

## HOSTING MEGA-SPORT EVENTS – COSTS AND BENEFITS FOR RUSSIA

**Iuliana Pop<sup>1</sup>, Daniel Bulin<sup>2</sup>, Adrian Lucian Kanovici<sup>3</sup> and Laura Brad<sup>4</sup>**

*<sup>1) 2) 3) 4)</sup> The Bucharest University of Economic Studies, Romania*

*<sup>2)</sup> Institute for World Economy – Romanian Academy*

E-mail: iuliana.pop@rei.ase.ro; E-mail 2: daniel.bulin@com.ase.ro;

E-mail: adrian.kanovici@rei.ase.ro; E-mail: laura.brad@fin.ase.ro

**Please cite this paper as:**

**Pop, I., Bulin, D., Kanovici, A.L. and Brad, L., 2020.** Hosting Mega-Sport Events – Costs and Benefits for Russia. In: R. Pamfilie, V. Dinu, L. Tăchiciu, D. Pleșea, C. Vasiliu eds. *6<sup>th</sup> BASIQ International Conference on New Trends in Sustainable Business and Consumption*. Messina, Italy, 4-6 June 2020. Bucharest: ASE, pp. 540-547

---

### Abstract

The organization of sports competitions far exceeded the specific importance of events addressed exclusively to the fans. Major mega-sports events (World Football Championship /European football tournaments, summer/winter Olympics) are a pillar of regional development, particularly in emerging countries over the last two decades – in the first stage directly, through infrastructure investments, and then, indirectly, through the multiplier effect, stimulating the tourist circulation and promoting the country image. The research objective of the present paper is to highlight the costs and benefits of organizing a mega-sport event, taking as a case study the cost-benefit analysis of the organization by Russia of, the World Football Championship in the summer of 2018. Relying on the available data from the International Federation of Association Football/Fédération Internationale de Football Association (FIFA), the authors make a quantitative research regarding the importance of the mega-sport events on the tourism phenomenon in the Russian Federation.

### Keywords

Tourism, mega-sport events, cost-benefit analysis, economic impact.

### JEL Classification

L83, Z32, Z29, D61

---

### Introduction

The sport tourism, comprising the tourism for mega-sport events such as the World Championships, becomes more and more important. Between June 14 and July 15, 2018, Russia has organized, the 21<sup>st</sup> edition of the World Football Championship. As host of the first such event in Eastern Europe, Russia had the second chance, after the 2014 Winter Olympics in Sochi, to test its organizational capacity.

After Beijing – 2008 (Summer Olympics), South Africa – 2010 (World Football Championship), Sochi – 2014 (Winter Olympics), Brazil – 2014 (World Football Championship) and Rio de Janeiro – 2016 (Summer Olympics), this is the 6<sup>th</sup> mega-sport

event and the third final World Championship tournament organized in a country of the BRICS (Brazil, Russia, India, China, and South Africa) group in the last decade. If we add Qatar to the list, the future host of the world championship in 2022, we can see that we are going through a period when emerging countries are the predominant choice of sports venues. At the 68<sup>th</sup> FIFA Congress in Moscow, the decision was taken that in 2026 the World Football Championship will be organized by the North American trio of USA-Canada-Mexico. It will be the first time such a final tournament will be organized together by three states.

Based on this trend, analysts at the Union Bank of Switzerland (UBS), a Swiss financial company, are asking whether nations with a tradition in football, such as Germany, France, England, Italy or Spain, are still willing to invest massively in organizing such events. One explanation could be that the return on sports investments could be much lower for most of the developed European countries than for emerging countries such as Russia (UBS, 2018). For the Russian Federation, as host country, it is a real challenge to ensure the investments for the specific infrastructure.

In the next section of the paper, the authors make a review of the scientific literature pointing out mega-sport events' significance. The main part of the article proposes a brief costs-benefits analysis using statistical data provided by the FIFA Report (2018a, 2018b). Finally, the article presents its conclusions regarding the costs-benefits for Russia after the FIFA 2018 World Championship.

### **Review of the scientific literature**

Tourism is one of the economic activities with a spectacular dynamic, both in terms of the number of visitors and the collected revenues, and of diversifying the forms of tourism practiced.

The tourism industry has begun to recognize sports tourism (Ross, 2001) as the travel experience made to participate in or view some sports-related activities, being recognized three types of sports tourism: "sport event tourism, active sport tourism and nostalgia sport tourism."

Events-sports tourism includes major events, such as the Olympic Games or the Football World Cup. In fact, both the 1994 World Cup and the 1996 Atlanta Olympics in the USA have been heavily promoted as tourist attractions.

Regarding the size of the event, Müller (2015a), develops a definition and creates a classification scheme for mega-events. Based on the review of the existing definitions, it proposes four constituent dimensions of the mega-events: attractiveness for visitors, attracting attention through media and technology, costs and transformative impact. The mega-events costs amount to hundreds of millions, if not billions, of dollars. It is important to point out that these costs, for the same type of event, differ depending on the host country or city, from the number of visitors to the value of the radio-television broadcast rights. The cost of the World Cup has increased from US\$ 7.5 billion in South Africa in 2010, to US\$ 14 billion in Brazil in 2014 (Gaffney, 2014) and about US\$ 21.5 billion in Russia in 2018 (Müller, 2014). Many of the sports events were hosted after World War II, predominantly in countries of Western Europe, North America and Australia (Dowse and Fletcher, 2018). This was due, first of all, to the post-war economic advance recorded by the states in these regions.

Over the past few decades, FIFA has chosen as locations for the World Cup countries that did not have a strong football legacy, partly due to the globalization of football, the most popular sport in the world (Arnold and Foxall, 2018).

Selected host for the 2018 edition, Russia can set an example in this regard, within certain limits. The World Cup is another step on the path of Russia to become a soft power, of first rank, on the global stage (Sherr, 2013), and the country expects to have a tourism demand and greater visibility abroad. Among the positive consequences of the mega-sporting events, we

can talk about the development of a green economy for the host country (Preuss, 2013), FIFA focusing on reducing the ecological footprint of the event.

Müller (2015b) identifies the mega-event syndrome, that is, a group of seven symptoms that occur together and affects mega-event planning, including oversized benefits, underestimated costs, and redefining planning priorities using public resources for private interests and suspending current legislation.

Arnold (2018) presents the use of sports as an instrument of government policy in Russia, to encourage nationalism, arguing this with five key mechanisms.

The World Cups, like the 2014 Sochi Olympics, are benchmarks for global sports events hosted by Russia. Beyond the sports connotations, these events are part of Russia's strategy to improve its international profile and dynamise changes in infrastructure (Makarychev and Yatsyk, 2014).

### 3. Research methodology

As the organization of a World Football Championship involves many complex aspects, generating controversy over the economic and social effects and the lasting real benefits resulting from this large event, we are entitled to ask ourselves what will be the real impact of the event hosted by Russia; possible answers can be given from both past experiences, and especially from an assessment of costs and benefits.

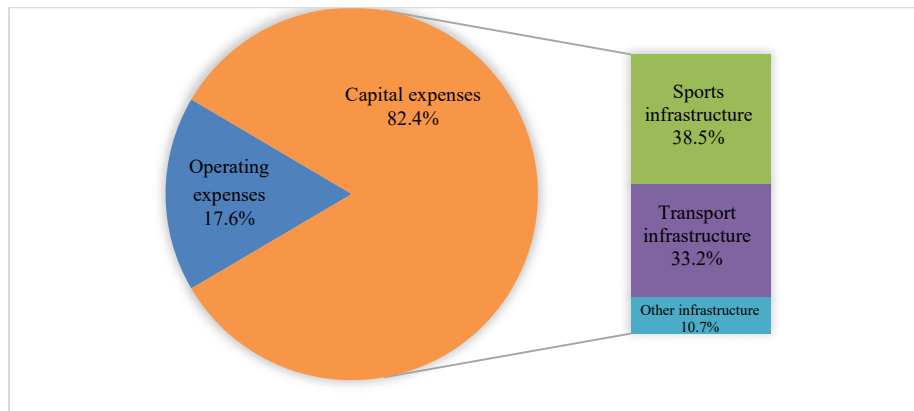
Starting from this question, the research objective is to highlight the costs and benefits of organizing a mega-sport event, and the impact it has on the host country's economy, in general, and on international tourism activity in particular. To meet this objective, the authors propose a case study on the final tournament of the World Football Championship held in Russia between June and July 2018.

The desk office research is based mainly on the analysis of the official public documents made available by the FIFA and the organizing institutions.

### 4. Results and discussion

#### 4.1. Cost-benefit analysis

The structure of costs for organizing the tournament includes the operating expenses and capital expenses which include sport infrastructure, transport infrastructure and other infrastructure (Fig.no.1).



**Fig. no. 1 Structure of the costs for organizing the tournament**

*Source: the authors on the basis of the data of the FIFA, 2019*

In another analysis, it is shown that the relative level of investments for the World Cup in 2013-2017 represented only 1% of the total investments (Al-Toukhi, 2018). For comparison, the volume of expenditure is slightly less than half the one involved in the preparation and organization of the Olympic Games in Sochi, whose effects were to increase on average about 1 percentage point in the gross domestic product (GDP) of Russia in the last 6 years (Tanas, 2018).

Returning to the discussion of the profitability of such an event, a report from Moody's shows that the final world championship tournament will have limited and short-term economic effects, even lower than the Sochi Olympics Games (Tanas, 2018). The figures advanced by analysts show that the direct impact of the event would be between 1 and 2% in nominal GDP at the regional level, and the multiplier effect will not exceed 3% in any of the regions with host cities.

Of course, although the improvement of the regional infrastructure can only have beneficial effects, it is not anticipated a real strong long-term impact, and this is in the light of the sectoral structure of the Russian economy; the sectors benefiting from tourism, in particular hospitality, trade, transport, do not have a significant share in most local economies, as shown by Moody's analysis. However, the impact of investments will be felt in the host cities, by improving the transport infrastructure, public services and utilities (Al-Toukhi, 2018).

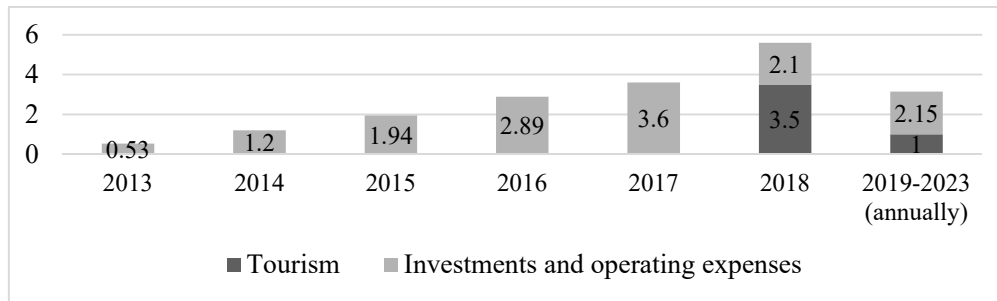
Studies at the Gaidar Institute for Economic Policy in Russia are rather on the same pessimistic line. At the beginning of 2018, Russian specialists pointed out that the economic activity generated by the organization and conduct of the tournament would add up to a maximum of 0.2% to the annual GDP growth, both in the second and third quarters of 2018. Moreover, the Central Bank pointed out that the final tournament could cause a rise in consumer prices. This has been confirmed (for example, some hotels have increased their tariffs even by 5000%). Although the Central Bank estimated at the beginning of 2018 that the inflation will be below its four percent target, at the beginning of 2019 this value was exceeded, reaching 4.3% (IntelliNews, 2019).

In the final official report published by the organizers in September 2018, it is estimated that the event could have an impact for the period 2013-2018 of about US\$ 16.6 billion (RUB 952 billion), and that the 2019-2023 annual impact will be or US\$ 2.6-3.7 billion (RUB 150-210 billion) through the contribution of the tourism and construction sector, to which would be added the subsequent effects generated by public investments (FIFA, 2019). Thus, the cumulative volume of the total expected impact on the Russian economy will be in the range of US\$ 31 billion, the anticipated value by the preliminary official report (FIFA, 2019).

For the period 2013-2018, the economic effects of the tournament include:

- A contribution of nearly US\$ 16.6 billion in GDP (RUB 952 billion), the equivalent to about 1% of GDP;
- Creating and maintaining about 315,000 new jobs annually, which will result in an increase in population incomes estimated at almost US\$ 8 billion (RUB 459 billion);
- Another approximately US\$ 2,4 million in additional tax revenue from the federal and the local budget;

The evolution of the expenses in investments and operations, after 2013, respectively of the tourism revenues from 2018, is illustrated in Fig. no.2. The effects on tourism are only taken into account for 2018 and the following period, even though in 2017 the Confederations Cup took place, a traditional competition that takes place one year before the World Cup, rather with an organizational testing role. Thus, the projections of the organizing committee are as follows: US\$ 2.6-3.7 billion per year in the period 2019-2023, between US\$ 1.9 billion and US\$ 2.4 billion as a multiplier effect of investments and operating expenses, and another US\$ 700 million – US\$ 1.3 billion in revenue from tourism.



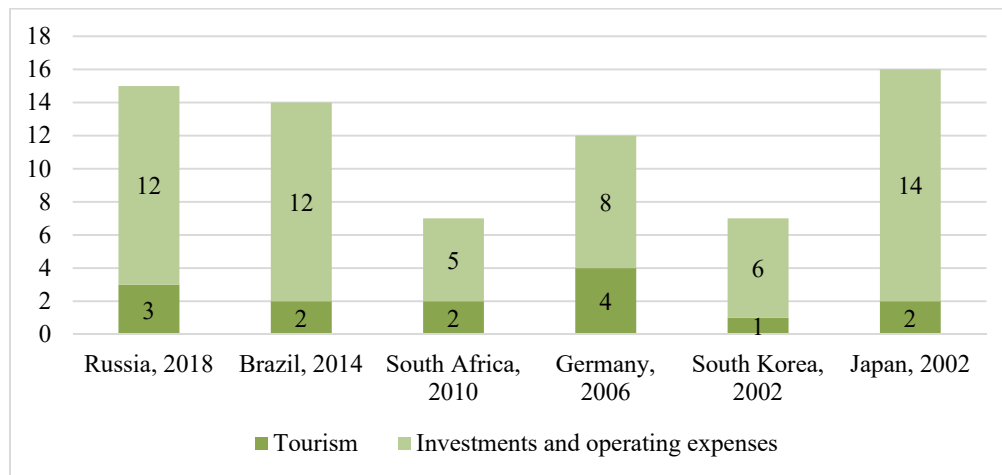
**Fig. no. 2 The impact of the final tournament in the economy of Russia (US\$ billion)**

*Source: the authors on the basis of data of the FIFA, 2019*

*Note: prognosis for the 2019-2023 period – average values, calculated by the authors*

In the medium-term, especially through the effects on the tourism sector and those catalyzing investments, a total number of between 160 and 240 thousand new jobs are expected in the next 5 years, but also a boost in the turnover of small and medium companies, average estimated in the range of US\$ 2.25 – 3.31 billion.

For a clearer picture of the economic impact, compared to the same type of events since 2002, we note that the estimated US\$ 15 billion effects in the medium-term would be exceeded only by the impact produced in Japan’s economy following its co-organizing of the first tournament in Asia. However, the share of 1.1% in GDP is significantly higher than that obtained by the Japanese, of only 0.3%, being surpassed only by South Africa (2%), a significantly smaller economy.



**Fig. no. 3 The impact of the final tournament in the economies of organizing countries (US\$ billion)**

*Source: the authors on the basis of data of the FIFA, 2019*

*Note: For Brazil, the estimations in tourism are 1-2 US\$ billion, and for Germany the estimations for investments and operations are 7-8 US\$ billion*

As shown in Fig. no. 3, tourism revenues represent 21% of the total impact, a lower share, for example, than that of South Africa (32%) or Germany (35-40%). However, the tourism sector remains one of the winners of such mega-events and would have most to gain from this tournament.

#### 4.2. Impact on tourism

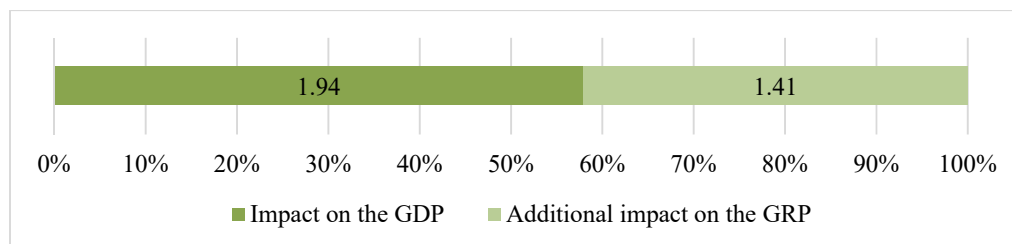
An analysis before the run of the world championship, conducted by UBS, starting from the demand for tickets (3.2 million tickets) and the ratio between Russian and foreign fans, showed that the number of foreign tourists during the World Cup period could rise at 1.6 million – a rise of only 6.5% compared to 2016 arrivals. Strictly mathematical, this would not have been a real boom, given the growth rate of over 5% in the 2014-2015 period of Russian tourism (UBS, 2018). Moreover, as the enthusiasm for football is not shared by all travel enthusiasts, this increase could even be mitigated, as some of the potential tourists may have reoriented to other destinations in the summer of 2018.

Estimates from the preliminary report for April were even lower, of only 570 thousand international tourists out of a total of about 1.3 million. However, most of the more than 700 thousand Russian tourists would have been residents of other regions. In addition, as the average stay is expected to be 2.5 times higher than the average, reaching a record 12 days during the tournament, the expected revenue is expected to be significantly higher than in previous years (according to final data provided by World Tourism Organization), revenues from Russia's international tourism totaled US\$ 8 billion in 2016, (UBS, 2018).

However, according to the final report of September 2018, the event generated only 487 thousand international viewers and 605 thousand Russian viewers. Concerning these figures, the organizers point out that the number of international tourists present at the World Football Championship includes those from the US (8%), Germany (5%) and Brazil (4%) (FIFA, 2019).

Investments in transport infrastructure – in particular the modernization and supplementation of facilities in airports, may have a long-term impact on Russia's position in international tourist flows, even though UBS analysts question the ability to attract more long-term tourists. They argue that large distances, climate, and availability of alternative destinations are factors that could limit growth potential. Moreover, it is estimated that the tourism industry in Russia could benefit from a momentary and only marginal boost: the components of the tourism industry – food, accommodation, communications or transport will register a temporary increase in revenues (Fig.no.4).

On the other hand, investments in transport infrastructure will result in higher passenger flows, even after the event (Al-Toukhi, 2018).



**Fig. no. 4 The impact of tourism in GDP and GRP (US\$ billion)**

Source: the authors on the basis of data of the FIFA, 2019

The World Cup has a considerable economic effect, said Deputy Prime Minister Arkady Dvorkovici, adding: *“The tournament has already stimulated the economic development of the host regions and will continue to have a positive long-term economic impact”* (FIFA, 2019). In support of this statement are estimated that 40% of the total tourism contribution will go to the regional authorities: US \$ 1.41 billion.

### Conclusions

The World Cup is an important sport event that will give Russia a new international exposure. While at the national level the economic effects are considered to be rather reduced, at local and regional levels they will be felt even in the long-term. As with other mega-sport events, the figures on the economic impact for previous tournaments are contested, given the difficulty of isolating the effects directly associated with the World Football Cup from other economic factors.

In any case, to the direct effects on the tourism and the adjacent sectors will be added those of multiplication due to the development of the infrastructure, the investments in this respect being the main visible result. The effects of learning and knowledge, both for the business environment and for the population, are long-term benefits, although difficult to quantify.

At the sports level, the direct effects of the tournament are felt the most in terms of stadia and training grounds, most of them being newly built. Their sporting and social value, however, depends on their ability to attract viewers and be used effectively in the future. Examples in recent history offer no ground for optimism: South Africa or even Brazil despite its tradition in football, did not capitalize on these investments (for example, the Manaus stadium was built in the Amazon jungle).

Of course, such an event also has a social and geopolitical value, and Russia seeks to consolidate its image of great power, challenged after the Cold War and, especially, after the collapse of the USSR. The results of some studies, also included in the final report, show that 79% of Russian believe that the final tournament will improve the country's reputation and strengthen Russia's position in the global arena, and 69% believe that the event will enhance patriotism and national unity. Regarding the perception of international tourists, 84% of those interviewed during the world championship said they have improved their perception of Russia, due to the positive experiences recorded, while 90% of them would recommend Russia as a tourist destination to friends and relatives (FIFA, 2019).

These figures reinforce the results of the studies conducted after the FIFA Confederation Cups (the last competition) unfolded when it was appreciated that this brought a better perception of Russia internationally, a perception confirmed by the positive comments made in the media: 98% of tourists rated the experience in Russia in 2017 as positive, while another 80% said they had improved their opinion about this country. Therefore, the long-term effect, less visible in figures, could be that of improving Russia's country brand.

The limits of the research are subjective, inherent in the applied methodology – the analysis is based on the statistical data offered to the public. Future research directions could target the long-term impact analysis as well as the costs (investments) – benefits (multiplier effect of investments, tourist circulation, and country brand assessment) analysis.

### References

- Al-Toukhi, F., 2018. *2018 FIFA World Cup Might Have Short-Lived Impacts on Russian Economy*, Forbes Middle –East, 31 May 2018, [online] Available at: <<https://www.forbesmiddleeast.com/industry/business/oman-oil-mulls-10-stake-sale-in-khazzan-gas-field-for-about-1-billion>> [Accessed at 19 March 2020].
- Arnold, R., 2018. Sport and Official Nationalism in Modern Russia. *Problems of Post-Communism*, 65(2), pp.129-141.
- Arnold, R., and Foxall, A., 2018. The Beautiful Game. *Problems of Post-Communism*, 65(2), pp.79-87.
- Dowse, S. and Fletcher, T., 2018. Sport mega-events, the 'non-West' and the ethics of event hosting. *Sport in Society*, 21 (5), pp.745-761.

- FIFA, 2019. 2018 FIFA World Cup Russia™ Sustainability Report, [online] Available at: <<https://img.fifa.com/image/upload/ya7pgcyslpxzmqjkykg.pdf>> [Accessed 14 May 2020].
- Gaffney, C., 2014. *The lost legacy of Brazil's World Cup*, [online] Available at: <<https://www.playthegame.org/news/news-articles/2014/the-lost-legacy-of-brazil%E2%80%99s-world-cup/>> [Accessed 14 August 2018].
- IntelliNews, 2019. *Russian inflation in 2018 at 4.3% over the CBR's target, but rate hike unlikely*, [online] Available at: <<https://www.intellinews.com/russian-inflation-in-2018-at-4-3-over-the-cbr-s-target-but-rate-hike-unlikely-154527/>> [Accessed at 10 January 2019].
- Makarychev, A. and Yatsyk, A., 2014. Brands, Cities and (Post-) Politics: A Comparative Analysis of Urban Strategies for the Universiade 2013 and the World Football Cup 2018 in Russia. *European Urban and Regional Studies*, 22(2), pp.143-160.
- Müller, M., 2014. *Event seizure: The World Cup 2018 and Russia's illusive quest for modernisation* (Working Paper). [pdf] Available at: <<http://adverbum.hautetfort.com/media/00/02/2778055286.pdf>> [Accessed 15 February 2020].
- Müller, M., 2015a. What Makes an Event Mega-Event? Definitions and Sizes, *Leisure Studies*, 34(6), pp.627-642.
- Müller, M., 2015b. The Mega-Event Syndrome: Why so Much Goes Wrong in Mega-Event Planning and What to do It. *Journal of the American Planning Association*, 81(1), pp.6-17.
- Preuss, H., 2013. The Contribution of the FIFA World Cup and the Olympic Games to Green Economy. *Sustainability*, 5(8), pp.3581-3600.
- Ross, S.D., 2001. *Developing Sports Tourism*. Illinois: University of Illinois at Urbana-Champaign.
- Sherr, J., 2013. *Hard Diplomacy and the Soft Coercion: Russia's Influence Abroad*. London: Chattam House.
- Tanas, O., 2018. Russia Won't Score Big From \$11 Billion World Cup, Moody's Says. *Bloomberg Business*, 31 May 2018.
- UBS, 2018. *Investing and football. Special edition 2018 World Cup in Russia*. May 2018, Chief Investment Office GWM Investment Research.