonian Road Management organisation has systematically been updated.

The aims and ideas conceived then, have mainly been put into practice and they work.

The aim of the reorganisation was separation of the roles of the orderer and the performer of works or, in other words, assigning road operations and, to some extent, also construction and repairs to entrepreneurs on contractual basis.

1. INTRODUCTION

- To achieve that the production facilities of road offices, road construction machines and road operations equipment had to be expropriated;
- the normative basis of road operations had to be elaborated and the management of the road management organisation, including winter maintenance, had to be improved.

2. REORGANISATION

➤ 2.1. REORGANISATION PROCESS

- As a result of reorganisation, 6 regional road offices were established by April 1st, 2003 which were subordinated to the Estonian Road Administration instead of 15 local offices based in every county. However, in a county where the central road office of the region was located, road operations continued to be carried out in the fear that the reform would fail. The main nightmare was bankruptcy and cartel.**

2. REORGANISATION (2)

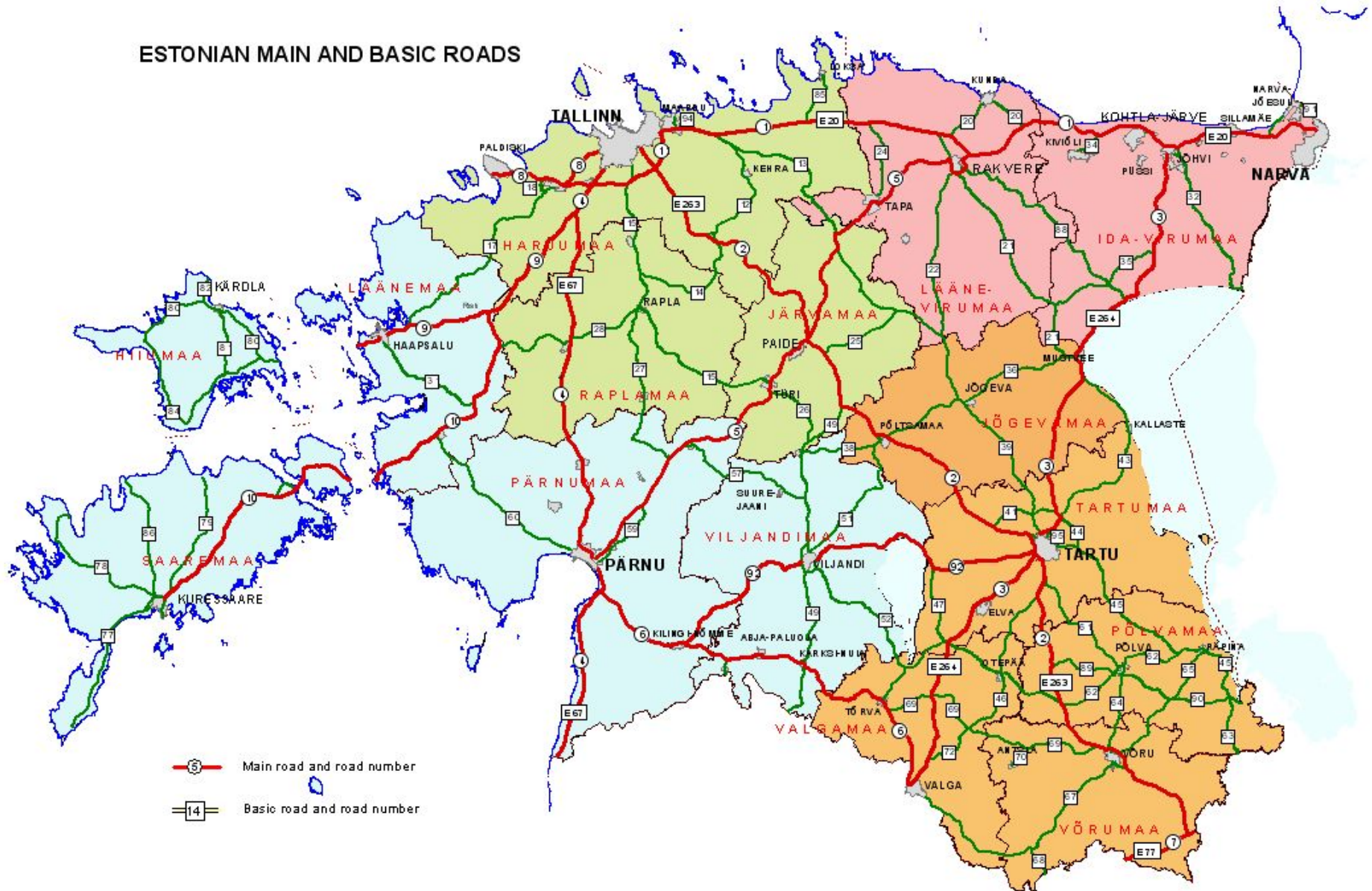
- In essence, road operations incl. winter maintenance were privatised in Estonia.
- Thus, in 9 counties road operations were transferred to private entrepreneurs and in one county the contractor was a state limited company, which was established in order to carry out privatisation later by selling the shares of that company. In reality, however, that type of a company was attractive to politicians who attempted to become members of the supervisory board of that company, so that selling of the shares started 8 years later than planned.

2.2. CONTRACTS

- The term of the first contracts was 5 years, but the second round started with 8-9 year contracts. As a rule, if a company won the first contract, it was successful also during the 2nd procurement. In Estonia the development of a state limited company is restricted anyway. The Ministry of Finance has established a rule that all the profit earned by such a company or at least a part of it must be transferred to the state budget and often the members of the supervisory board make decisions which hinder the development.

Table 1. Estonian National Road Network

ESTONIAN MAIN AND BASIC ROADS



➤ Harju Road Office was the first of the 6 offices which stopped carrying out road operations in 2003 and on 1st January 2005 it was reorganised into a regional road office of the Estonian Road Administration, called the Road Administration of the Northern Region of Estonia.

It became a state institution, the aim of which was planning road management work incl. Winter maintenance, ordering it and carrying out supervision.

➤ This was the beginning of a new phase in the development of the Estonian Road Management Organisation. For the next 2 years, the development in that direction did not continue mainly because there was no political decision. Only during the power of the government we have today, a decision was made to complete privatisation of road operations and the separation of the roles of the orderer and the performer of the work. The above mentioned fears do not play such a significant role any more, although bankruptcy is not unknown in road construction either.

➤ In October 2007 the reorganisation plan of road management was adopted for 2007-2009.

The plan set forth completion of privatisation of road operations in the 5 remaining counties and revision of the number of regions. 6 seemed to be too big a number for such a small country as Estonia.

Meanwhile the amendments of the State Procurement Act and some directions of the EU have made it more complicated to carry out privatisation directly and logically like 10 years ago.

2.3. ERA in 2009

- Today, we must first establish state limited companies to which necessary equipment, state property and employees will be transferred to enable them to carry out road operations in the counties for the next 3 years. Further, in a couple of years, the shares of the companies will be sold.
- According to that scheme state limited companies have been established since June 1st 2008 in Tartu and Pärnu regions and November 1st 2008 in Viru-, Saare- and Võru regions.

2.3. ERA in 2009

- All those 5 state limited companies will have a supervisory board of 3 members and the chairman will be Mr Koit Tsefels (Chief Executive) Deputy Director General of the Estonian Road Administration. This is the legal intermediate stage on the way to privatisation.
- On the basis of the remaining regional road offices as ordering institutions, it would be reasonable to form regional road administrations. Their number could be from 1 to 6.

2.3. ERA in 2009

- Today we are of the opinion that the optimal number is 4 regional road administrations, which have been established since January 1st, 2009, but was a political decision.
- Since January 1st 2009 all road maintenance incl. winter maintenance has been privatized in Estonia.
- We think that the final decision should reflect the regional reform of the Estonia as a whole, which we have heard of for about 10 years.

Table 2. Areas of 4 Regional Road Administrations

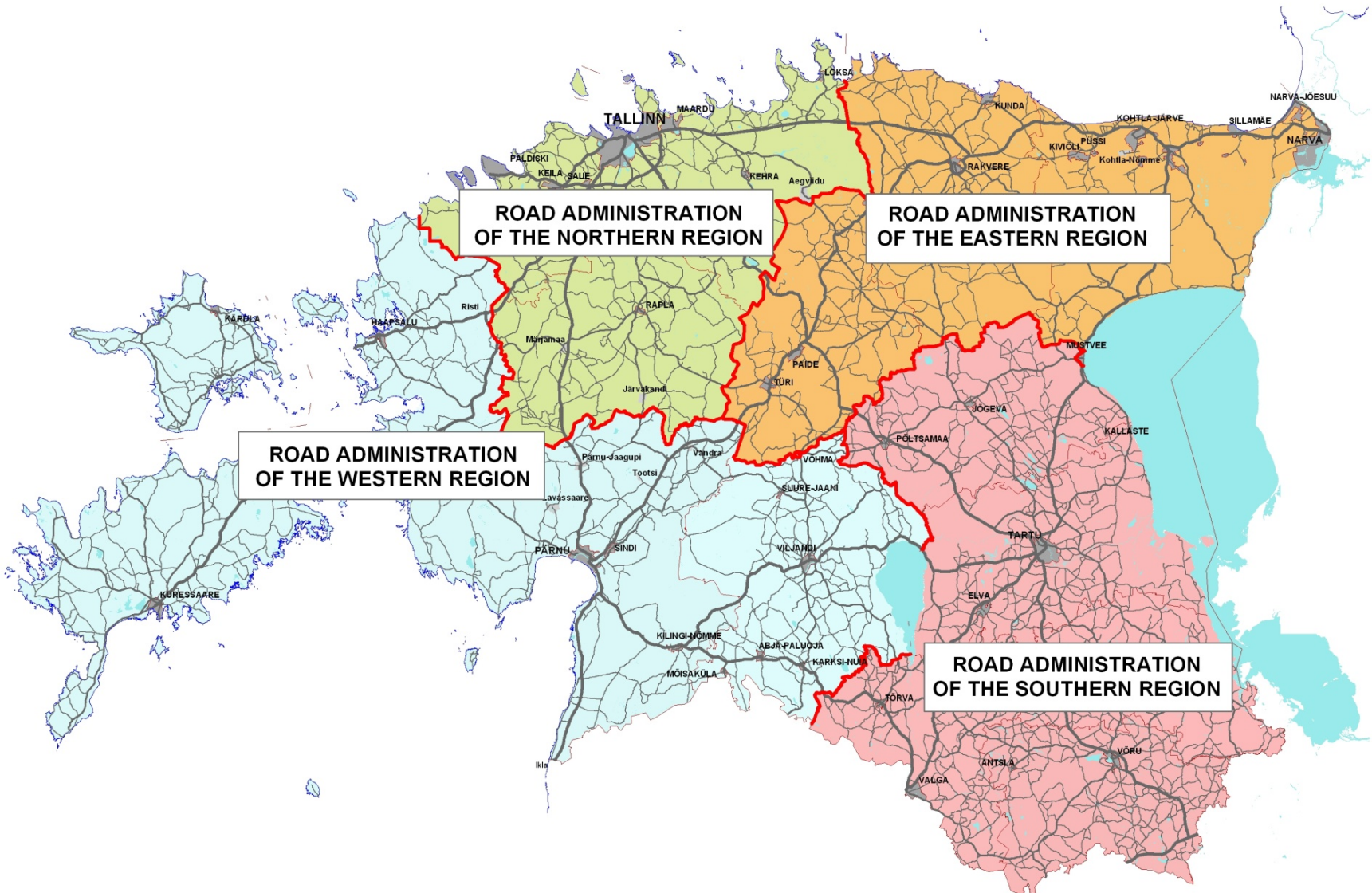


Table 3. Distribution of maintenance operations according to operators in counties

