

# **Realistic Assessments for Viable Transport Projects**

By

Bent Flyvbjerg

Aalborg University, Denmark

T&E Conference on

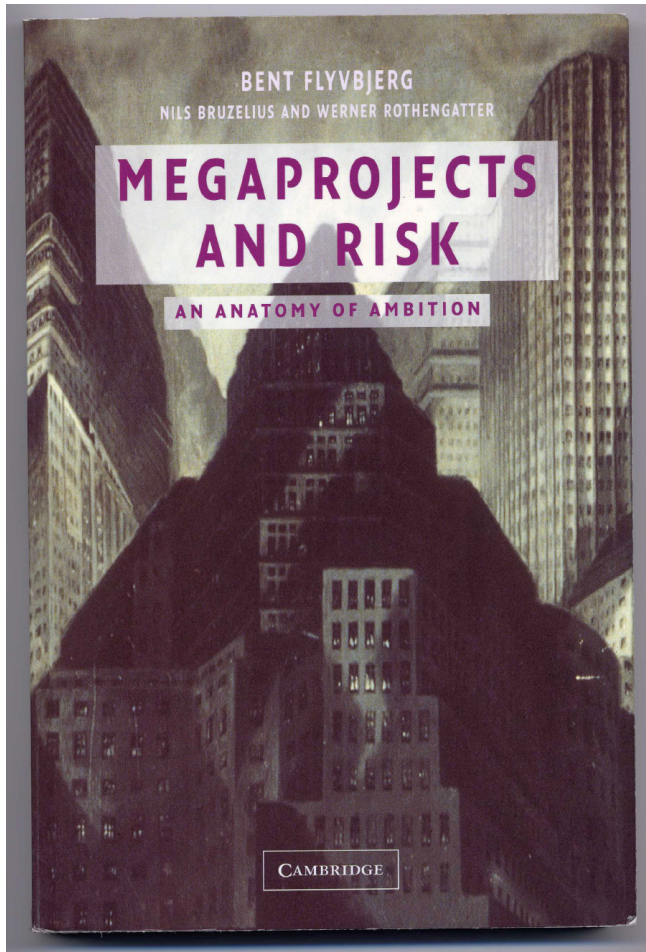
**Sustainable Freight Transport Through  
Sensitive Areas**

Vitoria-Gasteiz, April 8, 2005

# Agenda

1. Formula for project approval
2. Cost overrun as an example
3. Towards realistic assessments
4. The roles of the EU, government and NGOs

# Basis for Presentation



See detailed studies at:

<http://flyvbjerg.plan.aau.dk>

# Formula for Project Approval

Underestimated costs  
+ Overestimated revenues  
+ Undervalued environmental impacts  
+ Overvalued economic development effects  
= Project approval

# Passing the Test

“It’s all about passing the test [of project approval]. You are in, when you are in. It means that there is so much focus on **showing the project at its best** at this stage.”

- Megaproject planner

# Consequences

Cost overrun

+ Revenue shortfall

+ Environmental degradation

+ Regional stagnation

= Misinvestment/disaster

# Size of Cost Overrun

Type of project	No. of cases (N)	Avg. cost overrun %	Standard deviation
Rail	58	44.7	38.4
Bridges & tunnels	33	33.8	62.4
Road	167	20.4	29.9

# Key Observations

- 9 out of 10 projects have cost overrun
- Overrun is found in 20 nations on 5 continents
- Overrun is constant for the past 70 years, estimates have not improved

# Why Misinformation Is a Problem

- Leads to Pareto-inefficient allocation of resources = waste
- Destabilizes policy, planning, implementation, and operations
- The problem is getting bigger, because projects get bigger
- Not only a problem for transportation

# Towards Realistic Assessments

1. Benchmark projects
2. Use reference class forecasting
3. Get independent reviews of all cost and benefit estimates
4. Engage stakeholders and civil society
5. Make all documents and other info publicly available, e.g. at website

# Towards Realistic Assessments, Ctd.

1. Change incentive structure
2. Make forecasters share financial responsibility for covering cost overruns and benefit shortfalls
3. Make go-ahead contingent on 1/3 private risk capital, also in subsidized projects
4. In PPPs, make size of subsidy dependent on accuracy of forecasts

# For the EU to do

1. Eliminate perverse incentives (compare with USA)
2. Develop guidelines for realistic project assessment
3. Enforce those guidelines
4. Make sure guidelines are applied consistently across member states
5. Update investment policy from old to new economy

# For National and Regional Government to Do

1. Get real about the economic development effects of transport infrastructure
2. Read Richard Florida, study Bilbao
3. Invest in what matters, not what gets EU-funding
4. Help the EU make move to 21st century

# For NGOs to Do

1. Keep insisting on and extending stakeholder involvement
2. Take role as watchdog seriously
3. Make independent studies
4. Push government and business in the right direction
5. Keep up the good work, as with conferences like this one

# **If You Remember One Thing Only**

You cannot trust assessments of viability of transport projects produced by government and project promoters

# The End

## Thank you!

See much more at:  
<http://flyvbjerg.plan.aau.dk>

Email:  
[flyvbjerg@plan.aau.dk](mailto:flyvbjerg@plan.aau.dk)