

Syracuse University

SURFACE

Syracuse University Honors Program Capstone Projects Syracuse University Honors Program Capstone Projects

Spring 5-1-2012

FIFA 2014 WORLD CUP: Brazil's Unending Headache: An Economic Investment that Challenges the Country's Future

Bruna Almeida Lopes Barreto
Syracuse University

Follow this and additional works at: https://surface.syr.edu/honors_capstone



Part of the [Finance and Financial Management Commons](#), [Growth and Development Commons](#), [International Business Commons](#), [International Economics Commons](#), and the [Tourism and Travel Commons](#)

Recommended Citation

Barreto, Bruna Almeida Lopes, "FIFA 2014 WORLD CUP: Brazil's Unending Headache: An Economic Investment that Challenges the Country's Future" (2012). *Syracuse University Honors Program Capstone Projects*. 167.

https://surface.syr.edu/honors_capstone/167

This Honors Capstone Project is brought to you for free and open access by the Syracuse University Honors Program Capstone Projects at SURFACE. It has been accepted for inclusion in Syracuse University Honors Program Capstone Projects by an authorized administrator of SURFACE. For more information, please contact surface@syr.edu.

FIFA 2014 WORLD CUP:

Brazil's Unending Headache

An Economic Investment that Challenges the Country's Future

A Capstone Project Submitted in Partial Fulfillment of the
Requirements of the Renée Crown University Honors Program at
Syracuse University

Bruna Almeida Lopes Barreto
Candidate for BS Degree
and Renée Crown University Honors
May 2012

Honors Capstone Project in Economics and Finance

Capstone Project Advisor: _____
Yildiray Yildirim
Chair, Associate Professor of Finance

Capstone Project Reader: _____
Kenneth P. Walsleben
Adjunct Professor of Entrepreneurship and Emerging
Enterprises

Honors Director: _____
Stephen Kuusisto, Director

Date: April 25TH, 2012

Abstract

Brazil is soccer. The game is so deeply ingrained in daily life - in Brazilian identity and self-esteem- that they define each other. Soccer is so profoundly intertwined with Brazilian culture that familiarity with the sport begins early, producing a bottomless pool of talent. Year after year, soccer stars seem to roll out of Brazil like cars off a factory assembly line; it's a natural talent that grows in almost every Brazilian child. Soccer means passion to Brazilians; it is the symbol of their nationality, as they have proven to be very the best at it.

Now, Brazil finally has been chosen to host the world's largest sport event, one that Brazil has won five times (more than any other country in the world), the 2014 World Cup. After dedicating their hearts and souls to the sport, the World Cup will be brought to the Brazilian country, as passionate crowds will cheer for their favorite team.

But as the event gets closer and closer, Brazil finally understands the implications that come along with hosting something as big and powerful as a World Cup. While the sport event itself might bring the country several benefits, such as job creation with additional economic activities, Foreign Direct Investments, tourism and infrastructure improvements, it is also forcing Brazil to spend beyond its capacity. With a lack of commitment coming from the private sector, Brazil finds itself in a desperate situation, where the country is required to utilize public funds to make sure that it will be ready in time.

This, obviously, is not the perfect solution. After analyzing the model used by the United States (a well-established country with a successful history of hosting major sporting events and in funding sport facilities), I propose an alternative way for Brazil to proceed with 2014 World Cup infrastructure funding. I have come to the conclusion that there is no way that the present Brazilian model will work. Given that stadiums do not generate great economic revenues, in the long run, Brazil will find itself embedded in even greater debt. Currently, the Brazilian Development Bank is funding at least 45% of all government - owned stadiums (not a public good). This, however, is not sustainable, given that this money will have to be paid back. So what do I propose? Tax holidays to the private sector to spur critical private investment.

To date, the lack of participation from the private sector comes from (a) the belief that stadiums do not generate enough revenues to significantly cover all the costs, and (b) the "Brazilian cost" of doing business in the country. Reducing or exempting the private sector from state and federal taxes on revenues generated would incentivize private entities to invest in projects that the government is not able to fund, and as a consequence, it would also give businesses room to grow, as the private sector has proven to be more efficient in stimulating progress.

Brazil has all the necessary tools to succeed and show the world that it can, too, promote a life-changing event. All it needs to do is use its resources right. It is Brazil's turn to shine as it presents its most beautiful sport, one which Brazilians know how to play as no other country does. Brazil is soccer. It's the country's culture, identity, and nationality. Brazil will be hosting an event that defines it in every single way, and it cannot go wrong.

© (Bruna Barreto April 25th, 2012)

Table of Contents

| | |
|---|-------------|
| Abstract | ii |
| Acknowledgements | viii |
| Advice for Future Honors Students | ix |
| Chapter 1 - About Brazil | 1 |
| History..... | 1 |
| Geography and People..... | 2 |
| Government..... | 3 |
| Economy | 4 |
| Trade | 6 |
| Transportation | 6 |
| Financial Markets..... | 8 |
| Chapter 2 - Futebol: Soccer, the Brazilian Way | 9 |
| History of “Futebol” in Brazil | 9 |
| Futebol as a National Identity..... | 10 |
| The 2014 World Cup in Brazil..... | 12 |
| Chapter 3 - Challenges to the 2014 World Cup | 14 |
| Existing Challenges..... | 14 |
| Infrastructure Challenges..... | 14 |
| Violence & Favelas..... | 15 |
| Project Delays: Brazil’s Major Costs..... | 16 |
| Increase in Costs Associated with the World Cup | 17 |
| Who pays for the extra cost?..... | 18 |
| Chapter 4 - Financial Investments | 21 |
| Definition of Terms | 21 |
| Public Private Partnership (PPP) | 21 |
| Private Sector..... | 23 |
| Public Sector | 23 |
| Concessions..... | 23 |
| Brazilian National Development Bank (BNDES) | 23 |
| CAIXA..... | 24 |

| | |
|---|-----------|
| FGTS | 24 |
| Investments for the World Cup | 25 |
| BNDES Financial Rates | 26 |
| Chapter 5 - A Case Study – South Africa & Brazil | 29 |
| Macroeconomic Comparison..... | 29 |
| South Africa’s Costs | 31 |
| FIFA Profit | 31 |
| Infrastructure Costs | 32 |
| Economic Stimulus and Job Creation..... | 34 |
| The World Cup Stadiums | 34 |
| Branding South Africa | 36 |
| Chapter 6 - “The World Cup is in Brazil, but it is not for Brazilians” | 37 |
| Soccer as an Expensive Sport..... | 37 |
| Social Exclusion Cup..... | 38 |
| World Cup for the fans, for Brazil it will be the Cup of Corruption | 39 |
| Corruption in Cuiaba | 39 |
| Chapter 7 - Public vs. Private Funding – Brazil’s BIG Problem..... | 41 |
| Hesitation from the Private Sector | 43 |
| Using Public Money - The issue with the FGTS..... | 44 |
| Other Implications of Using Public Money | 45 |
| Chapter 8 - Why the Brazil Model Does not Work | 47 |
| Economic Development Due to Facility Construction | 47 |
| Doing it Right – The American Way | 49 |
| Exemption of Federal Income Taxes..... | 52 |
| Where Are the Revenues? | 56 |
| Payback Period..... | 58 |
| Chapter 9 - An Alternative way to fix the Problem | 61 |
| Tax Holidays and Property tax Phase-out..... | 62 |
| Chapter 10 - FIFA World Cup: Improving Brazil..... | 65 |
| Economic benefits..... | 66 |
| Foreign Direct Investment | 67 |
| Tourism Industry..... | 68 |

| | |
|--|-----------|
| Job Creation | 70 |
| Infrastructure Improvements | 70 |
| Social Benefits | 73 |
| Ending Remarks | 75 |
| Works Cited | 77 |
| Summary of Capstone Project | 86 |

Acknowledgements

There were several people that helped me in the process of getting this capstone project done. First, my father. He was the one who received calls late in the night when I had any questions regarding Brazil's policies and government. He was also the one who dealt with all my panic attacks; he was there the whole time.

I also have to thank my reader, Professor Ken Walsleben. He always showed interest in my project and helped me out when I wasn't sure about where I was going. If it wasn't for him pushing me the whole way, it would have been hard to complete this thesis.

I want to thank Professor Henry Jankiewicz, for reading and editing my paper, as well as my advisor, Professor Yildirim Yildirim, for meeting with me when I needed guidance and for giving me ideas to improve my project.

Lastly, I want to thank Eric Holzwarth, Deputy Director of the Renée Crown University Honors Program, for kindly dealing with my emails when I thought I wasn't going to be able to complete this. Eric was the first one to show interest in my topic idea and encouraged me to keep moving forward.

Without these people, this process would have been a lot harder. Thank you for making my life so much easier!

Advice for Future Honors Students

Writing a Capstone project is not easy. To tell the truth, it is probably one of the most frustrating projects I had to do throughout my college career. But it does get a lot easier if you enjoy what you are writing about, if it is something that interests you. That is exactly what happened to me. It is important to understand your chosen topic and to be curious to learn more about it. So, my first advice would be: write about something you love.

But just because you are writing about something you love does not mean it won't take time. My biggest mistake was starting this project in the spring semester of my senior year (for all business majors, be sure to take your EEE457 course in the Fall), thinking that it wouldn't take too long to find all the necessary data. Well, it did, and I did regret not starting this during my summer before senior year. So, my second piece of advice would be: start early.

At the beginning, I thought I would be able to write this on my own, and I couldn't. It is extremely important to have someone guiding you the whole time; an advisor and a reader who are willing to constantly meet with you is indispensable. So, my third advice would be: Choose your reader and your advisor wisely.

One of my biggest challenges was writing about something that hasn't yet happened, something that is still not part of history. It is hard to analyze a topic when the numbers are constantly changing, news is constantly being updated, and most of the data available are based on forecasts. Therefore, my fourth bit of advice would be: Do not analyze something that will be happening in the near future.

Writing a capstone project is supposed to be tough, but it's fun! You are supposed to learn a lot from your research, and most important, you are supposed to enjoy learning about it. Writing this project on the 2014 FIFA World Cup was very pleasing; I got to learn a lot about my country and the sport we adore. Hopefully, you will find a topic you love too, just as I did! Best of luck!

FIFA 2014 WORLD CUP:

Brazil's Unending Headache

An Economic Investment that Challenges the Country's Future

Chapter 1

About Brazil

History

Brazil, which is officially denominated the Federative Republic of Brazil, was discovered by Pedro Alvares Cabral, a navigator and explorer from Portugal, in 1500. In 1808, Dom Joao VI, along with the remaining Portuguese royal family, fled from Napoleon's army to Brazil, establishing his government in the country. The colony was ruled by the family until September 7th, 1822, when Dom Joao's son declared Brazil's independence and became the country's emperor, entitled Dom Pedro I.

After more than three centuries under Portuguese rule, the country retained a monarchical system of government until 1888, which was when slavery was abolished (by Princess Regent Isabel), and the military declared Brazil a republic. The country then experienced over half a century of populist and military government, with Getulio Vargas, a civilian, in the presidency. Vargas remained a dictator until 1945. Between 1945 and 1961, Brazil had six presidents. These years however, were marked by economic stagnation, high inflation, and the growing power of radical political elements, which led to a coup by the armed

forces in 1964 (with Humberto Castello Branco in power), followed by four other senior army officers: Arthur da Costa e Silva (1967-69), Emilio Garrastazu Medici (1969-74), and Ernesto Geisel (1974-79), who finally began a democratic opening. Democracy was continued by his follower, Joao Baptista de Oliveira Figueiredo (1979-85), who allowed the return of exiled politicians so that they could run for state and federal offices once again.

Brazil continued having its presidents chosen by an electoral college consisting of all members of Congress and six delegates from each state. After electing Tancredo Neves to office, followed by his former vice president, Jose Sarney, in 1989, Brazil finally completed its transition to a popularly elected government, with the first direct presidential election in 29 years. Former president, Fernando Collor, won 53% of the votes, but was forced to resign after a major scandal that brought President Itamar Franco to office.

Since then, all the presidents in Brazil have been democratically elected, starting with Fernando Henrique Cradoso, in 1994, who was elected with 54% of the votes, followed by Luiz Inacio Lula da Silva, elected in 2002, and then again in 2006. In 2010, when Lula finally finished his term, the country held its sixth consecutive election since the reestablishment of democracy, when Dilma Rousseff, currently in office, became president.

Geography and People

Brazil is South America's regional leader. Its capital is Brasilia, and its official language is Portuguese. The majority of the population is Roman Catholic

(74%). The country is the fifth largest country (with a total area of 8,514,877km²) and the fifth most populous country in the world, with a population of around 190 million, and a population growth rate of 1.17%.

Six major groups now constitute the Brazilian population: Africans, whose ancestors were initially brought to the country as slaves, the Portuguese, indigenous people; and various European, Middle Eastern, and Asian immigrants (especially Japanese) who have settled in Brazil since the 19th century. Brazil's urban population comprises 87% of the total population, with an annual rate of change of 1.1%. Such growth aids economic development but also creates serious social, security, environmental, and political problems for major cities.

Brazil's major cities are Sao Paulo (19.96 million), Rio de Janeiro (11.836 million), Belo Horizonte (5.736 million), Porto Alegre (4.034 million) and Brasilia (3.789 million). The country is located in Eastern South America, bordering the Atlantic Ocean on the east and has a coastline of over 7,367km. It also borders Uruguay to the South, Argentina and Paraguay to the south-west, Bolivia and Peru to the west, Venezuela, Suriname, Guyana and French Guiana to the north, and Colombia to the northwest.

Government

Brazil has 26 states and one federal district. Its executive branch comprises the Chief of State, the head of government, and the cabinet. Both the Chief of State and the Head of Government include President Dilma Rousseff and Vice President Michel Temer. The Cabinet, which currently has almost 40

members, is appointed by the president. Moreover, the country is democratically run, with the president and vice president being elected by popular vote on the same ticket every four years.

Brazil's legislative branch is formed by the bicameral National Congress, consisting of the Federal Senate and the Chamber of Deputies. The Federal Senate includes 81 seats, while the Chamber of Deputies includes 513 seats and members are elected by proportional representation to serve four- year terms.

Lastly, Brazil's judicial branch is formed by the Supreme Federal Tribunal and the Higher Tribunal of Justice. Both tribunals have ministers and judges, respectively, who are appointed by the president and confirmed by the Senate. These people are appointed "for life", but are obligated to leave office and retire at the age of 70 (November, 2011).

Economy

Brazil recently overtook the UK as the world's sixth largest economy, outweighing that of all other South American countries. The country currently boasts a low unemployment rate, below 6%, which, along with strong domestic demand, has pushed 12-month inflation to 6.5%, above the government's official target for inflation of 4.5%. Its currency is the *real*. Since 2003, Brazil has been improving its macroeconomic stability, building up foreign reserves and reducing its debt by shifting towards "Real" denominated and domestically held instruments. Brazil still has an external debt of \$396.2 billion.

The economy is expected to grow 4% in 2012, with consumer and investor confidence driving GDP up. Currently, Brazil's Central Bank has the country's interest rates (called Taxa Selic) at a high of 11%, making the country an attractive investment for foreign investors. Due to its high return, large capital inflows have come into the country, driving up the value of the currency, the *real*, by almost 30% since 2009. Even though the country is the largest recipient of Foreign Direct Investment in Latin America, as a way to limit currency appreciation, the government has introduced increased taxes on some foreign investments.

The country is characterized by large and well developed manufacturing, mining, and agricultural service sectors. Agriculture is a major sector in the Brazilian economy, accounting for 6% of the country's GDP. Brazil is also the world's largest producer of sugarcane, coffee, tropical fruits and has the world's largest commercial cattle herd. In addition, Brazil is also an important producer of soybeans, cotton, corn, cocoa and tobacco. The country is a major exporter of commodities and natural resources, including lumber, iron ore, and tin. Brazil's various industries are also very developed, accounting for 28% of the country's GDP. These industries include automobiles, machinery, textiles, shoes, computers, commercial aircraft, machinery, motors, vehicles, chemicals and petrochemicals, cement, and lumber. Moreover, Brazil has a refined services industry, which includes developed telecommunications, banking, energy, commerce, and computing sectors (CIA Fact book, 2008).

Trade

Brazil has an export oriented economy, and its main trading partners are the United States, the European Union and Argentina. The country's major imports are: minerals, petroleum, chemicals, fertilizers, machinery, vegetables, animal products, cereals, electrical products, electronics, vehicles, metals, surgical instruments, and scientific equipment, while its major exports are processed foods, cocoa beans, seeds, juices, fruit products, meat, animal products, vegetables, metals, vehicles, machinery, animal feed, textiles, footwear, and petroleum products.

Brazil dominates the Mercosur- the Common Market of the South, in terms of both population and economics. Other countries that are part of the Mercosur are Argentina, Paraguay, Uruguay and Venezuela. The country is also a leading player of the World Trade Organization's Doha Round. President Rousseff is seeking expanded trade ties with developing countries as the main component of plans to generate growth in the country.

Transportation

Brazil has over 700 airports with paved runways around the country, and over 3,000 with unpaved runways. Its railways travel a total of 28,538 km, while its roadways cover 1,751,868 km. Before 1996, most of the transportation systems were government-owned, but that changed when privatization, initiated by the Brazilian government after 1996, brought many investors to the telecommunications and transportation sectors. Privatization in the transportation

sector has been active for over 20 years now. The Brazilian Railroad industry was privatized through concession contracts with a duration of 30 to 60 years.

Similarly, due to intense deterioration in the country's highway system, the Brazilian government granted concessions for those highways to private companies, so that they could improve and maintain the highways in return for revenues collected from tolls. The ports system and airports are also undergoing a change to privatization. The Brazilian government has moved towards privatizing the country's five largest airports as a way of improving the nation's infrastructure and allowing it to receive a massive influx of visitors.

The process of modernization of transportation in Brazil started in 1970, at a time when the country was facing huge growth. However, as growth at that time did not last, some construction projects were not completed and still remain unfinished. Road transportation, for example, corresponds to 58% of the national logistic system, however, 69% of the Brazilian roads are in bad condition (National Confederation of Transportation, 2011). Forty seven percent of Brazilian railways are concentrated in the Southeast and they are the second most important transportation method in Brazil, corresponding to 28% of logistic totals. However, these railways have proven to be ineffective. Railways have few routes available, reducing flexibility in operations, operate at low speed, due to the invasion of local communities on the railroad surroundings, and are very costly. Aware of the necessity of modernizing the railway system, the federal government aims to construct 12.000 km of new railroads by 2023 (National Confederation of Transportation, 2011).

Due to the increased affordability of airline tickets, Brazil also faces a major saturation of the aerospace sector, resulting in innumerable flight cancellations and delays. Brazil also does not invest in airplanes for cargo transportation, and the existing planes are mostly to transport passengers.

Financial Markets

The Bolsa de Valores de Sao Paulo (BOVESPA) is Brazil's largest stock, commodity and futures exchange index, tracking the performance of 50 large Brazilian companies, including Vale, Petrobras and Embraer. The BOVESPA is one of the fastest growing international stock indices in the world and already has a leadership position in Latin America. The country's upgraded credit rating, as well as its macroeconomic stability, have made its stock market very attractive to investors looking for emerging market returns.

Brazil also has a strong banking system, a sector that should benefit as investment flows return to the country. The country's main financial institutions are composed of commercial banks¹, universal banks with commercial activities, savings bank² and credit unions³. Banco Central do Brasil, Brazil's central bank, is the entity responsible for the stability of the purchasing power of the Brazilian currency, as well as the accuracy of the country's financial system (March, 2012).

¹Commercial Banks: Collect demand and savings deposits and are traditional credit providers to firms (especially working capital) and households.

² Savings Bank: Collect demand and savings deposits and operate strongly in credit to housing.

³ Credit unions: Member-owned financial co-operatives. These institutions are created and operated by its members and profits are shared amongst the owners (Investopedia, 2012).

Chapter 2

Futebol: Soccer, the Brazilian Way

History of “Futebol” in Brazil

“Brazil is soccer”.

The History of *futebol*, or soccer, in Brazil began during the late 19th century, when the game was introduced to the country by an English sportsman, Charles Miller. After learning how to play the game at his boarding school on the outskirts of Southampton, Charles Miller brought a deflated football in his luggage on one of his trips back to Brazil. When he arrived in Brazil, Charles noticed that no one in the city of Sao Paulo knew how to play *futebol*. The country had adopted several British customs, including cricket, but not *futebol*.

It was then that Charles introduced Brazil to its own identity. The young Englishman pumped up the ball, took his friends to an open area, divided them into two separate teams, and explained the rules of the game. After a few months, the game was being played all over the city, and in a few years, it had conquered the entire country. Even though the British were the ones who invented the rules of *futebol*, Brazilians rapidly recast the game in their own image (Levine, 1980).

The Brazilian soccer national team is famous, and its players are heroes around the world. One of the most famous players in the history of the game is Pelé, who played the first three World Cups, and accumulated the highest number of goals in the history of soccer, with almost 1,300 during the course of his career. Then the Three R's, Ronaldinho, Ronaldo and Rivaldo, helped bring the sport to its highest level. It was mostly due to the teamwork of these three players that Brazil won the 2006 World Cup. Ademir, another famous Brazilian player, scored most of the goals that won the 1950 World Cup, and has played in more international games than any other player. Romario, a more recent star of the Brazilian team, helped Brazil win the 1994 World Cup, and was awarded Player of the Year that year.

Today, Brazilian *futebol* is famous all over the world for its vivid performance and exceptional techniques. The country has produced most of the world's most famous players. In fact, the Soccer World Cup, the world's most famous sporting event, has been won by Brazil 5 times, more than any other country in the world. For that reason, Brazilians proudly call themselves "Penta", the Portuguese word for "five", namely, for winning the world cup five times (Pardue, 2002).

Futebol as a National Identity

"Futebol is so deeply, so passionately interwoven into the fabric of Brazilian culture that the two entities are inextricably linked, they define each other and share an intrinsic identity, an instantly recognizable global image" (Mann, 2009).

As the only nation that has participated in all FIFA World Cups and the only nation to win the competition five times, Brazil obviously has the richest tradition of soccer excellence in the world. Futebol is deeply ingrained in daily lives – and in Brazilian identity and the self-esteem of the Brazilian population. Familiarity with the sport begins early, leading to a bottomless pool of talent. At the age of three, a Brazilian boy probably already knows how to dribble the ball. At the age of seven, he is probably already playing the game well in any open space available - a clearing in the jungle, an empty lot in a large city, a pasture or a beach – and carrying the ball around with them, if they are lucky enough to afford a ball (if not, they will use cans, bottles, etc.).

Regardless of the economic growth that the country is enjoying, Brazil continues as a nation with a large part of its population living in poverty. It is the poor, however, that have found success in the game as their fastest ticket to prosperity and status. Famous players like Ronaldinho and Robinho encourage poor boys to aim high and dedicate themselves to a game that has no limit (Larry, 2006).

This hunger for success, however, is not where the passion begins. The ingenuity and expertise with which Brazilians play the game has to do with the unpredictability of life in Brazil, a country where improvising and being creative at harsh times can be the solution to many of life's challenges. Beginning in their youth, Brazilians learn to “dribble” around the rules and barriers they face.

"It's the foundation of our music and art, too, and that intuitive ability to sidestep the rules and improvise on the spot is what distinguishes the great player from the excellent." (Tostao, 2011).

The 2014 World Cup in Brazil

In less than three years, the world's greatest sporting event will be heading to Brazil, the country that introduced the notion of such a beautiful game. For the first time in 64 years, this event will come to Brazil's shores as passionate crowds cheer for their favorite team. Fans across Brazil are rubbing their hands in anticipation of such a great event, as Brazilians are known for dedicating their hearts and soul to the game. After becoming the major success story of the tournament with a record of five victories, as well as having fielded some of the greatest names in soccer history, it seems appropriate that Brazil gets the honor of hosting the world's greatest sport event: the 2014 World Cup.

Brazil has submitted the names of eighteen stadiums for consideration for the 2014 FIFA World Cup, 14 to be renovated and four to be built. In May 2009 FIFA announced the 12 cities that will be hosting 2014 World Cup matches: Belo Horizonte, Brasília, Cuiabá, Curitiba, Fortaleza, Manaus, Natal, Porto Alegre, Recife, Rio de Janeiro, Salvador, and São Paulo. In each of the host cities, work is underway to plan, construct, and modernize the stadia and transportation infrastructures which will be necessary to host games.

As the Brazilian population gets more and more excited about hosting the event that defines Brazilian identity, questions arise about whether or not the country will be ready for such an event. Even with its improving economy, the country finds itself with aggravated challenges most notably in organization, mobility and safety. Everything from paved roads, an efficient rail system and modern transportation hubs, is lacking. Brazil is behind schedule, and time is

running out. With less than three years remaining to the FIFA World Cup, how much money will be invested so that the country can develop all the necessary infrastructure? Where should this money be coming from in order to finance these investments? What are the economic benefits and implications of investing billions of dollars in this one-time event? Should Brazil be expecting substantial growth after the sporting event? These are all questions to be addressed in this Capstone study.

Chapter 3

Challenges to the 2014 World Cup

Existing Challenges

One of Brazil's main problems is the so called "Brazil Costs", which are the increased operational costs associated with doing business in Brazil. These costs come from corruption, lack of security, excessive layers of bureaucracy in the country, a high tax burden, expensive labor costs, economic instabilities, high interest rates, and the underdevelopment of infrastructures, each of which directly affects the 2014 World Cup.

Infrastructure Challenges

Infrastructure is a main problem in Brazil. Road transport is responsible for more than 60% of the inputs delivery for production and consumers, however, 70% of the existing roads are either bad or very bad. This sector's efficiency depends on stable investment flows for the construction and maintenance of highways, but the country has only seen a small improvement in this sector in the last three years. The improvements in Brazil's infrastructure are due to a growth acceleration program created by the government, called Programa de Aceleracao

de Crescimento (PAC)⁴. Expenditures are still below what is needed for proper World Cup preparation, which has led to long and expensive road transportation within the country (Ramalho, 2010).

Brazil also lacks the airport capacity to cope with the anticipated visitor influx. While internal air traffic volumes have progressively increased due to higher income in the country, airports have suffered from low investment in expansion and modernization. If Brazil actually receives more than one million tourists during the World Cup (as South Africa did), there will be a lot of air traffic, with ticket costs skyrocketing due to this increase in demand. Since the distance between the host cities is extremely long, transportation costs in Brazil are a crucial challenge for the World Cup logistics system.

Violence & Favelas

A further consideration is the *favelas*. The census conducted in 2000 by the IBGE (Instituto Brasileiro de Geografia e Estatística) defines a *favela* as an *aglomerado subnormal* (sub-normal agglomerate). This means that the area has over 51 houses, most of them lacking land title or official land documentation. They are basically shantytowns, where houses are generally built on top of each other, with no safety at all. Residents of *favelas* occupy lands that are not theirs because they cannot afford housing; Rio de Janeiro alone has over 811

⁴**PAC** – A Program launched by the federal government after observing and identifying the need to promote an efficient and extensive infrastructure network in the country. PAC will use about US\$547 billion invested between 2011 and 2014, the majority of the budget being directed towards infrastructure spending.

favelas (IBGE, 2011).

Favelas are part of Brazilian society and culture; however, they are a major site of violence and drug trafficking. In order to control the *favelas*, special police forces, such as the UPP (Unidade da Policia Pacificadora) and BOPE (Batalhao de Operates Policiais Especiais) are constantly policing the areas, but the process of pacification is complicated and violent. This process includes an invasion where the police open fire and often kill a select group that they believe are the most powerful drug traffickers in the area. During this invasion, citizens of the city avoid leaving their homes in order not to be the victims of stray bullets. In *favelas* without UPPs, drug traffickers serve as a form of police to residents, enforcing control and order in the most violent ways possible (2010).

Therefore, Brazil is deeply concerned with crime and drug trafficking, especially in *favelas*. To solve this problem, the government has been "cleaning up" these areas to make them suitable for the 2014 World Cup, a major impact to be addressed later in this study. In an effort to prepare for the games, popular cities such as Rio de Janeiro have instituted programs to improve the quality of the police force, emphasizing training and increasing task force deployment. Still, this situation poses a continuing threat to visitors of the World Cup.

Project Delays: Brazil's Major Costs

With little more than two years before the World Cup starts, Brazil is still behind on construction for the event. Construction experts and local government officials worry that bureaucracy and lack of planning have become an issue to the

host country and have proven costly, leading to many missed opportunities in the soccer country. According to experts, the Brazilian government spent too much time celebrating the award of the 2014 games before starting to prepare.

Even though the World Cup has accelerated many infrastructure projects that will benefit Brazil, several projects will not be ready for the event, and some will not even leave the drawing board. According to government officials, by the end of 2011, renovation work had yet to be started in five of the 13 airports that will be continuously used throughout the sporting event, seven of the 12 host cities had not begun any infrastructure work, and only nine of over 50 transportation projects were being worked on. Lastly, one of the most crucial transportation systems that has to be built, the high - speed train linking Sao Paulo to Rio de Janeiro (the two most important cities), is not certain to be ready for the 2016 Olympics, two years after the World Cup (2011).

According to Jose Roberto Bernasconi, the president of Sinaenco, a Brazilian association of architectural and consulting engineering companies that has been keeping track of infrastructure work,

“Brazil will host a good World Cup, I don’t think there is much doubt about it, but the country will not enjoy the kind of legacy that it could have enjoyed hosting an event of this magnitude,” he said. “It’s not going to reach its full potential because the government and organizers took too long to start getting things going after Brazil was chosen the host” (NY Times, 2011).

Increase in Costs Associated with the World Cup

After analyzing two documents released by the government reflecting the costs for the 2014 World Cup, I calculated that the necessary investments for the

event increased R\$2.7 billion, or 11.6% from January 2011 to September 2011.

This conclusion was based on a comparison of the Ministry of Sports - 1ST

Balance Sheet of the World Cup construction, released on January 2011, and the Transparency Gateway (Portal da transparência da Controladoria-Geral da União, CGU), available to the public (GCU, 2012).

Table #1 Increase in Costs

| Infrastructure | Jan/2011 (R\$ mil) | Feb/2011 (R\$ mil) | Change | Variation |
|-----------------------|---------------------------|---------------------------|-----------------|------------------|
| Stadiums | 5,629.90 | 6,116.20 | 486.30 | 9% |
| Urban Mobility | 11,896.20 | 13,112.70 | 1,216.50 | 10% |
| Airports | 5,561.00 | 6,462.40 | 901.40 | 16% |
| Ports | 740.70 | 898.90 | 158.20 | 21% |
| Total | 23,827.80 | 26,590.20 | 2,762.40 | 12% |

** Both documents do not include any costs for hospitality or public safety.*

Who pays for the extra cost?

The major concern with the delay of projects is that the Brazilian population is paying the tab. Bad planning is costly. In Belo Horizonte, one of the major host cities, for example, there has long been a need for a second passenger terminal at the city's international airport, and the World Cup preparation would be the perfect opportunity to complete such a project. However, due to delays, it

was abandoned, and now the money will be spent on temporary facilities to accommodate passengers during the duration of the championship.

Therefore, due to delays on construction, Brazil will be spending at least an extra R\$2.7 billion just to accelerate projects. This increase is due to the fact that a larger number of workers will have to be hired to complete stadiums and infrastructure in time for the event. These workers will work nonstop, drawing additional shifts, overtime, and wages. In addition, there are the escalating costs of raw materials being used (Sporting News, 2011).

Furthermore, amid increasing concerns about delays in the progress of getting ready to host the World Cup, workers renovating the soccer stadiums for the 2014 event in northeastern Brazil have gone on strike, demanding the payment of delayed salaries. According to FIFA, the World Cup preparations are already behind schedule, and this strike over back payment and benefits will certainly create even more delays at several venues.

In addition, FIFA has also seen a delay by the Brazilian Congress Commission on the 2014 World Cup Law, which was supposed to be approved by February 15th, 2012. Commission members, however, asked for additional time to study its implications regarding alcohol sales, discounted tickets to students and elders, and advertising rules. The major concern in the country is that FIFA requirements should not be allowed to take priority over domestic national laws, and while Jérôme Valcke insists that permission for the sale of alcohol is non-negotiable, the Brazilian legislation has banned it at soccer grounds since 2003.

With the delay of this law, even more delays will be created for the preparation of the event.

Chapter 4

Financial Investments

Definition of Terms

The announcement of the choice of Brazil as the host country for the 2014 FIFA World Cup highlighted the need for the country to improve its existing infrastructure, including airports, highways and stadiums. But how much will this cost and how will the country fund all of these reforms? Before introducing my analysis of the costs and of how the country should finance all of this change, I should first define a couple of terms that will be used throughout my study:

Public Private Partnership (PPP): Involvement of private enterprise (in the form of management expertise and/or monetary contributions) in government projects aimed at public benefit (FreeDictionary, 2011). The primary feature of a PPP is that it is a contract between a government entity and a private entity, where the private entity gets rewarded based on outputs.

The provision of public services and infrastructure has always been part of the government's responsibility. Nonetheless, with growing population pressures, urbanization and other trends, the state's capability to effectively address the

public's necessities through traditional means has become very hard, which has led governments worldwide to gradually seek out the private sector to complement public investments and provide public services through public private partnerships.

A PPP brings together different stakeholders to the operation of a given project. To accomplish this, it combines private investors into a Special Purpose Entity (SPE), so that they can share responsibilities to provide the necessary finance to carry out the project. The long - term contract is usually between 25 to 35 years, and the SPE signs a contract with the public sector, for which the expected cash flow of the project is guaranteed.

In Brazil, the use of PPP initiatives had been planned to take a significant share of infrastructure investments (International Monetary Fund, 2004). The PPP law, enacted in the country in 2004, represented a major advance for public managers, since projects that were previously considered non-viable, were finally commenced. The law, however, authorizes a PPP contract only if it is valued at least twenty million *reais* (Brazilian currency) and if its period of service is more than 5 years. PPP projects are also a way to distribute risks between the private and public sectors, where both partners share the responsibility of making investments, and the government is always able to play a role in terms of supporting or coordinating the construction of the projects. The law is relatively recent, but there currently are a few PPP projects in the country, especially in the area of transportation, for it is a segment that offers greater business opportunities (NCPPP, 2000).

Private Sector: The part of the economy that is not state-controlled and is run by individuals and companies for profit. The private sector encompasses all for-profit businesses that are not owned or operated by the government (Investopedia, 2012).

Public Sector: The part of the economy concerned with providing basic government services. The public sector might provide services which benefit all of society (such as public education) rather than just the individual who uses a service (Investopedia, 2012).

Concessions: The rights conferred by a public body to a private entity to engage in economic activities of common interest. A PPP is a form of concession. Legally the Brazilian government offers three types of concessions (Kerf, 1998):

- *Traditional Concessions:* Private Company charges users for the services provided. (Ex. Telecommunications and energy).
- *Administrative Concessions:* The government makes periodic payments to a private company for services provided. (Ex. Waste management and prisons).
- *Subsidized Concessions:* A private company charges users and receives periodic payments from the government for services provided (Ex. Low- traffic toll roads).

Brazilian National Development Bank (BNDES): Founded in 1952, the BNDES is a public financial institution controlled by the Brazilian government. It

is responsible for the medium and long term investment credit policy of the Brazilian government and is entitled to lend funds to Brazilian companies. In projects that the BNDES finances, the partner company is usually required to provide a minimum of 20% of the total investment amount. The maximum participation of the BNDES usually varies between 60% and 70% of the total investment. The BNDES' main purpose is to invest in the private sector, as well as support projects aimed at environmental protection and its' recovery (BNDES, 2012).

CAIXA: A government-controlled financial institution operating throughout Brazil. This bank engages in several business activities including real estate loans, basic sanitation, urban infrastructure, development work and commercial banking. CAIXA's subsidiaries manage development funds, including Brazil's federal unemployment insurance fund (FGTS). The bank is also the government's main fiscal agent, providing funding for federal housing, education and infrastructure projects. CAIXA was recently selected to assist in programs such as Brazil's growth acceleration plan (PAC) (CAIXA, 2012).

FGTS - Fundo de Garantia do Tempo de Serviço (Guarantee Fund for Length of Service): A fund created to protect employees dismissed without just cause. At the beginning of each month, employers, on behalf of their employees, make a deposit into an account in Caixa linked to their employment contract. The amount is equal to 8% of each employee's salary. The FGTS also funds housing

programs and sanitation and urban infrastructure programs, benefiting society in general (CAIXA, 2012).

Investments for the World Cup

At the beginning of February 2011, it was announced by the Brazilian National Development Bank (BNDES) that investments in infrastructure (including urban mobility and stadium construction) should increase from R\$ 199 billion in 2005 – 2008 to R\$274 billion through 2010-2013. This represents an increase of 37%, and amounts to about 2.2% of Brazil's GDP.

Table #2 Brazil: Infrastructure Investment Plans (2010 - 13)

| Sectors | R\$ Billion | % of Total | % of GDP per Year |
|-------------------|-------------|------------|-------------------|
| Electricity | 92 | 34% | 0.7% |
| Telecommunication | 67 | 24% | 0.5% |
| Sanitation | 39 | 14% | 0.3% |
| Railways | 29 | 11% | 0.2% |
| Highways | 33 | 12% | 0.3% |
| Ports | 14 | 5% | 0.1% |
| Infrastructure | 274 | 100% | 2.2% |

Source: GT Investimento, Morgan Stanley, 2010

According to the National Bureau of Statistics (IBGE), Brazil's private sector accounts for the majority of the investments in the country (90%), while the public sector accounts for about 10%. In infrastructure however, the role of the

public sector is significantly higher, and this sector has accounted for at least half of the country's investments in infrastructure during the past 10 years. This rising public sector spending has brought Brazil's BNDES into play, and the National Bank will be funding a huge part of the investments for the World Cup (Morgan Stanley, 2010).

BNDES Financial Rates

The BNDES has already funded R\$3,6 billion in stadium infrastructure investments needed for the World Cup, and will still be lending a lot more. More money will be going to the improvement of airports and two distinct programs: the BNDES Arenas Program for the World Cup 2014 (BNDES ProCopa Arenas) and the ProCopa Turismo. The ProCopa Arenas is a program financed by BNDES, which supports the construction and refurbishment projects of arenas that will host the 2014 World Cup games, as well as the surrounding areas. The ProCopa Turismo is a program developed by the Ministry of Tourism in partnership with BNDES, to finance the renovation and construction of hotels in order to expand the capacity and quality of accommodations for tourists who will be coming for the World Cup.

As a way to enhance the use of its resources and decrease the risk, BNDES will share the risk involved in loan operations with other financial institutions. For the projects the Bank will be financing, the private sector will be responsible for providing at least 20% of the total investment amount, which is less than the BNDES usually requires to participate in projects (the maximum

participation of BNDES varies between 60% and 70% of the total investment, but for the World Cup, BNDES will be taking on an 80% participation) (BNDES, 2012).

The financing for projects by BNDES is provided through lines of credit called FINEM (Financing for Business Ventures) in a Project Finance model. This type of operation happens through corporate support (directly to companies), or in the form of project finance (indirectly, through the creation of Special Purpose Entities). The interest rate charged by BNDES on loan operations is calculated according to the following criteria (FGV, 2012):

Direct Operation: Financial Cost + BNDES Basic Spread + Credit Risk Rate

Indirect Operations: Financial Cost + BNDES Basic Spread + Financial Intermediation Rate + Financial Institution

The financial cost is the BNDES' cost of raising funds, which might be any of the following (BNDES, 2012):

1. Long-Term Interest Rate (TJLP) – This rate is established by the Brazilian Central Bank and takes into consideration the rate of inflation over the next 12 months as well as the real international interest rate, plus the medium- to long-term assessment of the country's risk.
2. BNDES Monetary Unit (UMBDES): The UMBDES rate is based on the average cost of the BNDES's Currency Basket, which are the bank's debt obligations in foreign currencies. The cost of the Currency Basket is based on

the rates and charges, including taxes, applicable to the BNDES' debt obligations in foreign currencies, readjusted on a quarterly basis.

3. US Dollar + Libor Rate⁵.
4. US Dollar + Fixed Rate.

The BNDES Basic Spread is the rate set by the BNDES to pay its administrative and operational costs and its fee. This rate is determined by Bank policies and might change depending on the type of project the bank is financing. The BNDES basic spread will be 0.9% per year, plus the rate of risk of the operation, which can range from 0.46% per annum 3.57% per year.

The Credit Risk Rate varies in relation to the Bank's evaluation of the company that is applying for the loan. If it is a direct operation, this rate varies from 2.5%; if it is indirect, the rate is determined by the financial intermediary. (BNDES, 2012).

⁵ London Inter-Bank Offer Rate (LIBOR): The interest rate that the banks charge each other for loans (Investopedia, 2012).

Chapter 5

A Case Study – South Africa & Brazil

Macroeconomic Comparison

Brazil and South Africa share many similarities. Both countries are the largest economies in Africa and Latin America, respectively, and are both part of the BRIC countries. Along with that, both South Africa and Brazil have suffered from long dictatorships in their histories and still face huge income inequalities. Lastly, Brazil and South Africa share similar organizational problems and poor infrastructure in regard to hosting major sporting events such as the World Cup.

The main difference between the two countries arises when dealing with soccer - the sport's techniques and the way it is embedded in each country's culture. While soccer is the national sport in Brazil, almost taken as a religion; in South Africa the sport hasn't had the same social and cultural impact.

Below are some differences and similarities between economic indicators for both Brazil and South Africa in 2009:

Table # 3 Brazil & South Africa Economic Indicators

| Indicators | Brazil | South Africa |
|--|---------------|---------------------|
| GDP (Current US\$ billions) | 1,575.20 | 276.4 |
| GDP per capita (current US\$1000) | 8.2 | 5.7 |
| GDP per capita, PPP (current international \$1000) | 10.3 | 10.1 |
| Gini Index | 0.57 | 0.58 |
| Life Expectancy at Birth, total (years) | 72.4 | 51.5 |
| Literacy Rate, Adult total (% of people aged 15+) | 90 | 89 |
| Population, Total | 192 | 48.7 |
| Surface Area (sq. thousand km) | 8,514.90 | 1,219.10 |
| Unemployment Rate | 7.3% | 25% |

Source: World Development Indicators Database, 2009

The similar GINI coefficients shows that both countries share a high level of income inequality, and the literacy rate for both countries is also almost the same. Brazil's GDP is about six times larger than South Africa's; the country's per capita PPP GDP is almost the same as well. However, as Brazil is a more developed country, it also has a much lower unemployment rate than South Africa's, and its life expectancy is also a lot longer.

However, even though these two countries are two of the most developed among the underdeveloped countries, they still lag behind the high income that European countries have (including Greece and Portugal), which is

three to seven times higher than Brazil's. These differences come from historical development.

South Africa's Costs

The amount of public money that was spent on World Cup- related projects in South Africa were much greater than expected. To get a better idea of the costs associated with such an event, it is important to compare the amount of public money that was actually spent to the initial cost estimates put forward when South Africa was announced as the host city. Past experience shows that at the time of the announcement, the benefits of hosting such a worldwide known event were overestimated, while total costs tended to be underestimated, and the 2010 FIFA World Cup was no exception.

In 2004, Grant Thornton, a consultancy firm, estimated the total costs would be around R26 billion. That same consultancy, however, now estimates that the final cost was around R55 billion, which accounts for 6% of South Africa's GDP. The national government alone spent around R33.7 billion, not including spending by provinces and host cities.

FIFA Profit

Another major difference between Brazil's upcoming World Cup and South Africa's World Cup is the profit flowing to FIFA. At a Local Organizing Committee (LOC) board meeting in Rio de Janeiro on January 20th, 2012, Jerome Valcke, FIFA's Secretary General, outlined his expectations for the 2014 FIFA

World Cup to be a profit of \$1.2 billion. This differs significantly from the profit of \$631 million FIFA made after the South Africa World Cup. According to Valcke, 80% of the money will be going back to FIFA football in the form of financial aid (2012).

Infrastructure Costs

Brazil's infrastructure budget for the World Cup is a lot higher than South Africa's, reflecting the difference in the size of the population, and in infrastructure quality. While Brazil plans to spend at least R\$274 billion (approximately \$150 billion) in infrastructure between 2010 - 2013, South Africa spent R846 billion (\$107 billion) in that same time period. The South African transportation system is much better maintained than that of Brazil; the public has access to an available network of highways, which facilitated travel between the nine host cities. The country also inaugurated a high-speed train (Gautrain) connecting the Johannesburg airport to the Sandton District, making it easier for citizens and tourists to get around. Lastly, improvements made on the Johannesburg and Cape Town airports, as well as the construction of a new airport in Durban, facilitated air traffic and passenger services. Airlines offered more internal flights that were not offered before, and pilots and air attendants were trained for the event. Still, all the infrastructure developments in South Africa were not enough, and the urban mobility in the country became one of the weakest points of the 2010 World Cup.

South Africa faced bad logistics planning, as well as lack of information about bus lines connecting stadiums around the country. Several districts with a high concentration of tourist attractions could only be reached by cars, causing miles of traffic jams that surrounded the stadiums of Johannesburg. The country also faced insufficient transportation solutions, leading to chaos in all the host cities. This can be a much bigger issue in Brazil if the country does not invest in transportation. Brazil's largest cities, such as Rio de Janeiro and Sao Paulo, already have very hectic transportation systems.

The amount of public money spent on the event proves that the local, regional, and national governments failed to minimize costs for the public. Most of South Africa's infrastructure was provided by the country's national government, including parastatal companies, which are companies owned or controlled wholly or partly by the government. The government was also involved in funding the World Cup through the Expanded Public Work's Programme, a program aimed at providing income relief through temporary work for the unemployed and through public-private partnerships, which is a case very similar to that of Brazil. In addition, the South African government pursued foreign direct investment to attract investors into areas that needed infrastructure, so that foreign companies built, owned and operated the facilities.

Due to the fact that spending for the World Cup came mostly from the national budget, it is relevant to ask whether the World Cup- related infrastructural developments benefitted all South Africans or mainly residents who lived around the stadium area. This is one of the biggest issues being

addressed by critics of the 2014 World Cup in Brazil – this money could be put to other use, including developmental needs such as providing water, electricity, and housing to underdeveloped areas (World Development Indicators, 2012).

Economic Stimulus and Job Creation

The 2010 World Cup in South Africa added a total of R93 billion (or half a percent) to the country's GDP, while also directly creating 130,000 jobs and indirectly creating 415,000 jobs. Stadium construction alone created around 66,000 jobs (albeit temporary) and generated R7 billion in wages, with R2.2 billion in wages helping to reduce poverty levels by going to households with low income. South Africa's unemployment rate, however, dropped only slightly from 27.9% in 2004 to 25.2% in 2010. This happened because most of the jobs created due to the World Cup were temporary jobs, including contractual construction jobs, which had little effect on the country's economy. The Gautrain project, for example, generated around 90,000 construction job opportunities, but only 3,000 of those jobs were permanent maintenance and management jobs. Nevertheless, even though these jobs were temporary, employees acquired valuable job skills that could be later put into use, benefitting the South African economy (IOL, 2010).

The World Cup Stadiums

Even though stadium construction greatly decreases unemployment, it still becomes very costly to the host country. South Africa spent US\$ 1.6 billion

on stadium construction and renovation, while Brazil intends to spend around US\$ 3.0 billion, with only two stadiums more than South Africa. Stadiums are usually very costly to build, expensive to maintain, and they lack a clear purpose after the World Cup is over. Unlike other infrastructure projects, there are no guarantees that stadiums are financially sustainable. Now, two years after the end of the World Cup, host cities in South Africa have entered an extended period of payment to maintain their stadiums, putting their financial sustainability into question.

Table # 4 World Cup Stadium Expenditures in Rand Values

| Stadiums | Upgrade | | Projected annual maintenance cost |
|--------------------------------------|-------------|-------------------|-----------------------------------|
| | Cost | Construction Cost | |
| Green Point | n/a | 4.4 billion | 5 million |
| Ellis Park | 240 million | n/a | 2.4 million |
| Free State | 314 million | n/a | 3 million |
| Loftus Versveld | 131 million | n/a | n/a |
| Mbombela | n/a | 1.2 million | n/a |
| Moses Mabhida | n/a | 3.4 million | 1.5 million |
| Nelson Mandela Bay | n/a | 1.7 million | 20 million |
| Peter Mokaba | n/a | 1.3 million | 10 million |
| Soccer City | n/a | 3.3 million | 15 - 18 million |
| World Cup stadium cost estimate | | | 818 million |
| Total government stadium expenditure | | | 16.445 billion |

Source: Idasa, 2010

Branding South Africa

When South Africa was announced as the host country for the 2010 FIFA World Cup, there was a great deal of negativity. When, in 2004, Nelson Mandela celebrated his country's bid to host the event, few people thought that South Africa would be able to cope with such a great responsibility. However, the country proved the doubters wrong by providing the World with one of the most successful FIFA tournaments, winning widespread praise and establishing its name in the world. The 2010 World Cup was FIFA's most lucrative World Cup ever, and it gave South Africa the reputation of a country that is capable of delivering, one that will be facing future growth. Tourists still go to visit the country's most exotic places. The World Cup in South Africa left a lasting legacy of improvement to its international reputation, helping the country to bring an end to the Afro-pessimism that had dominated foreign media for years.

Chapter 6

“The World Cup is in Brazil, but it is not for Brazilians”

Soccer as an Expensive Sport

Fears that the country's most popular and democratic sport will become accessible only to the wealthy population is a major problem, as tickets to attend the games established by FIFA might start at as high as \$120. This is more than the average Brazilian can afford. Still, Brazilians are paying huge fortunes to host the World Cup, especially because most of the funding is coming from public money. This is also the most expensive World Cup ever, and FIFA expects to make a good amount of money from it.

Another important note is that, even though this is a one-time event, Brazilians will have to keep paying for the maintenance of the country's most expensive investment: the stadiums. The annual cost of future maintenance will be 10% of the cost of building it, which means that in 10 years, Brazilians will have paid for the equivalent of a whole new stadium. This can be very costly for a country that still lacks education and major infrastructure, and where the social gap is still a significant part of people's everyday lives.

Social Exclusion Cup

There are also social costs associated with the 2014 FIFA World Cup. In many of the cities where projects are being worked on, a great number of poor families who live in *favelas* (shantytowns) have been forced to abandon their homes in order to create space for infrastructure developments, such as bus lanes and parking lots to facilitate traffic during the event. These families are usually relocated to suburban areas and are forced to live in an unfamiliar environment. There are also over twenty cases in which *favelas* are being cleared violently, and families are not even being offered new housing after being moved without any warning. In Rio de Janeiro alone (one of the major cities hosting the event), an expected 30,000 families will be displaced from the city's *favelas*. Preparations have also been displacing informal workers, such as street vendors, as a way to "clean up" the streets and reserve the zones around sites for official sponsors.

In addition to forcefully relocating families and vendors to facilitate construction, there have also been claims of human rights violations. Workers reported abusive working conditions during stadium construction, where too much has to be done in a short period of time. In addition to poor working conditions, these workers are reporting low wages and excessive hours resulting from the government's bad planning, which has led to strikes and work stoppages on many of the stadiums (Ortiz, 2012). According to Christopher Gaffney, a geographer and researcher who monitors the development of large urbanization projects in Brazil,

"with pressure mounting to finish the works, the first thing to go are workers' rights." (Ortiz, 2011)

World Cup for the fans, for Brazil it will be the Cup of Corruption

On July 2011, the government coalition deputies passed a bill to keep the costs associated with the FIFA World Cup a secret, especially infrastructure budgets, which account for most of the costs. The main objective of this bill was to keep information away from public scrutiny, however, due to the great possibility of corruption, the text was changed, allowing the budget to be publicly available, but only after the projects have started. Still, Brazil is facing the temptation of significant corruption created by this event, due to the large amount of money involved and the need for quick decisions and construction.

Corruption in Cuiaba

Brazil already faced instances of corruption at the end of 2011, when fraud in one of its states increased the cost of the original project. According to the newspaper *O Estado de Sao Paulo*, the Minister of Cities, Mario Negromonte, changed the infrastructure project in Cuiaba (MT) from a rapid bus line to a light rail line, raising costs to \$1.2 billion dollars, \$700 million dollars more than the original amount. This agreement was made between the government of Mato Grosso and the Presidential Palace, even though a cost analysis had already been performed on both projects (Veja, 2011).

Along with accusations of fraud, both Jerome Valcke, FIFA's Secretary General, and Ricardo Teixeira, president of the CBF, were also charged with corruption by ex-player and congressman Romario. Romario's accusations were based on a statement given by journalist Andrew Jennings of the BBC. The

journalist cited a statement from Valcke, described as “blackmail”. Romario cited two cases of suspected fraud, one involving International Sport and Leisure (ISL), from which Ricardo Teixeira supposedly accepted bribes, and a Mastercard incident, in which Valcke violated a preference clause of sponsor Mastercard against Visa. Ricardo Teixeira has already testified to Federal Police. Ricardo Teixeira resigned from FIFA on March 3rd, 2012 (Villarama, 2012).

“Did you receive kickbacks? If your name appears in the process, you relinquish the presidency of the CBF? Can FIFA believe Ricardo Teixeira?”(Romario, 2011).

If Brazil is marked as the “Cup of Corruption”, this could deeply affect future investments. Corruption directly affects Brazil’s economy, limiting growth and investments, and jeopardizing jobs and income. Due to existing corruption, Brazil offers investors a less stable business environment, increasing the cost of investment, because investors will demand more money to compensate for risks they will be facing. Brazil will then be required to pay higher interest rates due to the lack of confidence, and will also face more difficulty in borrowing money. Nonetheless, corruption and its effects on investment are a great challenge to a country that is in desperate need of investments in order to pay for all its costs. As stated before, Brazil is now, more than ever, extremely dependent on foreign direct investment to complete its World Cup ambitions.

Chapter 7

Public vs. Private Funding – Brazil's BIG Problem

While infrastructure investments (roads, airports, etc.) should be financed by the government, investments in sports facilities should be allocated to the private sector as much as possible. This is so because investments in infrastructure, even if started because of a sporting event, will benefit the public and ameliorate the country's conditions in the future. However, after observing the behavior of countries that have hosted World Cups in the past, I have come to the conclusion that over the past few decades, there have been massive public sector investments in football stadiums, and even though sometimes governments and private companies share the responsibility of making such investments through a public private partnership, the government still plays some role in terms of developing sports facilities. This is a challenge to underdeveloped countries like Brazil, an issue that will be discussed later in this paper (Cabral and Junior, 2010).

It is also true that soccer stadiums, for example, have some characteristics in common with other public projects, such as the fact that they can generate benefits through fans that attend games, positive externalities to non-attenders,

increased community visibility, and enhanced community image (Siegfried & Zimbalist, 2000). However, the reason why they should be financed by the private sector comes from the idea that there is a huge opportunity cost in building new soccer stadiums with public funds, given that the money used for the construction could be diverted to other projects that could bring more value to society, such as investing in education and safety.

This describes the current situation in Brazil. When Brazil was announced as the country that would host the World Cup, Brazilians couldn't help but celebrate. At that time, Ricardo Teixeira, president of the Brazilian Football Confederation (CBF), promised publicly and repeatedly that the private sector would provide the financing to erect the 12 stadiums to the required FIFA standards, and that that Brazil would not spend its public money to fund the construction – it would all come from the private sector. According to Ricardo Teixeira,

"The less public money is invested the better the World Cup will be. This equation is guiding the project from the beginning. The government, at all levels, will spend on works that concern them. The biggest investment will come from private enterprises"
(Melo, 2010)

But no private investors came forward, and Ricardo's statement has proven inaccurate, as government figures indicate that public capital (coming from the BNDES, for example) is paying for most of the construction of the stadiums (FolhadeSP, 2009).

Of the 2014 World Cup stadiums that are under construction, more than 80% of costs are being funded by public money. The work for nine of the 12

stadiums that will be built or renovated is financed with public funds. This goes against the idea behind PPPs, where the private sector is supposed to finance the construction projects in return for the rights for concessions, or for the profits that would be gained after the construction is completed. The private sector should be responsible for seeking the best ways to finance the investments, taking this burden away from the public sector. Still, with the lack of commitment coming from the private sector, the government in Brazil is being forced to get involved in several measures to make sure that everything will get ready in time.

Hesitation from the Private Sector

The main reason why Brazil's private sector is hesitant to participate more in projects is because of the country's tax burden and tax system as a whole, which limit business in the country. According to the World Bank survey, Brazil ranked poorly in the amount of taxes charged and in the mandatory contributions of labor paid by businesses as a percentage of commercial profits. Currently, the country's average corporate tax rate is 69%, while the average median country rate in the survey is 41%, and the Brazilian population does not see a return for the taxes they pay.

In addition to that, Brazil has a very bureaucratic system, in which the time it takes to prepare, file and pay corporate income tax is extremely long and complicated. It takes companies in Brazil an average of 2,600hrs/yr to prepare and pay taxes, while it takes other countries an average of 224 hours (Morgan Stanley, 2010).

Using Public Money - The issue with the FGTS

The lack of resources available to fund the World Cup in 2014 has been a challenge. As a way to minimize the problem, on November 23rd, 2011, the Senate approved the bill Conversion No. 28 of 2011 (MP No. 541/11), which authorizes a change in Brazilian law by allowing the use of CAIXA'S Fundo de Garantia por Tempo de Serviço (FGTS) for the construction of stadiums, and even private hotels, for the sporting event. Originally, this Fund was intended strictly for the financial protection of workers who undergo difficult times, such as being fired without a just cause for example. The fact that the Senate wanted to use this money to fund this great event caused repercussions in the country, as the fund's resources were to be used for things such as the sanitation of dwellings, construction of homes and schools, and education, and not to promote games that probably only those with high wages may attend.

According to Congressman Rubens Bueno, from the Partido Popular Socialista (PPS), his party would not support the use of the workers fund to finance the World Cup.

“This is a complete deviation from the function of the FGTS. I'm sure the Brazilian worker, who is the owner of the fund, will not agree that the government use their money to finance FIFA and the CBF events. Because, with this move, the government aims to impede the enforcement of public resources invested in the event. We will present an outline to remove this nonsense of the text" (Bueno, 2011).

After identifying the consequences associated with the use of the Fund, on December 15, 2011, President Dilma Rousseff announced that she would veto a part of the bill which allowed the use of the resources of the FGTS in works

related to the implementation of the World Cup. The fund, which when created totaled \$5 billion, just enables investments in projects in the sectors of energy, highway, railway, waterway, port and sanitation, but nothing related to stadiums or hotels for the World Cup. Such expenses, especially related to stadium construction, will now be funded by the BNDES as a way to help the hosting city.

Other Implications of Using Public Money

Other than the fact that using public money to fund World Cup- related projects takes away money that could be invested in education or sanitation, using money from the BNDES also carries fiscal implications. On November 18, 2011, DBRS, a full-service rating firm, upgraded Brazil's rating on long- term foreign and local currency-denominated debt to BBB from BBB (low), creating the conditions for an improvement in debt sustainability and improving Brazil's creditworthiness. However, when the Treasury issues debt to aid in funding the operations from the BNDES, the federal government's gross debt increases, and so does its net debt, but in a longer pace. This increases Brazil's public sector gross debt, which is already significantly higher than its net debt (63% compared to 43%, respectively). As Brazil continues to fund infrastructure investments with public money, this subsidized lending will further widen the gap between gross and net debt, or in other words, the intergovernmental debt and the debt held by the public. The more the debt increases, the more difficult it becomes for the country to pay back what it owes. Moreover, due to the risk associated with the fact that the country might not be able to repay the debt, its credit rating

decreases, making it even harder for the country to borrow in the future given that it will then be charged higher interest rates (DBRS, 2011).

Still, Brazil insists in funding the World Cup with money coming from the BNDES. Will this method work? The answer is no.

Chapter 8

Why the Brazil Model Does not Work

The first question that came into my mind when I decided to analyze the public funding of stadiums was, are stadiums actually a public good? After further study, my answer is “no”. Stadiums are exclusive and rival facilities, given that those who do not pay for tickets can be excluded from the game. Still, throughout my analyses, I realized that governments have some form of participation (usually majority participation) in stadium-funding in several countries, including the United States, even though these investments do not seem to bring great returns.

Economic Development Due to Facility Construction

Numerous academic economists, such as Coates and Humphreys (2003) and Baade (1996), have generally found no significant correlation between new facilities or franchises and citywide incomes or employment. According to independent academic economists, “Few fields of empirical economic research offer virtual unanimity of findings. Yet, independent work on the economic impact of stadiums and arenas has uniformly found that there is no statistically

significant positive correlation between sports facility construction and economic development” (Altshuler and Lu beroff, 2003).

The reason for this in Brazil might be that, in the absence of a soccer game, the Brazilian population still spends money for other recreational activities, meaning that adding a sports facility to a city does not exactly enhance the quality of life in a region. Instead, the facility and the soccer games change the mix of recreational options competing for consumers’ discretionary income. It is as though this is a zero-sum game. This might be true because, after a city builds a stadium and starts hosting games, other recreational activities, such as attending restaurants or going to the movies, face decreasing economic returns. This means that most of the expenditures by fans at soccer games are just a transfer of their discretionary recreational money from other activities that they no longer attend. This does not mean that there are no benefits, however. It is also true that once a city builds a stadium to host major games, it is very likely that visitors from other cities will be attending these games as well, creating some additional revenue. These visitors will be eating at restaurants in the host city, as well as staying in hotels, both activities of which the government can collect taxes from.

Still, just because economic returns are not high, that does not mean that there are no social returns. There are intangible forces that make governments want to invest in stadiums, such as the fact that home teams house an emotional civic pride within the community. Once the facility is built and the city hosts games, people can cheer for it, read about it in newspapers and magazines, and brag about it to out-of-town friends and relatives. The city then becomes better

known by others- like Syracuse, for example, which enjoys worldwide notice for its basketball history. This indirect benefit is a very strong force, and to the extent that teams generate civic pride, subsidies to teams and arenas may be efficient (Zaretsky, 2001).

Regardless of the social and economic benefits brought to the city, it is also true that governments participate in stadium-funding in very distinct ways. While in the US state and local governments funds many stadiums, in Brazil, the federal government funds almost all of them. What makes the American system of stadium-funding work better than the Brazilian?

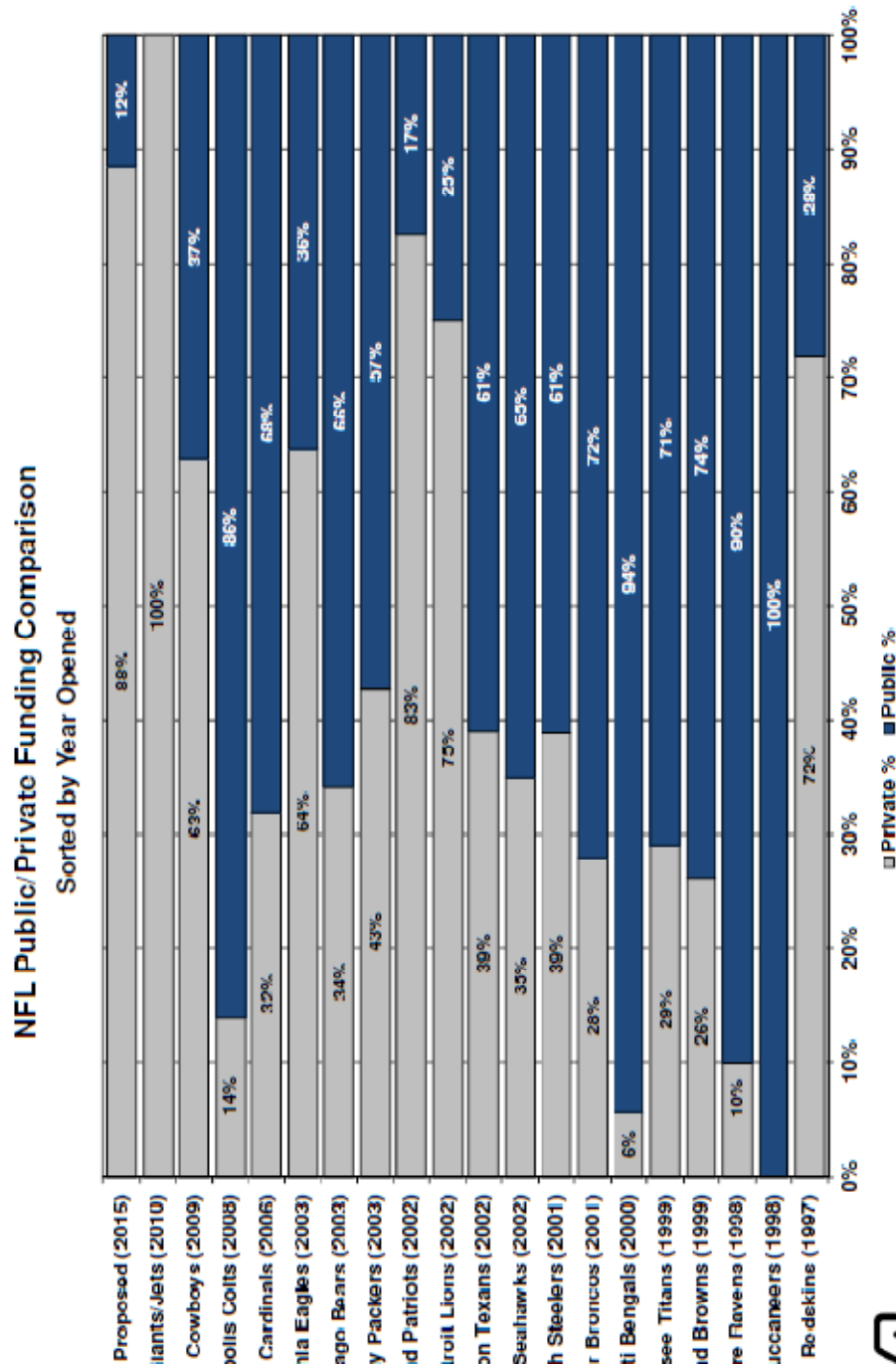
Doing it Right – The American Way

In order to perform an accurate analysis, the government costs for stadium-financing for the 2014 World Cup were compared to NFL stadium-funding in the United States, an economically stable country with an established history in hosting sporting events. Like Brazil, the US places great importance on professional sports (while Brazil places a great importance mostly in soccer), which are an obsession of Americans and fans all over the world. For my analyses, I chose the 20 most recent NFL stadiums, the oldest one being FedEx Field, opened in Washington during 1997 (Baade and Matheson, 2006).

Throughout my data analyses, I noticed that the US took a very different approach regarding the state and federal funding of football stadiums. Of the 20 NFL stadiums built since 1997, public funding only exceeded 50% in 13 of the stadiums, while two of them were just for renovation (Wilhelm, 2008) For the

remaining seven stadiums, private entities had majority participation. I then calculated the percentage and average for all the public funding used for all 20 stadiums, which gave me a total of 45% and an average of 56%. This means that even though the majority of the stadiums are government-owned, the government participation is still not immensely significant (Baade and Matheson, 2006).

Table # 6 NFL Stadiums – Public/Private Funding Comparison



| Stadium/Team | Team | Year Opened | Total Project Cost | Entity Responsible for Capital Investment | | | |
|---|----------------------|-------------|---------------------|---|------------|--------------------|------------|
| | | | | Private Funding | % of Total | Public Funding | % of Total |
| San Francisco 49ers (San Francisco 49ers | | 2015 | \$ 987.00 | \$ 873.00 | 88% | \$ 114.00 | 12% |
| MetLife Stadium | Giants/Jets | 2010 | \$ 1,600.00 | \$ 1,600.00 | 100% | \$ - | 0% |
| Cowboys Stadium | Dallas Cowboys | 2009 | \$ 1,194.00 | \$ 750.00 | 63% | \$ 444.00 | 37% |
| Lucas Oil Stadium | Indianapolis Colts | 2008 | \$ 719.00 | \$ 100.00 | 14% | \$ 619.60 | 86% |
| University of Phoenix Arizona Cardinals | | 2006 | \$ 455.00 | \$ 147.00 | 32% | \$ 308.00 | 68% |
| Lincoln Financial Field Philadelphia Eagles | | 2003 | \$ 518.00 | \$ 330.00 | 64% | \$ 188.00 | 36% |
| Soldier Field (Renovat Chicago Bears | | 2003 | \$ 587.00 | \$ 200.00 | 34% | \$ 387.00 | 66% |
| Lambeau Field (Penn Green Ray Parkers | | 2003 | \$ 295.20 | \$ 126.10 | 43% | \$ 169.10 | 57% |
| Gillette Stadium | New England Patriots | 2002 | \$ 412.00 | \$ 340.00 | 83% | \$ 72.00 | 17% |
| Ford Field | Detroit Lions | 2002 | \$ 440.00 | \$ 330.00 | 75% | \$ 110.00 | 25% |
| Reliant Stadium | Houston Texans | 2002 | \$ 474.00 | \$ 185.00 | 39% | \$ 289.00 | 61% |
| CenturyLink Field | Seattle Seahawks | 2002 | \$ 461.30 | \$ 161.00 | 35% | \$ 300.30 | 65% |
| Heinz Field | Pittsburgh Steelers | 2001 | \$ 280.80 | \$ 109.20 | 39% | \$ 171.60 | 61% |
| Sports Authority Field Denver Broncos | | 2001 | \$ 400.80 | \$ 111.80 | 28% | \$ 289.00 | 72% |
| Paul Brown Stadium | Cincinnati Bengals | 2000 | \$ 449.80 | \$ 25.00 | 6% | \$ 424.80 | 94% |
| LP Field | Tennessee Titans | 1999 | \$ 291.70 | \$ 84.80 | 29% | \$ 206.90 | 71% |
| Cleveland Browns Sta | Cleveland Browns | 1999 | \$ 271.00 | \$ 71.00 | 26% | \$ 200.00 | 74% |
| M & T Bank Stadium | Baltimore Ravens | 1998 | \$ 226.00 | \$ 22.40 | 10% | \$ 203.60 | 90% |
| Raymond James Stadi | Tampa Bay Buccaneers | 1998 | \$ 194.00 | \$ - | 0% | \$ 194.00 | 100% |
| FedEx Field | Washington Redskins | 1997 | \$ 250.50 | \$ 180.00 | 72% | \$ 70.50 | 28% |
| Total | | | \$ 10,507.10 | \$ 5,746.30 | 55% | \$ 4,761.40 | 45% |
| Average | | | \$ 525.36 | \$ 287.32 | 44% | \$ 238.07 | 56% |

Source: Cbsminnesota, 2011

I then compared these numbers to Brazil's current situation. Brazil intends to have 12 stadiums ready to host the 2014 World Cup games. So far, of these 12 stadiums, only three are privately owned, while the remaining nine stadiums are supposed to be funded by the government. According to the Brazilian Transparency Portal, of the R\$26.501 billion (this number still does not reflect all the costs) that will be invested for the World Cup, R\$6,694.70 billion will be spent on stadiums only, and of that number, 82% will be coming from public money.

It is clear that the US government participation in NFL stadium construction is a lot smaller; Brazil's government is investing much more of its money compared to the private sector than the American government is.

Exemption of Federal Income Taxes

This, however, is not the only difference I encountered when comparing stadium-funding in Brazil and in the US. In the American model, which sector of the government is investing the money is also very distinct from the Brazilian model. In the US, it has become commonplace for cities, counties, and states to use a combination of broad-based taxes (sales and property taxes) or special taxes (taxes on alcohol and tobacco consumptions, hotel rooms and car rentals) to help build or operate, but it is unusual to see direct involvement by the federal government (Baade and Matheson, 2006).

The role played by the United States in helping these cities fund these facilities is quite unique: the federal subsidy comes into play when the stadium is financed with state or local bonds, issued at below-market interest rates and paid for by exemption of the bonds' interest income from federal income taxes (1996). To put it simply, to pay for new stadiums, the local or state government usually issues bonds. These municipal bonds require the issuer to make interest payments; however, these interest payments are not subject to federal income tax burden for bond holders.

For the issuer, or the state/local government, the cost of servicing the bond debt is reduced, due to an interest figure lower than the going market rate. Therefore, because of the tax exemption, the taxable bonds can be paid at a lower cost to the purchaser, thus facilitating the stadium funding. Again, this does not happen in Brazil.

Table # 7 Brazilian Stadium Funding

| City - State | Stadiums | Total Investment Planned | % of Total | Entity Responsible for Capital Investment | | |
|---------------------|--|--------------------------|-------------|---|------------|---------------------|
| | | | | State Government | % of Total | BNDES |
| Brasília - DF | Restructure of Estádio Mané Garrincha | R\$ 688.50 | 10% | R\$ 688.30 | 100% | R\$ - |
| Fortaleza - CE | Restructure of Estádio Castelão | R\$ 518.60 | 8% | R\$ 167.10 | 32% | R\$ 351.50 |
| Rio de Janeiro - RJ | Restructure of Estádio Mario Filho | R\$ 883.50 | 13% | R\$ 483.50 | 55% | R\$ 400.00 |
| Salvador - BA | Reconstruction of Estádio da Fonte Nova | R\$ 597.00 | 9% | R\$ 273.40 | 46% | R\$ 323.60 |
| Recife - PE | Construction of "Arena Pernambuco" | R\$ 500.20 | 7% | R\$ 100.20 | 20% | R\$ 400.00 |
| Manaus - AM | Reconstruction of Estádio Vivaldão | R\$ 532.20 | 8% | R\$ 132.20 | 25% | R\$ 400.00 |
| Cuiabá - MT | Construction of Estádio José Frageli | R\$ 518.50 | 8% | R\$ 233.90 | 45% | R\$ 285.00 |
| Belo Horizonte - MG | Restructure of Estádio Magalhães Pinto | R\$ 695.00 | 10% | R\$ 40.50 | 6% | R\$ 400.00 |
| Natal - RN | Reconstruction of Arena das Dunas | R\$ 417.00 | 6% | R\$ 20.50 | 5% | R\$ 396.50 |
| São Paulo - SP | Arena São Paulo | R\$ 820.00 | 12% | R\$ - | 0% | R\$ 400.00 |
| Curitiba - PR | Restructure of Complexo Esportivo Curitiba | R\$ 234.00 | 3% | R\$ - | 0% | R\$ - |
| Porto Alegre - RS | Restructure of Estádio do Beira Rio | R\$ 290.00 | 4% | R\$ - | 0% | R\$ - |
| TOTAL | | R\$ 5,694.70 | 100% | R\$ 2,139.60 | 32% | R\$ 3,356.60 |
| AVERAGE | | R\$ 557.69 | 8% | R\$ 178.30 | 28% | R\$ 279.72 |

Source: Data taken from Portal de Transparencia, GCU, 2012

All of the nine publicly funded stadiums for the 2014 World Cup are receiving at least 45% of the money from the BNDES, or the Federal government. In seven of these nine stadiums, the BNDES has majority participation (51% or more). Unlike the US, however, the Brazilian Federal government is directly involved in the funding, meaning that the BNDES funds the stadiums with the country's money, and not via tax exemptions.

The money being invested in sports facilities are quite substantial considering the overall contribution the industry makes to the economy. This creates a great burden to the country that already has to spend significant amounts of money for other purposes. Instead of focusing on stadium funding, the federal government should instead be focusing on real public investments. In addition, the Federal government is lending money to the states, not donating. The Federal bank is releasing about R\$400 million for each publicly funded stadium for the World Cup, but someone will have to pay this money back to BNDES.

Where Are the Revenues?

When deciding to invest in stadiums, the Brazilian government was not considering the long run, and how this investment could be used for something else. Spending money on a public stadium must be done by reducing investment in another area of government service. Due to the fact that Brazil is under

pressure (given that there are only a little more than two years left before the World Cup) and was not able to attract enough private investment, the country is spending too much money on an investment without great economic returns.

First, tax revenue increases from stadiums will not be sustainable in a country like Brazil. Different from the United States, Brazil has one main sport, soccer, and the majority of its existing stadiums cannot be used for any other sport other than soccer. In the US, if the government invests on stadiums, it can then collect revenues from increase spending in and around the stadium, such as other economic activities like restaurants. It then becomes a valid use of public money. In Brazil however, unless there is an important soccer game going on, the Brazilian population usually does not attend any other activities that might happen at stadiums.

Second, the Brazilian government will have to keep investing capital to maintain the stadiums after the event is over, and the Brazilian stadiums will not again be utilized for 8 months after the World Cup. This is true because the stadiums' infrastructure will have to be modified so that they "fit" the Brazilian reality. Currently, the stadiums being reformed or constructed have to meet the FIFA standards, which exclude the use of fences and place fans at a very short distance from the sidelines. These standards cannot be adopted by the country due to the high degree of violence during soccer games. With that, Brazil will only start making money from the stadiums a whole year after their construction, which is when the country will begin to incur maintenance costs as well (Agencia Brasil, 2011).

Payback Period

Studies have been done on the revenue forecast for each stadium that will be used in the World Cup. According to BSB - Brunoro Sport Business, a sporting consultancy company, stadiums for the world cup will cost more and will have less revenue after the event than those built for the two previous World Cups. The costs are 32% higher than what was spent in South Africa and 46% higher than what was spent in Germany, in 2006. The government claims that costs will still increase.

The analysis done by the company gives either the annual revenue forecast for each stadium after the World Cup is over, or the payback period, which allows me to calculate the missing variable for each of them. However, it is important to note that for my calculations, I am (a) using revenues, without taking into account the costs of maintenance and operation, and (b) not taking into account the time value of money.

| City - State of Stadium | Total Invested in millions | Forecast of Annual CFs in millions | Payback Period (years) |
|--------------------------------|-----------------------------------|---|-------------------------------|
| Brasília – DF | R\$ 688.30 | R\$ 4.12 | 167 |
| Rio de Janeiro – RJ | R\$ 883.50 | R\$ 110.00 | 8 |
| Salvador – BA | R\$ 597.00 | R\$ 13.88 | 43 |
| Manaus – AM | R\$ 532.20 | R\$ 2.51 | 212 |

Table # 8 Payback Period for Stadium Investments in Brazil

| | | | |
|---------------------|------------|-----------|-----|
| Cuiabá – MT | R\$ 518.90 | R\$ 3.99 | 130 |
| Belo Horizonte – MG | R\$ 695.00 | R\$ 38.61 | 18 |
| Natal – RN | R\$ 417.00 | R\$ 2.57 | 162 |
| São Paulo – SP | R\$ 820.00 | R\$ 82.00 | 10 |
| Porto Alegre – RS | R\$ 290.00 | R\$ 26.36 | 11 |

Source: Data taken from Portal de Transparencia, GCU, 2012

This shows that Brazil will only be able to pay for each stadium investment after at least a decade, without counting the maintenance costs, that add up to almost R\$ 3.8 billion per year (\$2 billion dollars) per year.

It is not about looking at the size of the investment, but rather at its efficacy. Unlike the United States, Brazil does not have multipurpose arenas. According to Marcelo Doria, the president of BSB, “the Staples Center, Los Angeles Lakers, has 70% of revenue coming from shows. In Brazil, sports are not treated as entertainment, the way they do in other countries. It is all very focused on box office income that comes from soccer only” (2011).

The payback period is so long because of the limited amount of activities that happen inside stadiums, so Brazil needs to take better advantage of the structure being created. Some of the stadiums have a very long payback period, so the government has to encourage more activities to further generate revenues. Now, due to the fact that the cost for tickets cannot increase too much (given that a large percentage of Brazilians would not be able to afford it and less people would be attending the event), the only way out to increase net income is by

focusing on restaurants, VIP areas for business on game days, sponsorship and licenses, including “naming rights”, advertising, rental space for concerts, fairs and events, and other sources of income with the use of hotels, museums, and shops outside the stadium.

Chapter 9

An Alternative way to fix the Problem

Brazilian states are not able to fund sport facilities on their own; they lack the capital required to do so. The Federal government does not have a budget

surplus; Brazil is a country in desperate need of improvement in areas such as education and safety. The BNDES is funding most of the World Cup investments, which will come in the form of a bill later on. How can the implications of using public funds for the World Cup be minimized?

After analyzing all the costs related to the event as well as statistics from the United States, I have come to the conclusion that there is no way that the Brazilian model will work; Brazil is just accumulating sunk costs. The fact that the private sector is not willing to commit to the World Cup investments forced Brazil to appeal to its public finances, thus spending more money than the country expected. It is also true that Brazil cannot use the American model of tax exemption of municipal bonds, since states lack the necessary money to put in stadium investment in the first place. But what if these tax exemptions were offered to a sector that had the necessary resources to invest on the sport facilities?

After analyzing the current issue, I have concluded that instead of insisting on using the money from BNDES or CAIXA, Brazil should find a way to attract the private sector so that the federal government (or the state and local government, which do not have enough capital) won't have to cope with such a costly responsibility. But how can the country incentivize the private sector to invest on such costly projects like stadiums? My suggestion is tax holidays⁶ and phase outs⁷.

Tax Holidays and Property tax Phase-out

I believe that the only way for Brazil to avoid crippling stadium costs is by making such investment more attractive for the private sector. Since stadiums in Brazil do not generate substantial economic activity, private entities are reluctant to put their money into such an investment, unless they believe that they will get sufficient return. As it has been proposed by State Senator Roger Chamberlain, to assist construction financing for a new Vikings stadium and incentivize private investment, property tax phase-out should be offered for private businesses to contribute to stadium construction as well as a sales tax holiday on construction equipment.

To take out the burden imposed on the public sectors, the host state and city should provide a sales tax exemption on not only stadium and off-site

⁶ Tax Holidays: A government incentive program that offers a tax reduction or elimination to businesses.

⁷ Tax phase-out: The gradual reduction of a tax credit as a taxpayer approaches the income limit to qualify for that credit (Investopedia, 2012).

transportation construction materials, but also property tax exemption on the stadium property. In addition, the private investor should be given the approval to schedule any activities it wishes to inside the stadium. Then, this property tax exemption should also be applied to any facility on or as a part of the stadium site that the private entity may choose to operate, including retail stores, restaurants, etc., but the private entity would still be subject to the City's entertainment tax. Obviously, the private entity would also retain the invested percentage amount of event related revenues, including any incremental ticket tax or ticket surcharge.

If the private sector takes on some of the stadium construction responsibility, Brazil can use its public money on other issues that Brazil already lacks. This would decrease a big part of the costs associated with the World Cup, allowing the state to invest in other parts (such as security and transportation) that are not only necessary for the World Cup, but also vital for the country. Moreover, Brazil is still facing the challenge of being able to complete all stadium constructions and renovations before the 2014 World Cup. If the country is not able to meet the deadline proposed by FIFA (which is for June 2013 for the Confederations Cup), the government will only be incurring sunk costs.

Lastly, another valid point is that if a private entity is responsible for stadium financing, the state would not be liable for the stadiums maintenance costs after the 2014 FIFA World Cup is over. Just in South Africa, those costs added up to almost R\$ 3.8 billion per year (\$2 billion dollars), which is something that an emerging country cannot afford yet. Therefore, Brazil should put greater efforts into incentivizing investments from the private sector so that it can successfully host the 2014 FIFA World Cup and not suffer the damages of such an event decades later (DowntownEastStadium, 2012).

Chapter 10

FIFA World Cup: Improving Brazil

As sporting events are becoming more popular around the world, high competition to host those events is rising. International events such as the World Cup are able to bring the host country several benefits that might change the country's perception to the world and improve its internal conditions, two important factors for economic growth. As the FIFA 2014 World Cup host country, Brazil plans on taking advantage of those benefits, which include boosting its economy through the rise of trade and advertising during the event, improving its infrastructure, boosting its tourism industry as tourists come to watch the event, branding itself to the world, etc. Amid all the obstacles on its path to success, this can be Brazil's chance to establish its identity as a financially stable and civilized nation.

Economic benefits

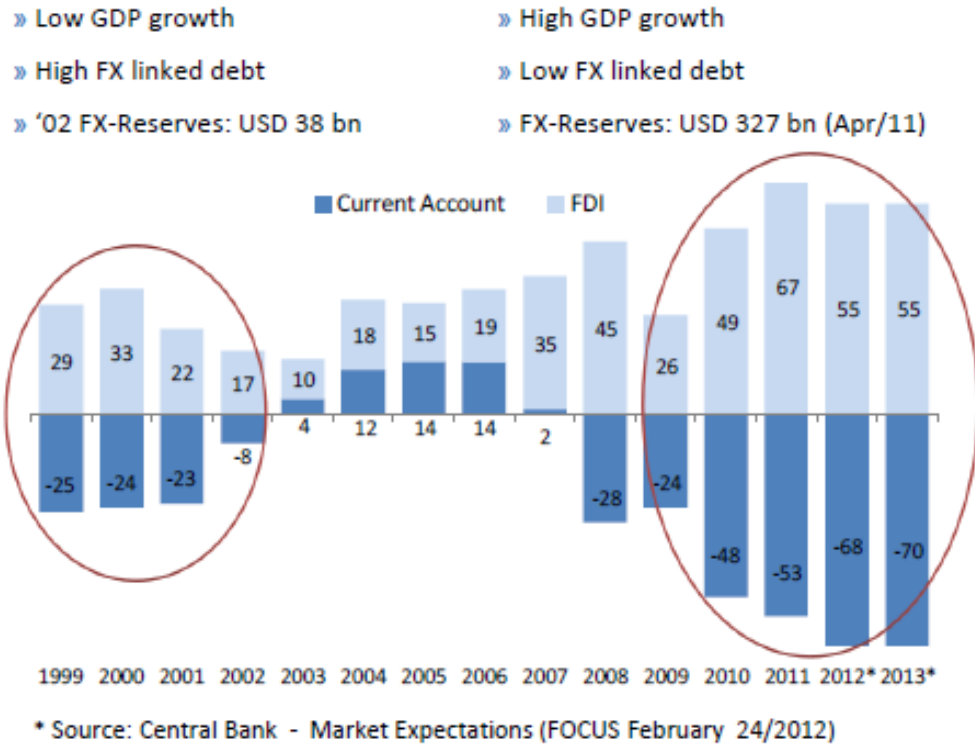
The FIFA 2014 World Cup is projected to have a substantial economic impact in Brazil. The economy is expected to snowball, increasing by five times the amount invested directly in event-related activities, with indirect effects being produced after the tournament. A recent study conducted by Ernst & Young forecasted that this mega event could create about R\$ 142 billion in economic activity for the country from 2010 – 2014. It also estimates that the event, including the preparations for it in the 12 host cities, will lead to a rise in tax revenues, generating an additional R\$ 18.13 billion in the collection of direct and indirect taxes by local, state and federal governments.

The study conducted also revealed that the World Cup's direct impact on the Brazilian GDP is estimated to be R\$64.5 billion for the same period of 2010-2014, which accounts for over 2.7% of GDP.

Foreign Direct Investment

According to the Brazilian Central Bank, Brazil posted a current account deficit of \$7.086 billion in January 2012, wider than the gap it registered in December 2011. However, as Brazil develops offshore oil finds and modernizes its infrastructure for the World Cup, the country expects a huge capital inflow coming from Direct Foreign Investment (FDI). In 2011, Brazil received a near record \$75.4 billion in FDI, and according to Jankiel Santos, chief economist at Espirito Santo Investment Bank, it looks like the current account will continue to be easily financed by FDI in 2012 too.

Chart # 9 Current Account Balance vs. FDI (US\$ bn)



FDI can be very beneficial for Brazil by helping in the economic development of the country; FDI can create high-quality jobs associated with higher wages and better working conditions. With increased multinational enterprise (MNE) activities, there is an improvement of productivity and export capacity, positively affecting the country's trade balance. These MNEs engage in international trade, increasing their share of total exports and imports. Plus, FDI is a very important element for the 2014 World Cup (Colitt and Ragir, 2006).

Tourism Industry

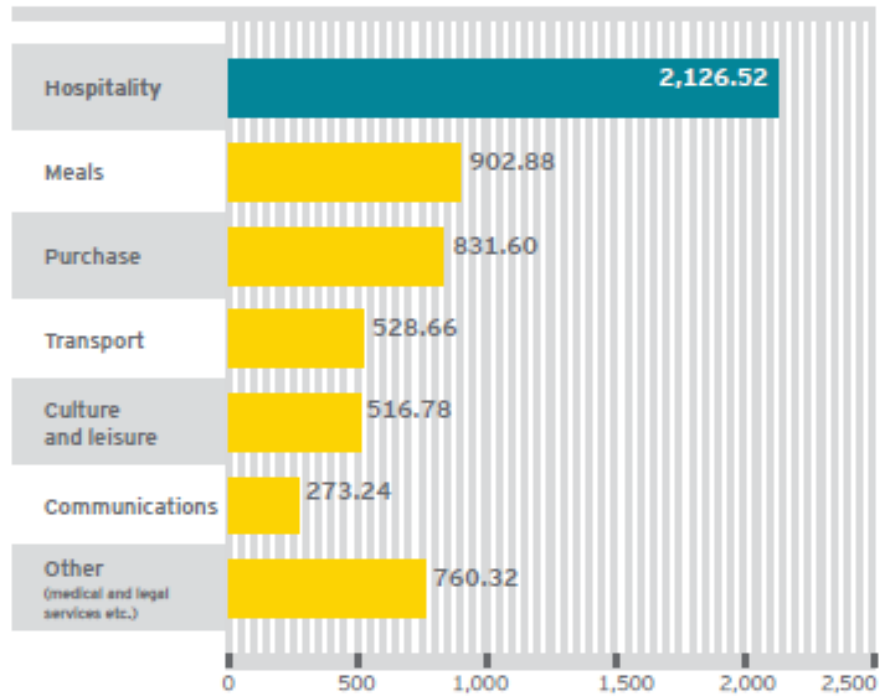
The tourist inflow that is expected into the country will not only benefit Brazil directly – with the fans who will watch the games, but also indirectly, due to international media exposure. From 2010 – 2014, it is expected that 2.98 million visitors will be arriving in the country, and over 600,000 tourists will be visiting Brazil for the World Cup alone, bringing the country an additional R\$3.6 billion (or 2 billion dollars).

The inflow of tourists will bring the country a significant infusion of funds, especially to areas such as transportation, communications, hospitality, culture, entertainment and others. Visitors will be spending money purchasing goods and services, increasing consumption and eventually production for companies.

Table # 10 Visitors Projected Spending

Visitors' spending

In millions of BRL (R\$)



Source: Ernst & Young, 2011

Job Creation

According to studies also conducted by Ernest & Young (2011), the World Cup is also expected to create an estimated 3.63 million jobs/year and R\$ 63.48 billion of income for the population, thus impacting the domestic consumer market. However, because this is a onetime event, most of its impacts will not be permanent, which is why this estimate accounts for temporary jobs only.

Infrastructure Improvements

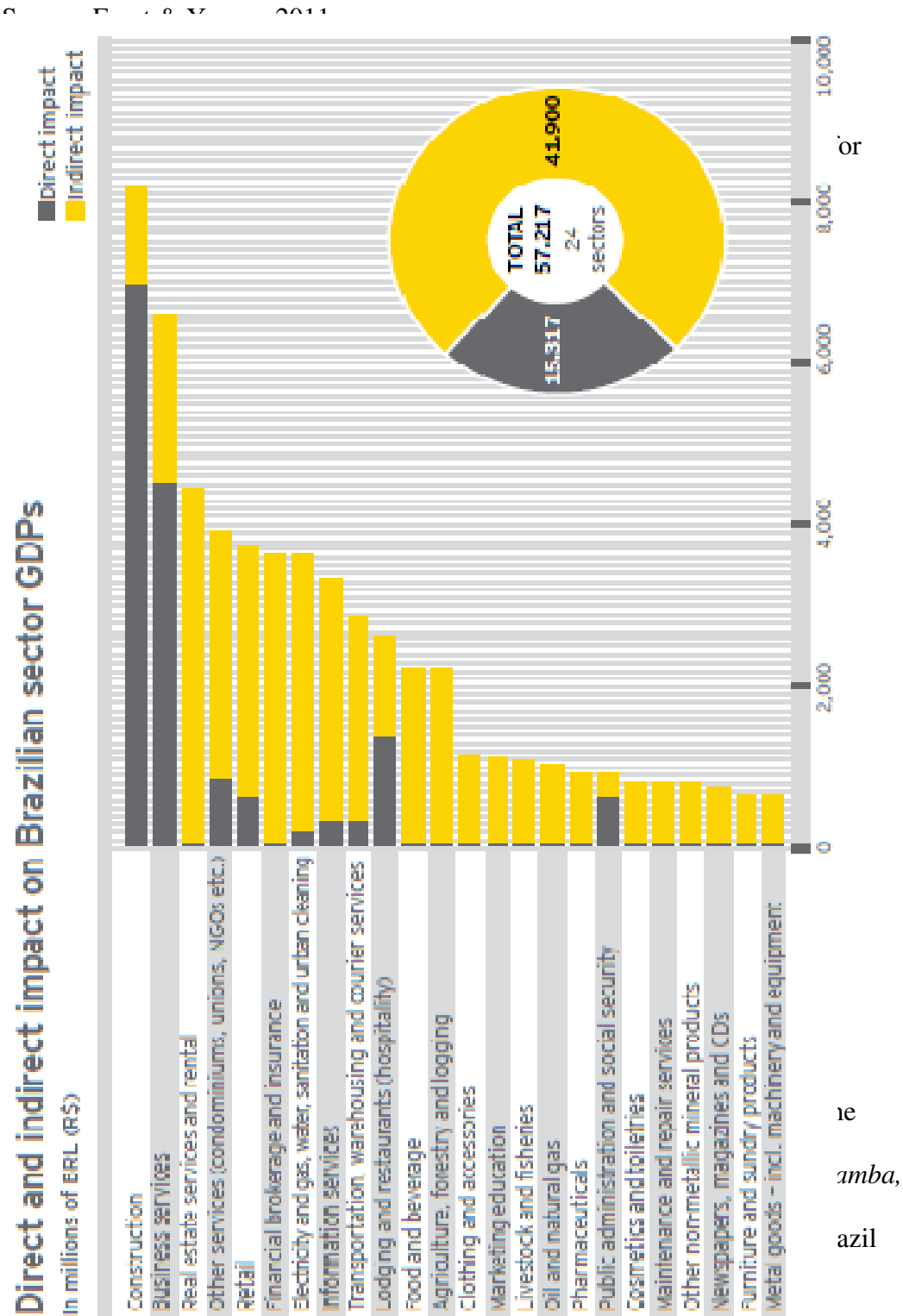
"Our involvement with the 2014 Cup is directly linked to our desire to show the importance of this event for the development of Brazilian infrastructure, with the objective of giving -- starting in 2015 -- greater visibility to international tourism and moving Brazil one step closer to fully integrating itself in the world of developed countries." (Joao Alberto Viol, president of SINAENCO) (Cerdeira, Fernandes, Madanes and Suarez, 2011).

When Brazil was announced as the host country for the 2014 FIFA World Cup, the country was given perhaps one of the single best opportunities for it to improve its internal infrastructure. Brazil's infrastructure is poor by international standards, causing implications for logistics and limiting GDP growth. With the 2014 World Cup however, Brazil will be heavily investing in its infrastructure, thus bringing huge long term benefits to the country, especially because infrastructure improvements will most likely bring more FDI (foreign direct investment) into the country and improve sovereign ratings. When Standard & Poor's reviewed Brazil's sovereign rating (which is currently a foreign currency rating of BBB and stable outlook), it identified the country's insufficient and inefficient infrastructure as a major problem limiting sustainable growth; the FIFA World Cup is giving Brazil a chance to change that.

This mega event presents the country with a unique chance to upgrade its transportation system, an improvement that will definitely help Brazil to raise its perception in other countries. The sectors that will benefit the most from this event will be construction, food and beverage, utilities (electricity, gas, water, sanitation and urban cleaning) and information services – all together they will increase output by over R\$50.18 billion. In addition to those sectors, business services and real estate services will also benefit a lot from the tourist inflow that

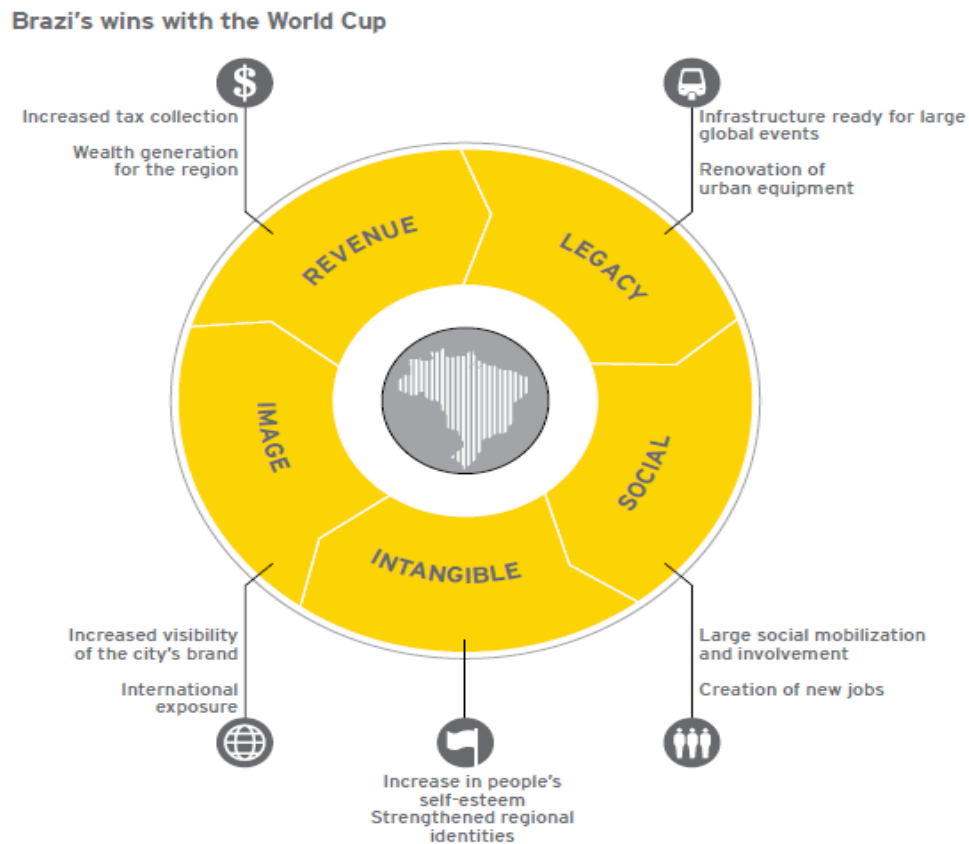
the country is expected to receive, and the country will be ready for hosting the 2016 Olympics.

Table # 11 Direct and Indirect Impact on GDP



challenging event, presenting to all other countries its stable and robust economy,

as well as modern and multicultural cities. However, in order to enjoy all of these benefits, Brazil has to identify those opportunities and act on them through governance and planning, monitoring, control and transparency, time management and legacy. It is Brazil's time to shine.

Table # 12 Brazil's Benefits from Hosting the World Cup

Source: Ernst & Young, 2011

Ending Remarks

In 2009, Brazil was given an opportunity. It is finally Brazil's chance to prosper, and to show the world what it is capable of. If the country is able to host a successful 2014 FIFA World Cup, the benefits coming from the big event will change Brazil's perception not only to other countries, but to its citizens as well. Brazil will face huge infrastructure improvements as well as investments coming from different countries that want to take advantage on this sudden growth. Still, it has to be careful.

While this sounds like the perfect opportunity, it is also one that requires a lot of capital investments. With the present lack of interest from the private sector, large quantities of Brazil's public money is being invested in nonpublic goods, leaving the Brazilian population very unsatisfied with the overall organization of the event. Now, Brazil should focus on incentivizing the private sector to take over some of these projects allowing the government to concentrate on hosting one of the world's most notable World Cups in history!

Even though Brazil has a very short time to prepare for the event, the country has all the resources it needs; it is just a matter of knowing how to use them. I truly hope that in the next two years Brazil will fix itself and really focus on taking advantage of the opportunity it was given. It is Brazil's time to shine at what it does best: playing soccer.

Best of Luck!

Works Cited

Altshuler, Alan A., and David E. Luberoff. *Mega-projects: The Changing Politics of Urban Public Investment*. Washington, DC: Brookings Institution [u.a., 2003. 33-34. Print.

"Arenas Da Copa Vao Demorar Ate 198 Anos Para Pagar Custo." *Instituto Humanitas Unisinos*. 28 Nov. 2011. Web. 22 Apr. 2012.
<<http://www.ihu.unisinos.br/noticias/503841-arenas-da-copa-vao-demorar-ate-198-anos-para-pagar-custo>>.

Baade, Robert, and Victor Matheson. "Have Public Finance Principle Been Shut Out in Financing New Stadiums for the NFL?" ProQuest, 2006. Web. 16 Apr. 2012.
<<http://search.proquest.com/docview/236988513?accountid=14214>>.

"Background Note: Brazil." *U.S. Department of State*. U.S. Department of State, 30 Nov. 2011. Web. 23 Apr. 2012.
<<http://www.state.gov/r/pa/ei/bgn/35640.htm>>.

BNDES. "BNDES - Brazilian Development Bank." *Site BNDES*. 2012. Web. 7 Mar. 2012. <http://www.bndes.gov.br/SiteBNDES/bndes/bndes_en/>.

"Brazil Economics." *EDC Canada*. Economic & Political Intelligence Centre, Feb. 2012. Web. 27 Mar. 2012.

"Brazil National Summit for Transport and the Environment | EMBARQ." *EMBARQ*. 28 May 2011. Web. 23 Apr. 2012.

<<http://www.embarq.org/en/events/09/04/national-summit-transport-and-environment>>.

"Brazil Stock Market." *TradingEconomics.com*. Mar. 2012. Web. 23 Apr. 2012.

<<http://www.tradingeconomics.com/brazil/stock-market>>.

"Brazil. The World Factbook. 2008." *Bartleby.com: Great Books Online*. CIA FactBook, 2008. Web. 23 Apr. 2012.

<<http://www.bartleby.com/151/br.html>>.

"Brazilian Federal Public Debt." *Tesouro Nacional*. Feb. 2012. Web. 15 Mar.

2012. <www.bestbrazil.org.br/.../ ...>.

Cabral, Sandro, and Antonio Francisco Junior. "Addressing the Demand Risk in PPP for the FIFA World Cup Stadiums: A Real Options Approach."

Federal University of Bahia, May 2010. Web. 17 Apr. 2012.

<(http://www.chairepppp.org/files_chaire/cabral_silvajr_football_conf_PP
P_2010.pdf)>.

"Caixa Economica Federal." *Caixa Economica Federal*. 2012. Web. 23 Feb.

2012. <<http://www.caixa.gov.br/>>.

Cerda, Veronica, Mariana Fernandes, Carmen Madanes, and Jordi Suarez. "From the Periphery to Prosperity: The Brazil 2014 FIFA World Cup and the

City of Salvador." *Knowledge@Wharton - Wharton Strategic*

Management Research Article. 26 Jan. 2011. Web. 24 Apr. 2012.

<<http://knowledge.wharton.upenn.edu/article.cfm?articleid=2686>>.

"CIA - The World Factbook -- Brazil." *University of Missouri-St. Louis*. 01 Aug. 2003. Web. 23 Apr. 2012.

<<http://www.umsl.edu/services/govdocs/wofact2003/geos/br.html>>.

Colitt, Raymond, and Alexander Ragir. "Brazil Job Growth Last Month Weaker Than Economists Expected as GDP Stalls." *Bloomberg*. 20 Dec. 2006.

Web. 21 Apr. 2012. <<http://mobile.bloomberg.com/news/2011-12-20/brazil-job-growth-last-month-weaker-than-economists-expected-as-gdp-stalls>>.

"Credit Union." *Investopedia*. 2012. Web. 23 Apr. 2012.

<<http://www.investopedia.com/terms/c/creditunion.asp>>.

"DBRS: Brazil." *DBRS.com: Credit Research and Ratings: Insight beyond the Rating*. 2011. Web. 5 Apr. 2012.

<<http://www.dominonbond.com/research/243604>>.

"Estádios Da Copa so Poderao Ser Utilizados Novamente Apos Oito Meses Do Mundial." *Panorama Brasil*. Ed. Agencia Brasil. 9 Aug. 2011. Web. 19

Apr. 2012. <<http://www.panoramabrasil.com.br/estadios-da-copa-so-poderao-ser-utilizados-novamente-apos-oito-meses-do-mundial-id68750.html>>.

EY. "Sustainable Brazil: Social and Economic Impacts of the 2014 World Cup."

Ernst & Young Terco. 2011. Web. 21 Mar. 2012.

<[http://www.ey.com/Publication/vwLUAssets/Brasil_Sustentavel_Copa2014_ingles_novamarca/\\$FILE/PDF_copa_2014_ingles.pdf](http://www.ey.com/Publication/vwLUAssets/Brasil_Sustentavel_Copa2014_ingles_novamarca/$FILE/PDF_copa_2014_ingles.pdf)>.

- FGV. "Cost of Capital to Small Hydroelectric Power Plants." *Fundacao Getulio Vargas*. ISAE, Nov. 2012. Web. 1 Apr. 2012.
<<http://www.abce.org.br/downloads/ingleswacc.PDF>>.
- "FIFA Targets World Cup Profits of \$1.2 Billion." *Soccerex*. 2012. Web. 23 Apr. 2012. <<http://www.soccerex.com/industry-news/fifa-targets-world-cup-profits-of-1-2-billion/>>.
- "Fraude Eleva Custo De Projeto Da Copa-2014 Em R\$ 700 Mi." *Veja Governo*. Veja, 24 Nov. 2011. Web. 14 Apr. 2012.
<<http://veja.abril.com.br/noticia/brasil/fraude-eleva-custo-de-projeto-da-copa-2014-em-r-700-mi>>.
- GCU. "Portal Da Transparencia - Copa 2014." *Portal Da Transparencia*. Presidencia Da Republica, 2012. Web. 16 Mar. 2012.
<<http://www.portaltransparencia.gov.br/copa2014/>>.
- IBGE. "Aglomerados Subnormais." *Censo Demográfico IBGE*. Instituto Brasileiro De Geografia E Estatistica, 21 Dec. 2011. Web. 14 Feb. 2012.
<<http://www.ibge.gov.br/home/disseminacao/online/catalogo2/digitaltema.php?tema=Organizacaoterrit>>.
- Kerf, Michel. *Concessions for Infrastructure: A Guide to Their Design and Award*. Washington, D.C.: World Bank, 1998. 104-06. Print.

- Levine, Robert M. "Sport and Society: The Case of Brazilian Futebol." *Luso-Brazilian Review*. University of Wisconsin Press, Winter 1980. Web. 14 Mar. 2012. <<http://www.jstor.org/stable/3513101>>.
- "LIBOR." *TheFreeDictionary.com*. 2012. Web. 18 Apr. 2012. <<http://financial-dictionary.thefreedictionary.com/LIBOR>>.
- Mann, Chris. "An Analysis of Brazilian Soccer." *Andy Barney*. 01 June 2010. Web. 18 Mar. 2012. <<http://andybarney.wordpress.com/2010/06/01/an-analysis-of-brazilian-soccer/>>.
- Melo, Luiz Martins. "Experiences from World Cup 2010 in South Africa – First Thoughts about." *World Development Indicators Database, September 2009*. Economics Institute, Federal University of Rio De Janeiro, 2009. Web. 13 Mar. 2012. <<http://www.ie.ufrj.br/datacenterie/pdfs/seminarios/pesquisa/texto1904.pdf>>.
- "Morgan Stanley Blue Paper." *Morgan Stanley Brazil Infrastructure - GT Investimento*. Morgan Stangley Research, 5 May 2010. Web. 21 Mar. 2012. <www.morganstanley.com/views/perspectives/pavingtheway.pdf>.
- "NCPPP - How PPPs Work." *Welcome to The National Council for Public-Private Partnerships*. National Council for Public-Private Partnerships, 2000. Web. 21 Feb. 2012. <<http://www.ncppp.org/howpart/index.shtml>>.

"NFL Stadium Funding Information". *Stadiums Opened Since 1997. CBS2011*

Web. 21 March. 2012. < cbsminnesota.files.wordpress.com/.../nfl-funding-summary-12-2-11 >.

Ortiz, Fabiola. "Will 2014 World Cup Take Football from Brazil's Masses?"

TerraVista. 6 Feb. 2012. Web. 28 Mar. 2012.

<<http://ipsnews.net/newsTVE.asp?idnews=106666>>.

"Overview of Stadium Development and Operating Terms - Minneapolis

Downtown East Side." *Downtown East Stadium Term Sheet*. 1 Mar. 2012.

Web. 22 Apr. 2012.

<http://mn.gov/governor/images/Downtown_East_Stadium_Term_Sheet.pdf>.

Pardue, Derek. "Jogada Lingüística: Discursive Play and the Hegemonic Force of

Soccer in Brazil." *Jogada Linguistica*. Sport and Social Issues, Nov. 2002.

Web. Feb. 12. <artsci.wustl.edu/~dpardue/web_pardue/PDFs/jogada.pdf>.

"Phase Out." *Investopedia*. Web. 24 Apr. 2012.

<<http://www.investopedia.com/terms/p/Phaseout.asp>>.

"Private Sector." *Investopedia*. 2012. Web. 1 Mar. 2012.

<<http://www.investopedia.com/terms/p/private-sector.asp>>.

"Programa BNDES De Arenas Para a Copa Do Mundo De 2014 - BNDES

ProCopa Arenas - BNDES." *BNDES - Banco Nacional De*

Desenvolvimento. BNDES, 2012. Web. 23 Mar. 2012.

<http://www.bndes.gov.br/SiteBNDES/bndes/bndes_pt/Institucional/Apoi_o_Financeiro/Programas_e_Fundos/procopaarenas.html>.

Ramalho, Guilherme. "A Roundtable on the Growth Acceleration Program (PAC) and Infrastructure Opportunities in Brazil." *Brazil - U.S. Business Council*. 09 July 2010. Web. 29 Jan. 2012.

<<http://www.brazilcouncil.org/events/roundtable-growth-acceleration-program-pac-and-infrastructure-opportunities-brazil>>.

"Report: World Cup Delays Cost Brazil \$410 Million." *Sporting News*. Sporting News, 7 Nov. 2011. Web. 4 Apr. 2012.

<<http://aol.sportingnews.com/soccer/story/2011-11-07/report-world-cup-delays-cost-brazil-410-million>>.

Rohter, Larry. "In Brazil, Unpaved Path to Soccer Excellence." *World Cup*. The New York Times, 26 June 2006. Web. 4 Feb. 2012.

<<http://www.nytimes.com/2006/06/25/sports/soccer/25brazil.html?pagewanted=all>>.

Rosentraub, Mark S., and David Swindell. "Who Benefits from the Presence of Professional Sports Teams? The Implications for Public Funding of Stadiums and Arenas." *Public Administration Review*. Blackwell Publishing, Feb. 1998. Web. 12 Apr. 2012.

<<http://www.jstor.org/stable/976884>>.

"Seven Pillars Institute." *Financing, Ethics, and the Brazilian Olympics* Â«. 2010. Web. 23 Apr. 2012. <<http://sevenpillarsinstitute.org/case-studies/financing-ethics-and-the-brazilian-olympics>>.

"SPORTS IN BRAZIL." *Football in Brazil*. Web. 23 Apr. 2012. <<http://www.v-brazil.com/culture/sports/football.html>>.

"Tax Holiday." *Investopedia*. Web. 24 Apr. 2012. <<http://www.investopedia.com/terms/t/tax-holiday.asp>>.

"Tax-Exempt Bonds and the Economics of Professional Sports Stadiums." *PolicyArchive*. Library of Congress. Congressional Research Service, May 1996. Web. 20 Apr. 2012. <<http://www.policyarchive.org/handle/10207/302>>.

Villarama, Pillar. "Brazil Football Boss Resigns amid Corruption Probe." *Daily Corruption News*. Transparency International, 13 Mar. 2012. Web. 1 Apr. 2012. <http://www.istoe.com.br/reportagens/175147_ROMARIO+ATACA+EM+AUDIENCIA+E+SUGERE+RENUNCIA+A+TEIXEIRA>.

"What's Left After the World Cup?" *Idasa's Political Information & Monitoring Service*. Idasa: African Democracy Institute, Jan. 2010. Web. 29 Mar. 2012. <<http://www.idasa.org/media/uploads/outputs/files/epolitics1.pdf>>.

Wilhelm, Sarah. "Public Funding of Sports Stadiums" *Economic Research and Consulting*. Center for Public Policy & Administration – University of Utah. 30 April 2008. Web, 18 Apr. 2012.

< www.cppa.utah.edu/publications/finance_tax/Sports_Stadiums.pdf>

"World Cup 2010: The Legacy." *IOL*. 11 July 2010. Web. 23 Apr. 2012.

<<http://www.iol.co.za/business/business-news/world-cup-2010-the-legacy-1.720848?ot=inmsa.ArticlePrintPageLayout.ot>>.

"A World Cup Effort Few Are Celebrating." *The New York Times - Sports*. The Associated Press, 15 Oct. 2011. Web. 5 Mar. 2012.

<http://www.nytimes.com/2011/10/16/sports/tennis/brazils-preparations-for-2014-world-cup-lag.html?_r=1&pagewanted=all>.

Zaretsky, Adam. "Should Cities Pay for Sports Facilities?" *Federal Reserve Bank of St. Louis*. The Regional Economist, Apr. 2001. Web. 11 Apr. 2012.

<<http://www.stlouisfed.org/publications/re/articles/?id=468>>.

Summary of Capstone Project

“We did it, we did it!” These were the words coming from the bid team in March 2009, when Brazil was elected host country for the 2014 World Cup. The room where its bid team gathered turned into a lively party, with members hugging, dancing, and crying while they waived the Brazilian flag. Now, that the World Cup is less than three years away, Brazil finds itself in a challenging situation.

In my analyses, I introduce the challenges faced by the country as it prepares itself for the great event. After analyzing the current Brazilian model for World Cup funding, I’ve concluded that such a model is not the ideal one for the country, and introduce alternative methods to put Brazil on the right path for a successful 2014 World Cup.

I start my analysis by introducing the country, from history to financial markets. The information provided in this first chapter gives the reader a background on the country, so that he/she can further understand the significance of soccer in Brazil.

In chapter two, I introduce the topic of soccer, the Brazilian way. In this chapter I explain the history of the sport in the country, including who introduced it and when, as well as how soccer has evolved throughout the years. Famous players such as national heroes Pele and Ronaldinho are mentioned in this part of my paper as a way to show the sport’s popularity, which has made soccer the true Brazilian identity. Finally, after 64 years of fascination with soccer, Brazil earned the chance to host the 2014 World Cup, the world’s most famous sporting event.

However, as time between now and the 2014 World Cup decreases, Brazil is finding itself in a difficult situation, which is the topic to be introduced next.

In chapter three, I define the existing challenges of hosting the 2014 World Cup. This is where I mention the infrastructure challenges, violence, the excessive layers of bureaucracy in the country and introduce the major costs associated with the sport event as well as who will pay for all those costs. However, in order to further explain the financing of the 2014 World Cup, I first define the main terms I will be using throughout my analysis.

Chapter four is all about financial investments and definition of terms. I define terms such as public - private partnerships, private sector, and public sector, all of which will be often used throughout my paper. I then ensure that my reader is aware of the Brazilian National Development Banks and its financial rates, since this will also be an important factor throughout my analysis.

In chapter seven, I introduce a case study – a comparison between the South Africa 2010 World Cup and the forecasts for the Brazilian 2014 World Cup. I start this chapter with a macroeconomic comparison, followed by some differences and similarities between economic indicators for both Brazil and South Africa in 2009 (before both World Cups). This situates my reader and gives them an even better understanding about both countries. I then introduce South Africa's costs related to the 2010 World Cup, along with how the country used its private and public money to fund the event. This leads me right into the construction of the World Cup stadiums and its impact on job creation. Here, I show my reader how, unlike other infrastructure projects, there are no guarantees

that stadiums are financially sustainable. I prove that two years after the end of the World Cup, host cities in South Africa have entered an extended period of payment to maintain their stadiums, putting their financial sustainability into question. Still, even with the high costs associated with such facilities, I end this chapter with the benefits of the 2010 World Cup, such as the lasting legacy of improvements in South Africa's international reputation, helping the country to bring an end to the Afro-pessimism that had dominated foreign media for years.

The World Cup is in Brazil, but it is not for Brazilians. In Chapter five, I introduce the big debate over the World Cup funding – should the public's money be used for the preparation of this event? Due to the lack of vibrant private sector investment, the Brazilian government is using its federal budget, coming from the BNDES, creating long term financial implications to the country. In this chapter, I also introduce the major problems associated with the use of the worker's fund, and how the Brazilian population is responding to such an issue.

It is not until Chapter six that I further develop my analysis as to why the Brazilian model of investing in the World Cup does not work. I focus on stadium construction, as stadiums can be considered a nonpublic good with no high economic returns on investment.

In order to perform an accurate analysis, the government costs for stadium financing for the 2014 World Cup were compared to NFL stadium funding in the United States, an economically stable country with an established history of hosting sporting events. Differences between state and federal government investment are introduced, including exemptions from federal taxes on bond

issuance. Then, an alternative way to fix the Brazilian Problem of stadium funding is presented in the form of tax holidays to the private sector as a way to incentivize their investment.

Chapter seven presents other problems that the 2014 World Cup can bring to Brazil. For this chapter, I focus on soccer being an expensive sport which can further turn the World Cup into a social exclusion cup as well as a Cup of corruption. The many corruption cases that have occurred in Brazil as well as corruption related to the World Cup, might compromise what is supposed to be one of the world's most popular sporting events.

Finally, chapter eight concludes my analysis, proving that even though Brazil will be facing several challenges, if it is able to succeed, the FIFA World Cup can be very beneficial to the country. Aside from the direct economic benefits associated with the event, Brazil is already enjoying an increase in foreign direct investment and in tourism, bringing the country a significant infusion of funds. In addition, the country's eventual development in infrastructure will be beneficial not only for the event and for the 2016 Olympics, but also for the country in the long run, since Brazil is in desperate need of infrastructure improvement. Lastly, I talk about the social benefits that Brazil will be experiencing when it finally hosts the event. Brazil will be showing the rest of the world that it is not only soccer and samba; it is also a center of excellence in research, development and innovation. If the country succeeds, it will show the world that it is capable of hosting such a challenging event, presenting to all other

countries its stable and robust economy, as well as modern and multicultural cities.