

Op-Ed/Comment

## **THE HIGH PRICE OF REBUILDING IRAQ**

**Cost overruns, delays, and failure are common for public works construction even in the best circumstances. In Iraq, ever-skyrocketing costs could threaten the region's reconstruction effort.**

By Bent Flyvbjerg  
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Author comment: *During World War I, the US Congress made it unlawful to speak against the war. The executive prosecuted many for doing so and when tried at the Supreme Court it upheld the sentences. During the Iraq War it was not a crime to speak against the war, but it was almost impossible to be heard if you had anything critical to say. Mass media practiced a self-imposed censorship. The op-ed below was written a few days after the invasion of Iraq and sent to main media in the US, but none wanted to print it on the grounds that critique of the war was considered untimely.*

The estimated costs for rebuilding Iraq are skyrocketing even before the war's end. President Bush's wartime supplemental budget request to Congress of \$3.5 billion is proving inadequate. *The Washington Post* quotes a reconstruction price tag of \$100 billion. The American Academy of Arts and Sciences has estimated that the total cost of this war could run as high as \$1.9 trillion over a decade, of which up to \$500 billion would be for occupation and peacekeeping.

Iraq needs rehabilitation and upgrading of its electric power systems, water, wastewater, telecommunications, roads and bridges, rail networks, airports, sea port, health facilities, irrigation, schools, and government buildings. Many public works have been damaged or destroyed during the war. Many were in bad shape before. In addition, Iraq needs billions of dollars of investments in the oil industry, which has suffered from neglect since the first Gulf war.

Clearly, it is impossible to assess final reconstruction costs before all fighting is over. As soon as the assessment teams, who have been waiting in Kuwait, can travel in Iraq, better estimates will be forthcoming. It is safe to say, however, that the costs of rebuilding Iraq will be higher than in any recent conflict, including Afghanistan and Kosovo. And the costs are rising with each day of additional fighting and public disorder.

The US Agency for International Development has signed the first reconstruction contracts and many more will follow. USAID Administrator Andrew Natsios said this will be the largest expenditure for one country in one year in USAID's history.

Even under the best of circumstances, large cost overruns, delays, and failure are common for public works projects like those now planned for Iraq. Overruns of 50-100% are common and overruns above 100% are not uncommon. Why are cost overruns,

delays, and failure likely to be even higher and more frequent for Iraqi reconstruction projects?

First, reconstruction in Iraq will be pressed for time; there is a strong demand to get the country up and running quickly which will mean hastily prepared project plans. The result will be much less time spent on planning. Who will pay for the inevitable cost overruns?

Second, reconstruction will be complex. Multiple megaprojects will be going on simultaneously and they will be carried out by several different agencies and companies in both the public and private sectors. Coordination will be a precondition for success. Complexity and coordination cost.

Third, Iraq is a developing country. Studies indicate that cost overruns are 60-90% higher in developing countries than in North America and Europe. The principal reasons are difficult logistics, political risks, and corruption. For a war-ravaged developing nation like Iraq, the daunting task of rebuilding is going to be even more difficult as its new government finds its voice in the decision-making process. The most effective single measure to reduce cost overruns in Iraq will be to effectively curb government and private corruption.

Fourth, in addition to hard corruption in Iraq there is concern about soft corruption in the US. Critics claim that the Bush administration is using the reconstruction bid process to maneuver work to corporate cronies. Among the usual suspects are construction giant Bechtel Group Inc., once headed by former secretary of state George P. Schulz, and Halliburton Co., which was headed by Vice President and former defense secretary Dick Cheney, until George W. Bush selected him as his running mate in 2000.

Accusations of cronyism have been countered by claims that because Americans have put their lives on the line they should also be the main beneficiaries from reconstruction. Others have pointed out that US aid money should go to US companies. Others again have said that security clearance limits the number of companies allowed to bid.

Whatever the reasons, the bid process for Iraqi reconstruction contracts has so far been non-competitive and non-transparent. This, too, will result in increased risks of cost escalation.

Finally, it is yet undecided who will lead reconstruction in Iraq. The chief contenders are the US and the UN, with the US as the most likely candidate. Canadian executives have pointed out, however, that if the US leads reconstruction there will be increased concern over terrorist attacks. This is likely to place a risk premium on everything, including prohibitive costs for insuring equipment and employees in post-war Iraq.

Even disregarding terrorism, if US presence is generally unwelcome in the region it will be difficult to serve effectively as leader and coordinator of reconstruction. Lack of effectiveness in this vital position will immediately translate into increased costs.

Trying to solve the problems in US leadership by choosing the United Nations to head reconstruction--as France, Russia, and Germany have strongly recommended--is to move out of the frying pan into the fire. Even within the UN, senior officials admit that the organization does not have the capacity to administer a country the size of Iraq. In

addition, the UN is not known for effective cost control and coordination; quite the opposite.

Given the considerations above, the scene is set for runaway costs whether the US, the UN, or a composite of the two lead reconstruction in Iraq. The only way to prevent costs from skyrocketing is to enforce every measure of transparency and accountability that exists. But if the bidding for projects is already non-transparent and non-competitive, how can we hope that implementation will be transparent and accountable?

My fear is that costs will balloon and overspending and greed will become rampant in the reconstruction of Iraq. Who then would be the losers? In first place, the people of Iraq. Runaway costs typically destabilize projects and are likely to result in parts of the reconstruction effort being left undone or unfinished. This would be particularly disconcerting to Iraqis if Iraqi oil money instead of aid money were used for reconstruction, as President Bush has suggested will be the case: Bush is concerned about the US balance of payments. In second place, the US and their coalition allies risk losing the hard-won goodwill it has finally gained from liberating Iraq. That would be a high price to pay and may affect peace prospects for the whole Middle East.

And the winners? My experience tells me it will be those companies who have been fortunate or clever enough to secure reconstruction contracts, and the consultants who helped them prepare the bids in the first place. They are in for a killing and may laugh all the way to the bank.

*Bent Flyvbjerg is principal author of the book Megaprojects and Risk: An Anatomy of Ambition, published by Cambridge University Press. He was twice a Visiting Fulbright Scholar to the US and was Professor of Planning at Aalborg University, Denmark, when he wrote this piece. He is now the First BT Professor and Founding Chair of Major Programme Management at Oxford University. He works internationally as an adviser to business and government on questions of major programs.*