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Atlantic Council Policy Brief
Ricardo Sennes

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Will Brazil Get What It Expects from the World Cup?

Atlantic Council Policy Brief
Ricardo Sennes

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Foreword

On June 12, 2014, Brazil will be in the spotlight as some 3 billion fans tune into the world's largest single-event sporting competition, the FIFA World Cup. The last time Brazil hosted the World Cup, Harry Truman was the US president, and neither Japan nor Germany competed as punishment for World War II.

Modern-day Brazil is a booming democracy. Tens of millions have risen from poverty over the past decade in one of the world's great economic success stories. Silicon Valley giants have joined the cohort of industries looking toward Brazil for a chance to benefit from its entrepreneurial spirit.

Yet, Brazilians are increasingly polarized about what, if any, lasting benefits the World Cup will bring their country. This tangible doubt—visible in protests, newspaper editorials, activism on stadium cost overruns, strikes, and strident criticism of President Dilma Rousseff—is seeping into press coverage.

Brazilians now fear that their country's reputation is at stake. Potential investors, heads of state, political figures, entertainment influencers, and tourists will be among the fans watching closely as Brazil attempts to pull off this mega-event in twelve cities.

Given the importance of this moment for Brazil, the Adrienne Arsht Latin America Center set out to answer the question that people will ask throughout the Cup and after the last goal: will the Brazilian people get what they expect from this mega-event?

Brazil is at a moment of profound transition. The Brazilian "model" is in doubt. The government of President Luiz Inácio Lula da Silva brought innovative social experiments that raised millions from poverty. But Brazil neglected to prepare for the downcycle by reforming its economy and improving services. Now, reduced demand for exports and lower commodity prices are exposing the burdens of a vast state of 200 million citizens.

In this policy brief, well-known political analyst and Atlantic Council nonresident senior Brazil fellow Ricardo Sennes argues that the World Cup legacy cannot be evaluated only by its material dimension—the investments made, the number of tourists, and the shifts in the country's international image. From this perspective, the final balance may be depressingly negative.

Instead, there will be an unexpected legacy of the games: a new Brazilian model built on a strengthened democracy. The World Cup is catalyzing a new dynamic political debate, and the final whistle will blow in a much-strengthened democracy.

This policy brief is the beginning of the Arsht Center's work on Brazil. In our ninth month in operation, we are pleased to present a policy brief that strengthens understanding of the current situation within Brazil and its implications on the trilateral relationship between Latin America, the United States, and Europe. With two years before Brazil hosts its next global sporting event—the 2016 Summer Olympics—this brief adds to a timely debate on the long-term legacy of the World Cup.

Peter Schechter
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A Winning Goal?

Like any other international mega-event, hosting the FIFA World Cup brings the promise of a positive long-term legacy for Brazil. It is a unique opportunity for visibility among more than 3 billion people worldwide who will either attend or watch the games on television. The exposure from the games has the potential to draw national and international investments before, during, and after the thirty-two teams compete for the Cup.

This event also is a chance for a country in the midst of major economic and political development to present its new face internationally. The month-long series of matches may shape up to be an important factor that triggers a new era of economic and social development.

Is this what we should expect in Brazil? Will the World Cup be a net positive for the country domestically and internationally, or will the stories of cost overruns, slow infrastructure improvements, and lack of transparency be the lasting legacy of the games?

The questions are simple, but the answers are not. At the same time that Brazil has grown in international relevance, it struggles in the national arena with the coexistence of a dynamic democracy, a complex decision-making process based on broad coalitions, and a huge state with low social efficacy and policy implementation efficiency.

The World Cup preparatory process brought the challenges facing Brazilian society to the forefront of public attention. The public debate is focused on at least two themes: the priorities of public resource allocation and the government's low efficiency and lack of transparency.

The Cup is not the only event pushing these issues to the center of the public agenda. Less than three months after the championship, Brazilians will go to the polls on October 5 to vote for their next president as well as a range of other elected officials, including twenty-seven governors, one-third of the Senate, and 100 percent of the National Congress and state legislatures. Campaign debates will focus on topics ranging from jobs and education to security. But, barring a major Brazilian victory, the World Cup preparations will undoubtedly remain a divisive issue on the public agenda.

The lead-up to the World Cup is not a case of extreme corruption or an unprecedented social crisis, though both issues are certainly present in the discussions. Instead, the process exposed a number of political and social disputes. It also brought to the forefront the complexity of Brazil's public policy where an endless number of national, state, and local actors are involved in what should be routine decisions. Preparations for the world's biggest single-event sporting championship also revealed the cost of overlapping legal and regulatory processes.

Brazil's dilemma is its entry into a new era that combines demands for social and economic development with a strong democracy.

Unfortunately, ignored in the debates about the Cup preparations is discussion of the most significant long-term implication for Brazil: the end of the country's development model. Brazil's dilemma is its entry into a new era that combines demands for social and economic development with a strong democracy.

The World Cup is part of a fundamental change as Brazilians are—like never before—debating openly and clearly about a new direction for their political, economic, and social future.

The Brazilian political system today is a result of political accommodations created after the military dictatorship fell in 1985, including unbalanced federalism, overrepresentation of minorities, and the creation of autonomous agencies for public prosecutions. It was not built to address efficiency and effectiveness in public policy implementation. This social political formula from the 1980s and 1990s does not fit into Brazil's socioeconomic dynamics of the 2000s. Empowered social groups from the middle and lower classes are demanding more and better social policies along with new priorities and transparency in public fund allocation.

In the long term, the World Cup's legacy will not only be the construction and development projects either successfully or unsuccessfully implemented, or not completed at all. The Cup is part of a fundamental change as Brazilians are—like never before—debating openly and clearly about a new direction for their political, economic, and social future.

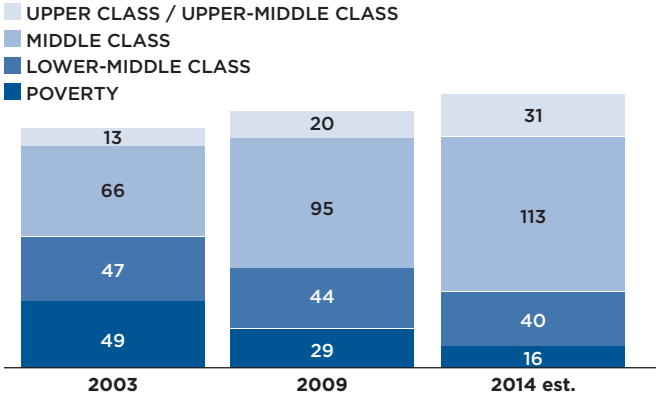
The Lead-Up to the Cup

In the first decade of the new century, Brazil achieved an independent international profile based on then-President Luiz Inácio Lula da Silva's (Workers' Party–PT) governing style. Brazil's growing economy supported its position as a regional leader, its presence in multilateral forums such as the G20, and its ability to lead efforts such as the setting up of a BRICS (Brazil, Russia, India, China, and South Africa) Development Bank, which is expected to be created by July 2014. Though economic growth was overall more modest in the 2000s, during Lula's mandate (2003–2010), GDP growth averaged 4.5 percent.

In this period, social policies tackled poverty and inequality and led to the social inclusion of a huge segment of the lower-class population. Redistributive programs like *Bolsa Família,* combined with credit expansion, more formal job vacancies, and the government's increase of the minimum wage—from $80 per month in 2002 to $212 in 2010, then to $300 in 2014—allowed many in the lower class to ascend to a "new middle class" [See Figure 1].

FIGURE 1. Brazil's Population by Income Level, 2003–2014

(IN MILLIONS OF PEOPLE)



Source: Fundação Getulio Vargas-LCA Consultores-Instituto Brasileiro de Geografia e Estatística.

The approval of Brazil's World Cup candidacy in October 2007 was the result of optimism about the Brazil model. In a relatively short period of time, the country had put in place a capitalist economic growth model that combined social inclusion with a strong international presence. It was a signal to the world that Brazil had the structure and capacity to host an event of such magnitude. It was also a letter of credit to draw investments, boost the national economy, and improve social programs.

On the national level, Lula showcased the Cup as an opportunity to speed up infrastructure and service investments already on the government's development agenda. Improvements in urban mobility (subway, light rail vehicles, and bus rapid transit systems) and revitalization of degraded areas were an important part of the direct investments associated with the Cup.

The bid for the World Cup—like the 2016 Summer Olympics in Rio de Janeiro—was also part of a strategy to boost a lackluster tourism economy. According to the Ministry of Tourism, Brazil received a mere 6 million foreign tourists in 2013. Latin America's other powerhouse, Mexico, welcomed four times as many visitors (23 million). The official expectation was and still is that the World Cup will bring an estimated 600,000 foreign visitors, helping Brazil achieve its goal of 20 million foreign tourists by 2020.

Official estimates say the World Cup will bring 600,000 foreign visitors, helping Brazil achieve its goal of 20 million foreign tourists by 2020.

Such promises and expectations are common for countries that host mega-events. But Brazil had to grapple with an additional challenge to achieve success. Meeting these promises depended on broad and complex negotiations with political and interest groups and a variety of government agencies. The World Cup, as a public policy itself, had to follow the usual, arduous dynamics of policymaking in the Brazilian federal and state systems.

The federal government chose twelve host cities (more than the eight recommended by FIFA), some of which had poor urban and lodging infrastructure and almost no tradition in soccer. This decision was a consequence of Brazil's political system where accommodation of government-supporting parties—including politicians on the federal and state levels—is critical to moving public policies forward. After all, these political leaders ultimately approved the World Cup Law that established the relationship between the Brazilian government and FIFA. That law outlines the international soccer organization's temporary privileges before and during the games, which include exclusive access to revenue generated in the stadiums and decision-making power over related sponsorship and commercial activities.

Initial plans, according to then-Sports Minister Orlando Silva, were that no public money would be used to build or refurbish World Cup stadiums.[1] The bet was that once the investment and real estate development terms were defined, the private sector would see the construction as a good deal. But public authorities underestimated the difficulties of the business and political environments.

1 Silva resigned in October 2011 after allegations surfaced that he had accepted kickbacks from nongovernmental sports organizations that received government funds.

The moment the World Cup became a public policy package, it had to follow the idiosyncrasies of the Brazilian public system.

In 2009, when Lula realized the difficulties of raising investments for some of the stadiums, he announced a National Development Bank (BNDES) credit line to finance the construction. In effect, this reversed the initial promise that private investments alone would fund the infrastructure work. Such government intervention is typical in Brazil. Numerous times the government has had to jump in to overcome the chronic problems associated with navigating political coalitions, slow and bureaucratic decision-making processes, and administrative inefficiency.

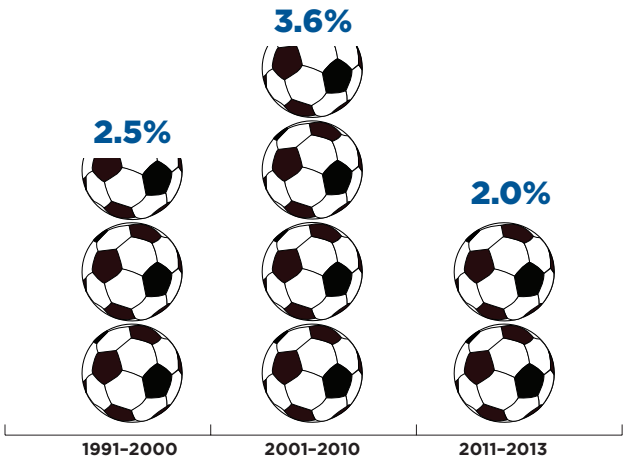
These obstacles highlight the deep complexity in organizing the World Cup in Brazil. The moment the World Cup became a public policy package, it had to follow the idiosyncrasies of the Brazilian public system: a challenging regulatory environment and the need for a broad set of negotiations among diverse stakeholders and agencies.

This convoluted process complicated the creation of a committee to organize and supervise the implementation of the World Cup Strategic Plan in January 2010. Twenty ministries and governmental agencies formed the committee, making decision-making difficult at best.

Moving forward was far from easy. Apart from the political coalitions, the infrastructure projects—twelve arenas, forty-five urban mobility projects, fifteen airports, and six ports—involved onerous procedures and difficult requirements to obtain environmental and social impact licenses from federal, state, and local authorities. Planned infrastructure projects did not follow the timeline established. Costs increased, government participation grew larger and more complex, and the private sector remained cautious, waiting for public incentives to take part in ventures.

Rousseff, Lula's successor, inherited the mission of making things happen. But the World Cup was only a small part of her many challenges. Although unemployment rates were still low and consumption was still growing, investments and gross domestic product (GDP) started to stagnate and decrease. GDP grew an average of 2 percent per year from 2011 to 2013, and new investments dropped from an average of 22 percent of GDP during Lula's tenure to an average of 17 percent of GDP [See Figure 2].

FIGURE 2. Brazil's GDP Growth Rate, 1991–2013



Source: Instituto Brasileiro de Geografia e Estatística.

The political mood took a turn when São Paulo's government decided to increase the bus ticket fares in a move unrelated to the upcoming games. It triggered protests that brought thousands of people to the streets in more than thirty cities.

The protests, initially a middle class student movement, soon spread to include large and diverse segments of society. From demands about bus ticket fares and urban mobility, the protests quickly escalated into a movement calling for better quality health, education, and other public services [See Figure 3].

Protesters' rage soon met the many issues plaguing World Cup preparations: the lack of transparency in public policies, corruption in the use of public resources, non-prioritization of government investments in health and education, low-quality public services, uncontrolled expenditure on World Cup construction projects, displacement of people living near construction areas, police violence, and lack of public security.

With that, those on the streets adopted a slogan of, "There will be no World Cup." This encompassed society's demands and frustrations with the status quo and the corruption and inefficiency of the state's approach to social policies.

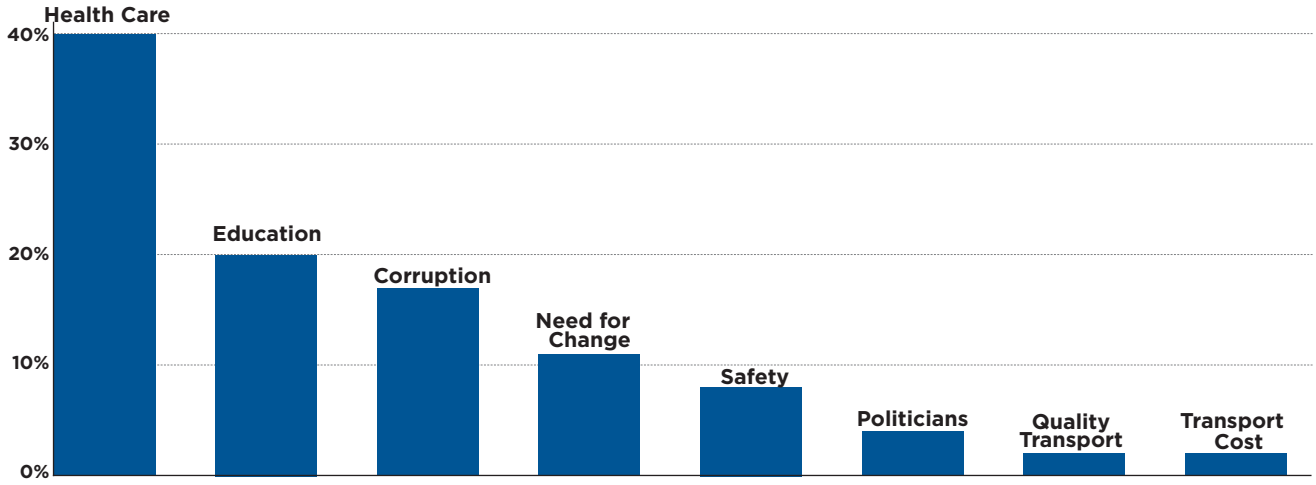
The World Cup embodied all the demands and issues that protesters blamed on the government. The government was not representing society's priorities or responding to demands for a more democratic way of governing.

The World Cup preparatory process—an opportunity for infrastructure and urban development—quickly became a series of misleading priorities, cost overruns, and bad use of public resources. The Cup became the platform for society's frustrations with the current political, economic, and social models.

In the last four years, Brazil's euphoria has given way to widespread disappointment with the country's future. According to the Spring 2014 Global Attitudes survey released by the Pew Research Center in June 2014, 72 percent of Brazilians are dissatisfied with the country's direction—a spike from 49 percent in 2010.[2] Satisfaction with the economic situation dropped by more than half in the same period to reach a low of 32 percent [See Figure 4, p. 7].

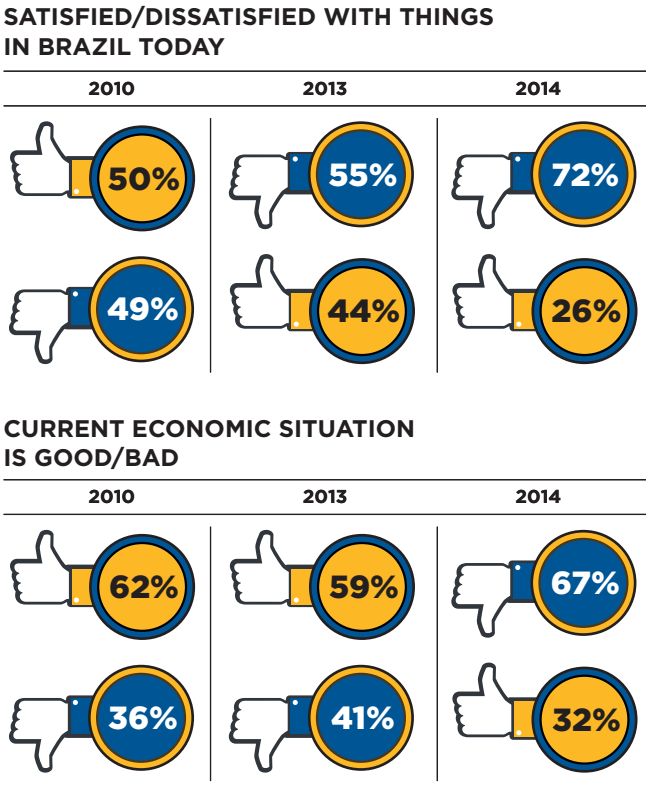
2"Brazilian Discontent Ahead of the World Cup," Global Attitudes Project, Pew Research Center, June 3, 2014, http://www.pewglobal.org/2014/06/03/brazilian-discontent-ahead-of-world-cup.

FIGURE 3. Top Grievances for Brazil's Street Demonstrators



Source: Datafolha, June 21, 2013.

FIGURE 4. Growing Frustration with Brazil's Direction and Economy



Source: Spring 2014 Global Attitudes survey, Q5 & Q9, Pew Research Center.

The Cup's Legacy?

What is being criticized and highlighted in the social protests and in the news about the World Cup today is the result of two conflicting factors: high expectations reinforced by an overall positive economy and democratic moment versus the reality of a complex political, business, and social environment.

The World Cup legacy cannot be evaluated only by its material dimension—the investments made, the number of tourists, and the shifts in the country's international image. From this point of view, the final balance is rather negative. However, there is another component to the legacy that was not expected: the Cup is catalyzing a new dynamic political debate.

According to the Pew Research Center's survey, the top five concerns for Brazilians today are rising prices, crime, health care, corruption, and lack of job opportunities. These priorities signal a change in the social and economic spheres and society's shifting perception of the state's role in social and economic development. They also emphasize a typical middle-class agenda.

The desired narrative of the World Cup was supposed to be that of Brazil's symbolic new step as an emerging country. But the real narrative runs the risk of showing Brazil as lagging behind due to a corrupt political culture and flawed public investment priorities.

Direct investments in the World Cup are not particularly representative of government resources. Investments were projected to be $10.5 billion. That's only a fraction of the $50 billion the government spends annually on Petrobras, the energy company, or the 2013 BNDES loans of more than $80 billion.

Still, the issue is not the volume of resources directed toward the World Cup, but how resources are distributed and the real impacts on society.

Government officials, media, and civil society organizations that focus on government accountability dispute the statistics associated with the preparatory process. According to current estimates and unlike initially forecasted, public investment may represent more than 80 percent of the total amount spent on new arena constructions.

According to a 2013 KPMG assessment, the ten Brazilian stadiums built or refurbished are among the twenty most expensive in the world. The stadium in Brasilia, the country's capital, is the world's third-costliest. More than half of the urban and transportation infrastructure construction projects have either been canceled or will not be delivered on time.

Besides unfinished projects, civic movements have called attention to the disrespect for social and human rights. An estimated 250,000 people who lived near construction sites were displaced from their homes. Clean Games—a transparency initiative created by civil society organizations to monitor the World Cup and the 2016 Olympic Games—notes that no government body communicated with those impacted by the construction.

The government expects concrete benefits for Brazilian society as a result of the Cup. From the $10.5 billion expected to be invested in infrastructure and services, $7.6 billion is dedicated to urban mobility infrastructure. Six hundred thousand international tourists are expected to visit during the tournament alongside 3 million national tourists who are predicted to spend $10 billion. The government projected the creation of an estimated 710,000 temporary and permanent jobs.

In the dispute on the impacts and legacy of the World Cup, the Brazilian government is losing the game. Pew Research Center's Global Attitudes survey points out that 34 percent of Brazilians believe that the event will be positive for the country, compared to 61 percent who expect a negative impact.

This perception, reflected in the protests, yields important political risks in a major election year. During the Confederations Cup opening speech in 2013, spectators loudly booed Rousseff and FIFA President Joseph (Sepp) Blatter. Since then, politicians and World Cup sponsors have tread carefully in how they present their association with the event.

Many social movements, unions, and past protesters have indicated they will take to the streets during the event. This will include violent groups such as the anarchist Black Blocs.

In anticipation, as with other recent major events that took place in Rio de Janeiro—Rio+20 in June 2012 and the Pope's visit in July 2013—the Brazilian Army and the federal and state police are organizing a massive security apparatus.

"I am sure that our country will deliver the World Cup of the World Cups," Rousseff asserted recently. She is clearly trying to stir excitement and bring back the majestic narrative originally developed in Brazil. She knows that the people will go to the polls soon and that a key to her

Thirty-four percent of Brazilians believe that the World Cup will be positive for the country, compared to 61 percent who expect a negative impact.

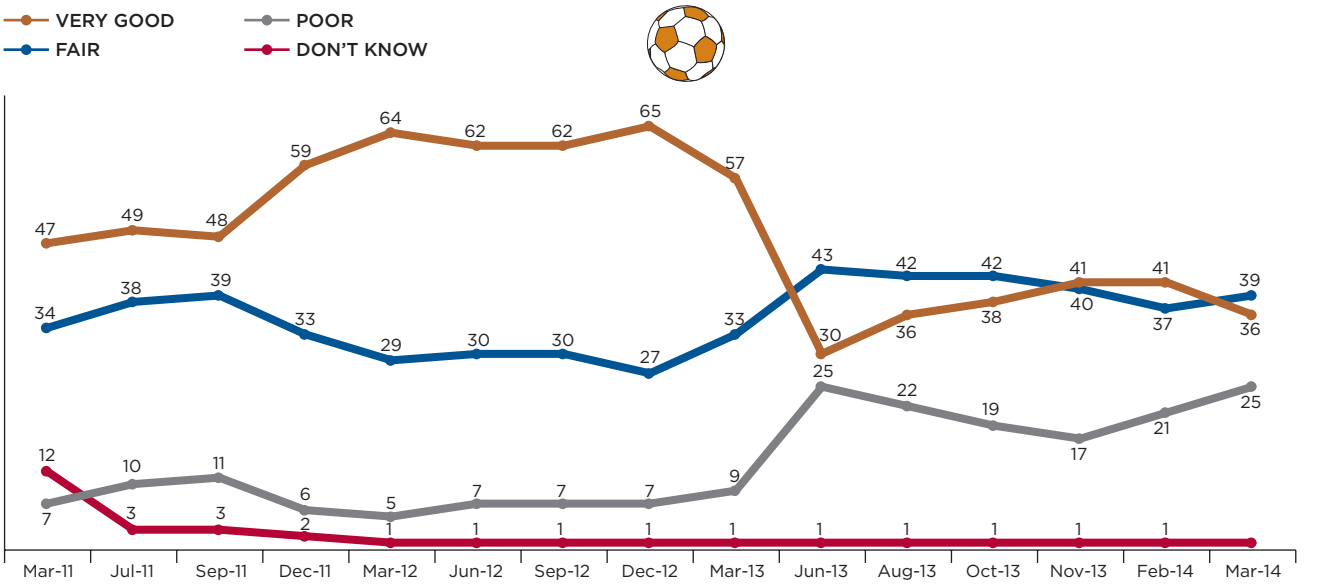
victory is reversing the pessimistic national mood surrounding the World Cup preparations.

But it is important not to throw out the baby with the bath water. Even though things did not result as planned, Brazil is in the middle of a critical new step in its political, institutional, economic, and social development.

Long gone are the discussions of twenty years ago about the democratization agenda. Instead, the debate is about the nature of the state and a new development agenda that calls for changes in the political structure and brings to the forefront issues such as violence, health, inequality, corruption, and education.

Attitudes toward the World Cup will be reflected in the October elections, though it is not certain if candidate favorability will be affected directly. Social movements initially had a significant impact on Rousseff's popularity, but her ratings have seen a slight uptick recently [See Figure 5]. The general consensus is that any new momentum is tied to the popularity of *Bolsa Família* and fear that it would be discontinued if another party wins the presidency.

FIGURE 5. President Dilma Rousseff's Approval Ratings (In %)



Source: Data Folha, March 2014.

Implications for the 2016 Summer Olympics

The preparation for the World Cup leads to an inevitable discussion about how this process and the social response will affect preparation for the next mega-event to be hosted in Brazil: the 2016 Olympic Games in Rio de Janeiro.

There is still time to learn from the World Cup's social impacts, costs, and public participation. But the lessons must be applied quickly. Brazilians may soon start to question the Olympics as they question the World Cup, with two more years of frustration and government protests.

The challenge for Rio de Janeiro Mayor Eduardo Paes has even led to speculation that the city may withdraw from hosting the Olympics, but that would mean losing the game without playing. Nevertheless, Rio de Janeiro and the federal government will have to change the focus and processes for preparing the city ahead of the mega-event.

A New Brazil?

The World Cup's legacy will not be measured by its material outcomes on development projects and infrastructure or the resulting international image. It will be understood in terms of the sociopolitical context where it is happening and how it helped articulate a new narrative for Brazil based on a new political dynamic.

It is not easy to predict the consequences of this new dynamic. The public agenda is now focused on Brazil's political structure, state elitism, and the country's bureaucratic profile, as well as its redistributive role.

The new agenda questions a model of twelve years of economic stabilization and development, including the reduction of extreme poverty and enhanced social inclusion, but that was not able to deliver services, efficiency, productivity, and jobs.

The World Cup helped to put Brazil's model into question. This will convert what a year ago was a "slam dunk" for the Workers' Party into the most interesting and relevant Brazilian campaign since the election of Lula.

The World Cup is a catalyzing force for this moment of change in Brazil. Its preparatory process unleashed the debate about the future of the state and the new development model that Brazilian society envisions. The image of Brazil as a global leader has given way to the image of a country experiencing an active democratic debate about its future.

Governments will have to address the new social demands on the quality of life, reflected in the quality of public services and a path of inclusion for the new middle class, not only as consumers, but as citizens as well. This new process implies important changes in Brazil's political democratic system considering its representative model, the pattern of public resource allocation, and social participation in public policy decision-making processes.

Change may be slow, but change will come. If the World Cup has had some role in clarifying and synthesizing these desired changes, that shall be the best legacy to expect from the 2014 championship in Brazil.

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