Most profitable in FIFA history

South Africa's World Cup

Little has been written about the impact of the World Cup on the South African economy since the excitement died down. **Eddie Cottle** takes a hard look at the gap between the originally projected R2.3 billion cost to the South African government and the R39.3 billion it finally became. He finds that local and international capital, including Fifa, greatly benefited but few others did.

The Fifa 2010 World Cup was hosted by South Africa and was the first World Cup to be held in Africa. The World Cup has come and gone and millions of South Africans have returned to their 'normal' lives. In addition to the tangible, economic and sports legacy the World Cup was also supposed to contribute to intangible benefits such as forging a cohesive national identity and building a positive image of South Africa.

In 2007 the Human Science Research Council (HSRC) conducted a survey of World Cup expectations by South Africans of the event. About 50% saw economic growth and job creation as the main benefits. A third believed they would benefit through job opportunities and 50% that the economic benefits would be lasting.

Yet, the promises of the trickledown economic effect of the World Cup evaporated as soon as the drops landed as xenophobia raised its head and trade unions prepared for the national public sector strike across the country. After all, mega-sporting events are by their nature short-term, once-off events for the host country although they have far reaching economic impacts for the country.

But what is the economic impact of the World Cup on South Africa? Impacts are associated with the building of stadiums and infrastructure delivery, job creation, tourism growth, taxation income and contribution to gross domestic product (GDP).

COUNTING THE COSTS

There were two categories of costs associated with hosting the Cup: those covering the logistics for event management and those related to the investment in stadiums and other infrastructure.

The costs of managing the event were carried by Fifa, the Local Organising Committee (LOC) and Fifa members around the world. This is paid for by broadcasting rights, corporate partners who fund Fifa and global and local corporate sponsors.

The second costs came from public funds and included transport and broadcasting/ telecommunications infrastructure, safety and security, health services and other undertakings to protect the rights of global partners and international and local sponsors. This was the responsibility of the South African government and host cities.

The hosting of mega-sporting events is fiercely competitative. The bids are sponsored by multinational corporations and in South Africa this was Anglo American, Avis, BMW, SABMiller and Adidas. The economic section of the bid document was drawn up by Grant Thornton South Africa, a global accounting and consulting firm.

In 2003, Grant Thornton declared that the World Cup in 2010 'will create significant direct and indirect economic benefits for the country's economy, with minimal tangible and intangible costs'.

The current total World Cup expenditure is estimated at R55.3-billion. Of this R8.8-billion or 16% was spent by foreigners such as tourists, teams, media, the LOC, sponsors and broadcasters. Most spending on infrastructure and operational costs came from national and local government. This increased significantly from Grant Thornton's original budget of R2.3-billion in 2003, R17.4-billion in 2007 and R30.3-billion in 2010 with a further R9-billion spent by cities and provinces bringing the total to R39.3-billion.

Of this total expenditure, R22.9-billion was spent on four stadiums and related infrastructure. The impact on the economy is estimated to be R93-billion with 63% spent before the event and 38% during the event. The contribution to South Africa's GDP for 2010 was 0.54%.

The HSRC however calculates the World Cup's contribution to GDP as between 0.2% and 0.3% – far less than the original prediction of 3%.

There are two considerations when looking at Grant Thornton's original figures.

Firstly, the difference between the original budget and actual expenditure indicates that it was hopelessly incorrect. The total costs for government were supposed to be 'minimal' (R2.3-billion) but actual estimated cost was R39.3-billion – a whopping 1 709% increase.

Secondly, the figure of R93-billion as the contribution to GDP is not clearly aligned with R55.3-billion as the all-inclusive total expenditure and the multiplier effect of R38-billion. With all expenditure pooled as gross expenditure it is impossible to determine net income to government. It is key to calculate income derived through taxation before the Cup and during the event.

In 2003 Grant Thornton estimated that with expenditure of R2.3-billion the government would generate R7.2-billion in taxes, a huge return on investment. However, total government expenditure of R39.3-billion and possible taxation income of R19.3-billion indicates that government made a financial loss.

As Adrian Lackey from the South African Revenue Services (SARS) candidly stated: 'Our approach to the World Cup has been that it was never going to be a revenue raising exercise… The concessions we had to give to Fifa are simply too demanding and overwhelming for us to have material monetary benefits.'

The same cannot be said of Fifa. According to Jerome Valcke, secretary general of Fifa's executive committee, the event was a commercial success, '… we have increased our income by 50% since 2006 in Germany to 2010 in South Africa'. Fifa's total revenue was R25-billion ($3.4-billion) tax free which according to Terence Creamer made 'the first World Cup in Africa the most profitable in Fifa history'.

JOB CREATION

The World Cup's impact on jobs looked encouraging. Annual jobs were estimated at 695 000 for pre- and post-Cup periods. Of these, 280 000 jobs would be sustained in 2010. These figures were a big improvement on the 159 697 new jobs in the 2003 guestimate.

The figures generated by Grant Thornton are guestimates and are not scientific. In their formula, you can determine: a) how many months' employment constitutes a job (three months, six months or one year), and b) whether the amount of jobs are direct jobs or/and indirect jobs. Indirect jobs refer to employment created through the spending of wages of those employed in specifically World Cup related activities which create indirect jobs.

In the aftermath of the Cup, Statistics South Africa released its Labour Force Survey, which stated that, 'there was an annual decrease of 4.7% (627 000) in employment' in the economy and 'the loss of jobs in the formal sector was driven by construction where employment contracted by 7.1 % or 54 000 jobs.'

On a year-on-year basis 111 000 jobs were shed in the construction industry. With all major projects completed for the Cup these jobs have all but disappeared.

It is apparent that Thornton's employment figures were hugely exaggerated with most employment being short-term and indirect jobs which refer to employment created through the use of wages to purchase commodities.

Furthermore, Grant Thornton's formula is simplistic as it does not take into account 'jobless growth'

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Fifa's Sepp Blatter – most profitable World Cup yet.

Construction workers on strike during the building of stadiums.

in the economy where despite an increase in GDP, job creation has dropped.

A total of 228 500 overseas ticket holders were projected, accounting for only 38% of ticket sales. The ticket sales to Africans accounted for only 2%, with 11 300 Africans holding tickets. Despite a huge interest from the African continent, the high costs of tickets and the inflated accommodation and transport costs meant that it was Africa's World Cup in name only.

There is no doubt that South Africa hosted a 'successful World Cup, with few logistical hiccups or crimes committed against visitors which left a positive image internationally. This, it is hoped, will stimulate further interest in South Africa as a prime tourist and foreign direct investment destination. But if we look at the tourism generated during the World Cup where the highest rates of accommodation use was anticipated, this was much lower than expected – 55% and 30 to 40% for Cape Town and Durban respectively.

WHITE ELEPHANTS

One of the promises of the World Cup was its sports legacy which justified the enormous expenditure on stadiums. In August 2010, the sports and recreation committee of parliament heard reports on their future utilisation. Leslie Sedibe, CEO of the South African Football Association (Safa) expressed concern about 'the high cost of hiring these venues.' He also stated it was not consulted in the planning stages of the stadiums, and 'believed that many were not sustainable, since they would require very aggressive business plans.' The general manager of Cricket South Africa, Gerald Majola, said all stadiums except Moses Mabhida in Durban, are too small to host cricket matches.

According to Udesh Pillay, eight stadiums instead of ten were needed to host a World Cup. South Africa had spent at least R6-billion on three 'white elephant' stadiums: Peter Mokaba, Mbombela and Moses Mabhida. Peter Mokaba and Mbombela stadiums have no popular football or rugby teams nearby and 'may have to be demolished to avoid crippling maintenance bills'.

The Green Point Stadium in Cape Town costs R46.5-million per annum to maintain and with Moses Mabhida managements have requested a subsidy from government. Government has wasted huge resources at the expense of much needed social expenditure. It was Fifa who insisted on the Green Point Stadium even though the Newlands Stadium was suitable for a semi-final.

The World Cup highlighted that Africans have attained recognition globally as 'developed' enough to stage a mega-sporting event. But this came at a huge financial cost to meet the expectations of the 'developed' world.

South Africa has an unemployment rate of about 40% and over a million jobs have recently been lost. Yet the government spent R39.3-billion on stadiums. The big five South African construction companies benefited handsomely. According to the Labour Research Service, the five construction companies moved from a profit of R790-million in 2004 to an incredible R10.2-billion in 2007 to over R8-billion in 2009.

In World Cup construction contracts no provision was made for workers to benefit from improved wages, bonuses, skills training or post-World Cup safety nets in the event of unemployment. The only benefits came from 26 construction strikes and a national strike in July 2009 of 70 00 workers. This led to widespread gains such as one-off bonuses of R6 000, transport allowances, improved health and safety and a 12% increase raising the minimum wage in civil engineering from R2 618.78 to R2 933.04 per month.

The Fifa official mascot, Zakumi was produced by Chinese workers who earned R23 per day. Like their Chinese counterparts, South African construction workers earned so little that most live in informal settlements.

Due to massive job losses and the completion of World Cup projects, most workers have joined the informal economy to make a livelihood.

INFORMAL WORKERS

About a quarter of the South African labour force are informal traders. The majority are women, often the main breadwinners.

According to the Cape Street Traders Coalition it has become a predictable reality that in preparing for events like the World Cup, the authorities and big business use it as an excuse to clear the streets of informal traders.

In 2007 StreetNet International (coalition of informal traders)

approached the host cities of Cape Town, Durban, Johannesburg and Nelson Mandela Metro. The aim was to secure a commitment from local government to consult during preparations for the Cup. Some meetings happened but mostly cities went ahead with plans to marginalise traders. These decisions were made under the pretext that 'Fifa laws' would take over the country's laws during the event. Host cities claimed that a clean-up was required to create the image of World Class cities.

In Durban the municipality tried to demolish a 99-year-old market, the livelihood source for 10 000 informal traders, to build a shopping mall for the World Cup. The traders won a court judgment for the market to remain.

In Rustenberg in the North West the municipality tried to remove all informal traders from the city centre but was stopped by high court litigation. In Cape Town the municipality removed 300 informal traders from the Grand Parade to make way for the Fifa Fan Fest. The municipality employed an extra 20 metro police in their Informal Trading Unit to clamp down on traders and to confiscate World Cup goods deemed illegal.

After months of protest, informal traders won the right to trade at selected spots at the Soccer City Stadium in Johannesburg although some were arrested for trading illegally due to permit restrictions. At the Nelson Mandela Bay Stadium in Port Elizabeth informal traders protested for the right to trade at the stadium and Fan Park. The municipalities agreed but traders discovered that rentals were too high.

In the Johannesburg Ellis Park Stadium evictions took place in poor areas in the sports precinct to provide an 'image of a global, well managed, vibrant and lively city'.

These evictions meant informal traders lost substantial income during the World Cup.

CONCLUSION

The 2010 World Cup will generate much debate about its legacy and socio-economic impact. This will centre on the sporting, infrastructure, tourism and GDP contribution to South Africa's development. Little research will look at how this mega-sporting event impacted on workers or the Cup's contribution to increasing social inequality.

In South Africa where backlogs in service delivery are enormous, the Water and Environmental Affairs Ministry recently acknowledged that about R23-billion is still required to prevent waste water treatment works from collapsing.

Moreover, in May 2010, President Zuma lamented a housing backlog of 2.1-million units affecting 12-million people in more than 2 700 informal settlements. The R40-billion spent on the World Cup could have built 476 180 houses for 2.4-million people.

The benefits of the Cup have been greatly exaggerated to legitimise profiteering by Fifa, its commercial partners and local capitalists. While original guestimates promised that South Africa could host with 'minimal tangible costs' and with 'significant' direct benefits, the outcome was the converse. LB

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Fifa insisted on the new Greenpoint Stadium which will cost R46.5-million per annum to maintain.

Eddie Cottle is coordinator of the Building & Wood Workers' International 'Campaign for Decent Work Towards and Beyond 2010'. He writes in his personal capacity. The article is based on a chapter in a Labour Research Service book to be published next year: 'South Africa's World Cup: A Legacy for Whom?'