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PPP and the World Cup: Strategies to Help Emerging Markets Attract Major Events and Finance New Infrastructure

Matthew Hensley & Carreen Behrens

Abstract

Critics of large-scale events like the World Cup argue that the costs far outweigh any potential economic benefit, and that such massive investments are especially wasteful in emerging market countries where resources are more urgently needed elsewhere. In this article, authors Matthew Hensley and Carreen Behrens argue that careful planning and public-private financing make hosting the World Cup and similar events prime opportunities especially for emerging market economies.

World Cup 2006 – A German Holiday and Economic Boost

This summer, an estimated 3 million foreign and national visitors will be taking to Germany's highways and railways, with the hopes of making at least one of the World Cup tournament matches between June 3rd and July 9th. While not everyone will get those coveted tickets, all visitors will be expecting smooth travel, plentiful food, luxury or bare-bones hotels, and somewhere to celebrate (or commiserate) their favored team's performance.

In preparation, Germany's hospitality industry is boosting its stock and hiring additional staff. Stadiums are being refurbished, and cities are preparing for the zealous but ticketless masses by constructing large outdoor television screens in town squares. Major roadways around and between the match cities have been expanded and extended. The German railway company, Deutsche Bahn, is also improving its services by adding information boards in its railway stations, and allowing World Cup match ticket holders to use their tickets as day passes on buses and trains. Europe's largest railway station, Berlin (Lehrter) Hauptbahnhof, in Berlin, opened in late May just in time for the tournament after a 10-year construction period.



2006 FIFA Football Globe at Berlin's Brandenburg Gate

Since being awarded the 2006 World Cup, Germany has spent an estimated US \$7.7 billion¹ on improving stadiums and transportation infrastructure. Each visitor is expected to spend about \$400 per day over the four weeks of the tournament. If the estimated 3 million visitors stay even a few days, and spend accordingly, Germany will net billions of dollars of income just in the month of the tournament. This is to say nothing of the long-term economic benefit the country

¹ <http://www.voanews.com/english/2006-06-08-voa37.cfm>

can enjoy from the investments in infrastructure that have been made and will remain as important parts of the economy in the future. Clearly the economic and financial benefits of hosting major events, be it sporting, entertainment, or business, are tangible. Moreover, the infrastructure that is required to contend to attract such events, while costly, represents a positive investment with both economic and social returns.



In 2002, when Japan and South Korea co-hosted the World Cup, many doubted the financial benefits that hosting would bring. Four years later, after investing, both public and private finance, over \$7.0 Billion in physical and tourism infrastructure, the event is credited with ending 12 years of economic stagnation in Japan, and boosting Korea's service, construction, and banking economy by 15%! Of all the jobs created in Korea and Japan during the event and expected to be created in Germany for the World Cup, over 1/3 are permanent jobs. Moreover, the net benefits to small business development and growth are extremely high with many opportunities to participate in moving up the value-chain in a variety of construction, tourism, banking, and technology sectors.

Many countries have embarked on economic strategies to attract major sports, entertainment, and business tourism events. The World Cup, Olympics, European Football, and other competitions are well known. But other events such as professional sports, and most importantly business conventions/exhibitions/tourism can generate hundreds of millions of dollars in revenues and create viable service jobs. Cities such as Singapore, Hong Kong, Dubai, Las Vegas, etc., in addition to more traditional venues have pioneered the entertainment, convention, and business tourism concept. Several emerging markets have made inroads in this regard, but are still not poised to take advantage of this growing segment of the overall global tourism market and reap the benefits of infrastructure development, employment, and exposure.

Major Events and Business Tourism Development: Is it worth it for developing countries?

It is no secret that major public events are occasions for governments to put their best foot forward, and pool time and resources into making cities and their surroundings welcoming and convenient for visitors. But at what cost? Germany is a highly developed economy with considerable resources, yet they had to make a clear analysis of the costs and benefits of hosting and the strategies to raise the financing required to develop the type of infrastructure upgrades required for such an undertaking. South Korea and Japan, as well as other markets such as Singapore, Malaysia, Mexico, have the financial resources and vibrant private sectors to draw on for capital formation, investment, and sponsorship. While the economic and financial benefits of hosting major events are significant, the approach to financing the major events, and associated infrastructure is the key decision that drives success.

But what about emerging markets? Can countries in emerging markets identify the benefits and undertake public and private financing approaches to attract major sporting and entertainment market share? Is it worth the risk?

Critics of large-scale events like the World Cup or the Olympics argue that the cost of preparing for and hosting the events negates the projected economic benefits. They claim that the public sector spends too much money on facilities whose uses are expended after the events' closing ceremonies. Such massive investment of public sector finances is a waste especially in developing countries, where precious government resources are needed more urgently elsewhere.



Their arguments are largely true if the financial burden lies only with the public sector and the investments do not extend beyond sports infrastructure. Moreover, even in developed economies, there are several examples where the planning and execution to attract and host events were unwisely focused on pure public financing of facilities with the result being that the events were not only money-losers, but that the additional benefits of economic infrastructure and economic development were not captured.

However, in those situations where public-private financing approaches were utilized, there is considerable evidence that major sports and entertainment events can “trigger” a more holistic investment approach, where the private sector is mobilized and enhanced by public investments in key sectors. The result being public purpose infrastructure such as stadiums, transport, communications, are developed in association with other economic infrastructure such as housing, urban development, tourism, etc., In these cases, the private sector is sharing the risks with the public sector, and the financially viable aspects of economic infrastructure are captured by committed investors, while the public purpose infrastructure is, over time, paid for by users. Two recent examples of this approach are the Barcelona and Atlanta Olympics.

Barcelona Olympics 1992²

Since hosting the Summer Olympics in 1992, the city of Barcelona has enjoyed a substantial increase in economic activity and income, due to large-scale investment in infrastructure and urban renewal at the time of the Games. In the six years leading up to the games, Barcelona spent an estimated 10,660 million euros of public and private investment in infrastructure related directly to the Olympics (parks, telecom services, housing, offices, premises, hotels, sporting facilities, cultural and health facilities, and transportation infrastructure). This investment was carried out in the form of concentrated renovation and renewal of Barcelona’s eastern section housing the Olympic Village and the adjacent Poble Nou district. Since then, it is estimated that an additional 27,000 million will be invested between 1998 and 2010 on things such as port and airport extensions, road networks, electric networks, telecommunications, railway, and metropolitan public transport.

This investment is directly attributed to the public and private sector spending leading up to the 1992 Games and was part of an overall financial strategy to share the burden, risks, and opportunities with the private sector. A variety of financing techniques were used, and indeed, public credit enhancement and grants were utilized to encourage long term investment. Today, Barcelona is considered one of the leading cities in the world, with a first class infrastructure, quite a different ranking from the 1980’s.

Atlanta Olympics 1996

Many were surprised when Atlanta won its bid to host the 1996 Summer Olympic. Much of its downtown where the games would take place was characterized by crumbling bridges and sidewalks, inadequate water and sewerage services, untidy parks and abandoned, dilapidated

² Brunet, Ferran (2005): The economic impact of the Barcelona Olympic Games, 1986-2004: Barcelona: the legacy of the Games, 1992-2002 [online article]. Barcelona: Centre d’Estudis Olímpics UAB. [Date of consulted: 06/13/06] Available from: http://olympicstudies.uab.es/pdf/wp084_eng.pdf

buildings. The crime rate was high and the city lacked the modern infrastructure of other US cities of similar size. In preparation for the 1996 Olympics, however, the city aimed to change that. Committed to an approach of public-private partnerships, the city embarked on a financing and re-investment plan to earnestly address these issues, resulting in infrastructure improvements across the board. These improvements included a new baseball stadium, new dormitories for two local universities, renovation of the city's airport, and revitalization of downtown neighborhoods into economically active and vibrant attractions.

One revitalization example was the Pryor Road Corridor, a declining crime-ridden area of the city that was designated as a gateway to the 1996 Olympic village. After investment and revitalization featuring the development of new homes and commercial properties, the area was transformed. By 2003, six years after the Olympic games, this development continued to expand as the public sector partnered with Fannie Mae (the US Housing Finance Giant) to bring in over \$344 million in development activity, and offering affordable lending mechanisms for lower income home buyers to foster home ownership.³

Atlanta's success was due to good planning and private financing. The private financing of public purpose infrastructure saved the government from placing the burden on taxpayers, and good-planning ensured that nearly all of the facilities being constructed for the games, were designed to outlive their Olympic purposes and were integrated into the everyday life of the citizens and future tourists of Atlanta. The stadium was retrofitted into a baseball park for the professional Atlanta Braves, and the dorm buildings for athletes were turned over to Georgia State University students. With a new airport, urban renewal, investments in water and transport, as well as facilities to attract high technology and small business to re-locate, Atlanta is one of the fastest growing cities in the US.

South Africa and Beyond: Can Emerging Markets Attract and Finance Major Events and Business Tourism Infrastructure?



In preparation for its hosting role for the 2010 World Cup, South Africa will spend approximately 14 billion Rand (\$2.0 Billion) on building and renovating stadiums, upgrading airports, and improving its rail and road network. Such investment is expected to create 159,000 new jobs and result in a boom in the tourism and construction industries. It is envisaged that the World Cup will expand new tourism markets for South Africa as well as attract a new class of investors that see South Africa as the engine of economic growth and development for the entire continent. As Finance Minister Trevor Manuel said in his 2006 budget address, "To budget is to choose. Infrastructure investment and skills development are the main frontier ahead. These are journeys that have just begun, and they promise unbounded opportunities for discovery, unprecedented opportunities for initiative and partnership".

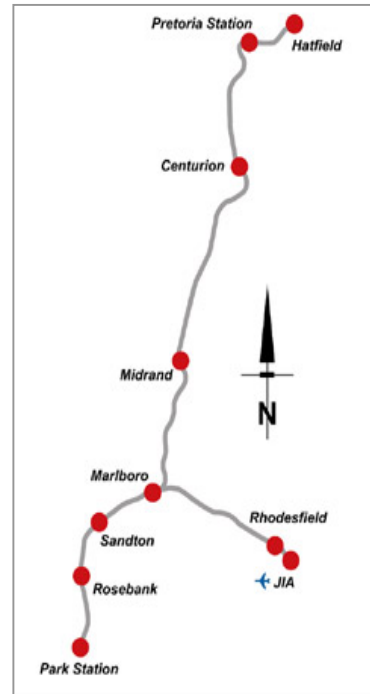
After losing its bid for the 2006 Olympics, due in part to insufficient transport infrastructure, South Africa began its planning for the 2010 World Cup bid early. It's successful bid to host the 2010 tournament can be attributed in great part in carefully planning a detailed financial proposal that demonstrated that the public and private sector were prepared to work together to mobilize the financial resources to prepare the infrastructure necessary to host the event as well as showing

³ 2003 Public/Private Partnership Awards: City of Atlanta and Fannie Mae: Pryor Road Corridor Revitalization, http://www.usmayors.org/USCM/best_practices/busouncil/atlanta03.asp

a plan for how the infrastructure would provide long term benefits to the economy in the years after the event is concluded.

South Africa's rich experience in planning and implementing public-private partnerships surely swayed the FIFA committee. Since 1998, South Africa has successfully mobilized billions of dollars of private finance into public purpose infrastructure and has created employment and improved service delivery at the national and local levels in a variety of sectors such as health, education, transport, etc. The ability of the local private sector to undertake investments in partnership with national and local governments is a feature that other bidders from emerging markets were hard pressed to match.

For example, the "Gautrain" (Gauteng province includes Johannesburg and Pretoria) rail link project is an example of a public-private partnership that will be used during the World Cup but has obvious economic and financial benefits to the economy of South Africa long after the games are played. Scheduled for completion in time for the 2010 World Cup, The "Gautrain" project consists of a high-speed rail system linking Johannesburg and Tshwane (formerly Pretoria) with the Johannesburg International Airport. These 80km of railway represents the largest transport PPP in South Africa to date, with the private sector providing the design, construction, operation, maintenance and partial financing of the system, with the public and private sector jointly financing the over \$1.0 Billion project.



Gautrain Rapid Rail Link System Map
Photo: <http://corporate.gautrain.co.za/>

It is a concession PPP – four years for construction and fifteen year operation period with the private partner made up of international and local firms, headed by Bombela Consortium. To date, the process of implementing this PPP has been relatively smooth, aided by South Africa's widely published and practiced standardized PPP guidelines featured in the National Treasury PPP Unit Procedures. This project alone is expected to create 148,000 new jobs.

Recognizing the benefits that the World Cup and similar sports and entertainment events can bring, South Africa is determined to make sure that the 2010 World Cup is a success. The country has passed special legislation to ensure that all legal and financial obstacles to preparations are removed and that all of the economic and financial objectives of economic development, job creation, infrastructure services, and tourism promotion are achieved.

However, South Africa is a bit of a unique case. With a strong private sector, well-developed financial markets, and an official government commitment to the concept of Public-Private Partnerships (www.treasury.gov.za), the country possessed the attributes to successfully attract entertainment, sporting, and business tourism investors and industry leaders. In fact, the growth of business travel, conventions, the film industry, etc., in South Africa is not surprisingly peaking in anticipation of the 2010 World Cup.

Other emerging markets, while lacking some of the characteristics of an effective promotion strategy, should not be pessimistic. It was only several years ago that some now leading countries in this industry in Europe were viewed as non-competitive and unattractive candidates to capture the low, high, and middle end of the events and entertainment industry, let alone the World Cup or Olympics. Nevertheless, with a shift in economic paradigm, governments reached out to the

private sector and fashioned a policy model that promoted public-private partnerships and the financing strategies needed to support such efforts in a sustainable fashion. Today, the examples of Barcelona, Atlanta, Greece, Singapore, and now South Africa, can be replicated if emerging markets conclude that sports, entertainment, and business tourism and the linkages that they provide to broader economic development make good economic sense.

Each country is different and every country has to view travel and tourism, and the events associated with them, as part of an overall plan to expand the service sector economy. However, as we have seen, from the World Cup, to the Olympics, to industry conventions, exhibitions, and sporting competitions, that the economic benefits of travel and tourism and the infrastructure that is required to attract them, can have a very net positive impact on the economy and on development.

With the proper planning, an effective policy environment and a true “partnership” with the private sector, emerging markets can and should try to attract this segment of the world economy into their own. Emerging markets have so much to offer. In time, just as in South Africa in 2010, global events will migrate from North America and Europe to Asia, Africa, Latin America and beyond. It will be up to decision makers in the public and private sector to create the vision and the action plan to attract and successfully implement these strategies on a country-by-country basis.

Public-Private Partnerships of course have their limits. Putting together a winning team on the pitch is a whole different matter!!!!!!

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