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# Corruption in the Bidding, Construction, and Organization of Mega-Events: An Analysis of the Olympics and World Cup

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## Abstract

In the processes required to host a sports mega-event, corruption has been prevalent on numerous occasions, leading to unnecessary costs becoming the ultimate responsibility of a host government's taxpayers. Little progress has been made in the prevention of such behavior. In this chapter, we examine the history of corruption in sports mega-events, namely the Olympics and World Cup, to identify parts of the bidding and preparation processes that are vulnerable to illicit behavior. We propose potential solutions to be implemented at various levels in order to prevent further corruption.

**JEL Classification Codes:** D73, L83, Z28

**Keywords:** Olympics, mega-event, World Cup, corruption

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## **Introduction**

Major international sporting events such as the World Cup and the Olympics generate billions of dollars in revenue and carry price tags for hosting of at least a similar amount. Of course, as with any business venture where billions of dollars are on the line, the potential for corruption is very real, and history is full of examples of both proven and alleged acts of corruption in the process of bidding for mega-events and well as during the construction and preparation stages. Due to their international prominence and the number of well-publicized scandals in recent years, this chapter focuses primarily on the Olympic Games and the Fédération Internationale de Football Association (FIFA) World Cup; however, the lessons learned in examining these tournaments can be applied to other smaller-scale events.

Corruption has been a part of mega-events since the very earliest days of these competitions. The modern Olympic Games take their name from the most famous of the ancient Greek athletic competitions and were first played in 776 BCE. Indeed, the mythological origin of the ancient Olympics itself is deeply mired in a tale of deceit and corruption. Pelops, son of King Tantalus of Lydia, sought to win the hand of Hippodamia, the daughter of King Oenomaus of Pisa. The king required all suitors to beat him in a chariot race and had killed each of his daughter's previous eighteen admirers during the race. In an act that makes modern accusations of bribing judges or the use of performance-enhancing drugs seem somewhat tame by comparison, Pelops won the race by sabotaging the king's chariot, replacing the bronze axle with one made of beeswax, killing the king, and thereby winning both the hand of Hippodamia as well as the throne of Pisa.

After his victory, Pelops organized funeral games at Olympia in order to thank the gods and honor Oenomaus. It is from these competitions that the ancient Olympic Games were

inspired. Furthermore, in order to dispel the notion that he had competed in the race for personal gain, Pelops turned down the traditional prize of gold. Instead, he accepted a crown made of olive branches, beginning the tradition of amateurism in the Olympics. The ancient Olympics awarded olive wreaths to winning athletes to symbolize what were supposed to be the pure motives of the competitors (Leeds, Matheson, and von Allmen, 2018).

Of course, just as the issue of amateurism was a constant source of concern in the modern Olympics until the full acceptance of professional athletes in the early 1990s, so too were ancient Olympic athletes amateurs in name only. As early as 600 BCE, winners from Athens were awarded 500 drachmai, equivalent to two years in wages of the typical artisan (Gow, 1898). By the 5th century BCE, top competitors could support themselves entirely through athletics (Perrotet, 2004, pg. 53). Following the Roman takeover of Greece in 146 BCE, the Olympics became fully professionalized. Of course, no economist would state that paying athletes for their services amounts to corruption. However, paying athletes for their performances while simultaneously extolling the virtues of amateurism is unseemly at best, and compensating athletes for their talents when such payments are plainly against the rules, is clearly naked corruption.<sup>1</sup> All in all, it is obvious that corruption in sports is not solely a modern phenomenon.

The ancient Greek Olympics were disbanded in 393 CE when the Christian Emperor Theodosius, banned all pagan celebrations throughout the Roman Empire. Frenchman Pierre de Coubertin revived the Games in 1896, adopting the Olympic name and the amateurism ideals. The Summer Games have been held every four years ever since except in certain years due to World Wars. A winter version of the tournament was added in 1924. The International Olympic Committee (IOC) selects a host city from a large number of bidders roughly seven years in the

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<sup>1</sup> The term “naked corruption” is apt when discussing the ancient Olympics as athletes in ancient Greece competed while nude.

advance of the event, and typically the location had rotated among large wealthy Western cities in Europe, North America, and Australia. As noted by Baade and Matheson (2016), more recently an increasing number of bids have come from developing nations with Beijing being selected as host of the Summer Games in 2008 followed by Rio in 2016. Beijing will host the Winter Games in 2022.

FIFA was formed a few years after the IOC in 1904 in an attempt to organize the various national football associations in Europe and later Latin America. Disagreements with the IOC about the use of professional athletes led to the creation of the World Cup, first held in Uruguay in 1930. Like with the Olympics Games, the World Cup is held every 4 years and has traditionally rotated between Europe and Latin America, the two major historical centers of football prowess. Like with the IOC, the FIFA World Cup began expanding its geographical footprint in the 1994 when the United States held the event for the first time. South Korea and Japan and South Africa quickly followed suit. The event returned to South America in 2014 for the first time in nearly four decades when Brazil hosted the tournament. Russia will host in 2018 followed by, quite controversially, Qatar in 2022.

### **Corruption in bidding for mega-events**

Hosting a mega-event like the Olympics or the World Cup brings a variety of perceived benefits to a country, both tangible and intangible. Boosters of such events promise that they will prove to be an economic windfall, especially in the tourism and construction industries. These benefits turn out to be very difficult to measure ex post, much less predict in advance (Matheson, 2006), but they can still create an allure around hosting a mega-event.

A successful mega-event can also promote a country's reputation on the world stage, and instill patriotism and civic pride at home (Malfas et al. 2004). Of course, poorly run events will have the opposite effect, and disorganization or corruption may lead a country to regret hosting a mega-event. Nevertheless, it is easy to romanticize the Olympics or the World Cup, so national governments are often eager to host them.

When the bidding system is operating smoothly, these enticements cause a country to submit a bid and try to earnestly convince the selection committee of their country's merit. Sometimes, the prize for hosting seems too great for the process to be left up to chance, and a government who wishes to host will conspire to unlawfully influence the selection committee. This influence may transparently be a quid pro quo bribe where money is offered in exchange for a vote on where the event should be held, or it could be more discrete. The payment is often structured as a donation to the sports program that is run by a member of a selection committee, sometimes with an assumption that the committee member will be able to steal the money for personal gain along the way.

The World Cup has been plagued by scandals surrounding the selection of a host city in the past two decades. In 2010, FIFA simultaneously chose sites for the 2018 and 2022 World Cups, and the validity of this vote has been questioned ever since. No evidence of direct cash-for-votes schemes was ever found; however, journalists at the Sunday Times disguised as soccer officials were able to convince members of the selection committee to accept bribes in return for voting for England for the 2018 host, which raised questions of integrity in the voting system. In addition, the Qatari government gave gifts to members of the Executive Committee, although there is no evidence that it was part of an explicit quid pro quo.

The bidding process for the 2002 Summer Olympics in Salt Lake City also featured a wide array of inappropriate gifts. Ten members of the International Olympics Committee resigned after ethics investigations, and the two leaders of the Salt Lake City's bid committee were eventually indicted (but acquitted) on felony bribery charges (Hemphill, 2003).

### **Corruption in World Cup Bidding**

A 'pay to win' mentality was established in inaugural World Cup in 1930 and would continue in subsequent competitions. Uruguay won the right to host the 1930 tournament by agreeing to fully pay for the travel costs of all of the participating teams, and to build a grand new stadium, the Estadio Centenario, for the event. In a case of somewhat ominous foreshadowing, the Estadio Centenario was not completed in time for the start of the tournament so that the first round of games had to be played at an alternative site (Molinero, 2009). Of course, offering to host the most lavish tournament is not illegal, nor is it even necessarily unethical, but it highlights the notion that countries with deep enough pockets willing pay the price to host the event will get favorable treatment from FIFA or the IOC. To the extent that these events benefit some local sectors in the economy, such as the sports, hospitality, and heavy construction industries, at the expense of others, these events can serve as a massive wealth redistribution scheme which can be promoted through either legal or illegal methods.

World Cup bidding scandals began to emerge in the late 1990s and well into this millennium. Allegations of past bribery were made public in 2015 when the Chuck Blazer, who died in 2017, admitted to facilitating a bribe relating to the 1998 World Cup. FIFA executive Jack Warner was the recipient of the bribe from Morocco, whose organizing committee hoped to secure the hosting privileges. This was the first of multiple instances of bribery that were alleged



against members of FIFA by Blazer, who had become an informant for the FBI regarding the matter (Gibson and Lewis, 2015).

Blazer revealed that there was a larger scheme years later in the selection of the 2010 host of the Cup. According to US prosecutors, a payment of \$10 million was taken from the South African organizing committee and deposited into a bank account linked to Jack Warner in exchange for votes. In addition to criminal charges filed by the FBI regarding the matter, FIFA has filed a restitution request citing this case of bribery as well as that of 1998 (Gibson and Lewis 2015; FIFA 2016).

Similar allegations were made with regards to the 2006 World Cup in Germany by the weekly news magazine Der Spiegel. In an investigation undertaken by the magazine, evidence of a slush fund emerged. The purpose of this fund was allegedly to secure votes required to win the hosting privileges for the Cup. Der Spiegel suggests that the former CEO of Adidas, Robert Louis-Dreyfus gave the funds to the German organizing committee in order to facilitate the bribe (Spiegel Online, 2015).

This section will focus primarily on the 2018 and 2022 World Cups, because the scandals in the bidding process have captured the public attention more so than other recent scandals. Much of what we know comes from the “Report on the Inquiry into the 2018/2022 FIFA World Cup Bidding Process,” written by Michael J. Garcia and Cornel Borbély (2017). They were respectively the Chairman and Deputy Chairman of FIFA’s Investigatory Chamber, which is an independent branch of FIFA responsible for oversight.

The report, colloquially known as the Garcia Report, was commissioned in June 2012, and submitted to FIFA officials in November 2014. Initially, FIFA released only a summary of the Garcia Report, and claimed the report had found that the voting process had not been

corrupted. Garcia himself disagreed and pleaded for the full report to be published, and stated that his team had uncovered “serious and wide-ranging issues” (Keh, 2017), but FIFA refused to publish the report. On June 26, 2017, the German newspaper *Bild* announced that they had the full report and intended to publish it; FIFA experienced a nearly instantaneous change of heart, and released the full text the following day. FIFA stated, “For the sake of transparency, FIFA welcomes the news that this report has now been finally published,” without mentioning that they were the organization preventing its publication or acknowledging *Bild*’s role (FIFA, 2017).

The first significant moment in the bidding process occurred in December 2008 when FIFA’s leadership announced they would simultaneously choose the sites for the 2018 and 2022 World Cups. The motivation was financial: the financial crisis of 2008 was underway, and the Secretary General of FIFA, Jérôme Valcke, said that he feared that sponsors of the WC would “use the current situation [financial crisis] in order to argue that it’s not very clear or it’s not clear enough where the World Cups would be played” and would “try to reduce the current price they were paying to FIFA” (Garcia and Borbély, 2017, p. 25).

The 2018 location was chosen by the votes of the Executive Committee in December 2010, and then the 2022 location was chosen immediately after. There were supposed to be 24 voting members, but two had been removed because they had been willing to accept bribes by the aforementioned undercover journalists at the *Sunday Times of London*. The countries (or pairs of countries) that would submit bids were Belgium/Holland (2018), England (2018), Russia (2018), Spain/Portugal (2018), US (2022), Australia (2022), Japan (2022), Korea (2022), Qatar (2022). FIFA had previously committed to holding the 2018 World Cup in Europe, and this splitting of the field between 2018 and 2022 inadvertently created an environment conducive to illegal vote-swapping, where a European country could coordinate with a non-European country.

A number of newspaper articles reported that Spain/Portugal promised to support Qatar for the 2022 World Cup in exchange for Qatar supporting Spain/Portugal for 2018, but the Garcia Report states that no conclusive evidence has been presented that this collusion occurred. The Japanese bid team, apparently unaware that trading votes is expressly against FIFA rules, filed a report with the Investigatory Commission that they “examined the possibility to barter with host country candidates of 2018 for votes” (Garcia and Borbély 2017, p. 326), but had not followed through.

The clearest evidence that members of Executive Committee were open to selling their votes was provided by journalists at the *Sunday Times* (2010). They published extensive reporting with a wide range of soccer officials stating that bribes were commonplace, and then went one step further by posing as businesspeople and offering bribes to two Committee members, Amos Adamu and Reynald Temarii. According to the *Times*, both men agreed. FIFA agreed that the evidence was damning, and Adamu and Temarii were subsequently stripped of their voting rights on the Executive Committee (although Temarii has disputed the allegations).

There is evidence that Qatar, which was eventually chosen as the site of the 2022 World Cup provided gifts that were against FIFA rules. The Emir of Qatar, Hamad bin Khalifa Al Thani, met with at least three members of the Executive Committee in January 2010 in Brazil. Andreas Bleicher, who served as a consultant on the Qatar bid team, said, “[P]eople say in Qatar when His Highness travels, everybody he will meet will get a gift,” and added that it is typically “a nice gift” (Garcia and Borbély 2017, p. 165). The Executive Committee members are not allowed to receive “gifts and other benefits that exceed the average relative value of local customs” or any cash (FIFA, 2009, pg. 8). These gifts were almost certainly against FIFA rules, but they do stop short of the outright selling of votes.

If these gifts were not part of a quid pro quo, should the public be concerned about them? After all, gifts are only problematic to the degree that they influence the ultimate decision about where to hold the games. There are three reasons that they may in fact have been used to influence the members of the Executive Committee. The first, and most pedestrian reason is that they may have in fact been part of an explicit exchange of gifts for votes, and this evidence was not uncovered. The second reason is that Committee members may preside over multiple World Cups over the course of their careers. Even in the absence of an explicit agreement, there is an incentive for an unscrupulous Committee member to establish a reputation as voting for whichever country gives him or her the best “gifts.” Finally, there is a natural human tendency to repay kindness with kindness even when there is no tangible benefit to reciprocation (Fehr and Gächter, 2000). This “golden rule” is laudable in most avenues of life, but gift-givers can rely on the tendency to reciprocate to distort the location of a mega-event.

Qatari citizen Mohamed Bin Hammam played an unusual role in the Qatari bid as well. For most countries submitting a bid with a representative on the Executive Committee, that person acted as the head of the bid team and its strongest cheerleader. Bin Hammam was on the Executive Committee, but his feelings of his home country’s candidacy were ambivalent. He initially recommended against Qatar, before eventually supporting the bid.

Bin Hammam also made a large number of improper payments in the \$10,000 to \$50,000 to various officials associated with Confédération Africaine de Football (CAF), a branch of FIFA. In addition, he paid \$1.2 million to FIFA Vice President and Executive Committee member Jack Warner (Garcia and Borbély, 2017), and these payments were reported in contemporaneous newspaper articles as proof that Qatar had paid to win the bid. Garcia and Borbély present convincing evidence that these newspaper articles were mistaken, and that Bin

Hammam was in fact paying bribes to win the position of FIFA president. Hardly a shining moment for the integrity of FIFA, but it is probably preferable to evidence that Qatar did pay for World Cup votes.

### **Corruption in Olympics Bidding**

Suspicion also followed the selection of Nagano for the 1998 Winter Olympics. In the midst of the selection process, a large donation was made by Nagano's local organizing committee in order to help build a museum for the Olympic Games. Following the securing of hosting rights, the organizing committee burned all documentation regarding the bidding (Jordan and Sullivan, 1999). This suspicious behavior that went relatively unquestioned led to attempts at the more scandalous behavior to come in the selection of the 2002 Winter Olympics location of Salt Lake City.

The finalist cities for the 2002 Winter Games were Salt Lake City, Utah, United States; Sion, Switzerland; Östersund, Sweden; and Quebec City, Canada. On June 16, 1995, Salt Lake City won handily on the first ballot of voting, with 54 votes compared to a total of 35 votes for the other three cities combined. It was an auspicious start to a selection process that would become blanketed in scandal, eventually leading to the resignation of 10 members of the International Olympic Committee (IOC), and the indictment of the two leaders of the Salt Lake City bid team on bribery charges.

The first allegations of corruption surfaced over three years after the selection of Salt Lake City as the host of the games. On November 24, 1998, the KTVX television station of Salt Lake City reported on the existence of a letter showing that the Salt Lake Organizing Committee (SLOC) was paying for Sonia Essomba to attend American University in Washington, D.C. Why was the Salt Lake City bid committee paying for someone's tuition? SLOC chair Bob Garff

described the payments as an innocent “humanitarian effort,” a claim that was deeply undercut by the fact that Sonia Essomba’s father was René Essomba, a member of the IOC who voted on the site for the 2002 Winter Games (Associated Press, 1999). In a fitting twist, the letter itself appears to have been a forgery (IOC, 1999), but the underlying accusation was correct (Mallon, 2000).

IOC President Juan Antonio Samaranch asked that the IOC Juridical Commission investigate the tuition payments made on behalf of the Essomba family. Upon the recommendation of the IOC’s Juridical Commission, Samaranch set up an independent commission to investigate any improper conduct by members of the committee. The commission, commonly called the Pound Commission after its chair, Richard Pound, found a wide range of behavior by IOC members that violated IOC rules and eroded public trust in the bidding process.

For example, SLOC paid for over \$17,000 in medical treatments for family members at Intermountain Healthcare in Salt Lake City (IOC, 1999). Payments often took this form, with Salt Lake City officials paying for services rather than paying cash directly to IOC members. Perhaps this was to establish an alternate motivation if the payments were discovered -- paying for someone’s college tuition or hospital bills seems more noble than handing over a cartoonish bag of money. Indeed, it turned out that Sonia Essomba was far from the only family member of an IOC member whose tuition was being paid by SLOC. There were a total of 13 people who had received “scholarships,” from the SLOC, with a total value of nearly \$400,000. At least six of these recipients were revealed to be close family members of IOC members (Mallon, 2000).

Some IOC members were paid in cash for typically smaller amounts than the large sums spent on education. SLOC employed consultants, whose responsibilities included orchestrating

meetings with IOC members, and sometimes passing along payments. One payment of \$7,000 was made through a consultant to the fictitious Zema Gadir, allegedly the daughter of Sudanese IOC Member Zein El-Abdin Mohamed Ahmed Abdel Gadir. Gadir later admitted that he had received the payments himself and that he had no daughter, with Zema being formed from his own initials.

### **Corruption in the Organization of a Mega-event**

After a country wins the right to host a major sporting event such as the Olympics or World Cup, large-scale construction projects begin in order to make the hosting feasible. New stadiums are built and existing ones are restructured in order to hold each event. New infrastructure is often built as well. Roads and public transit may be upgraded for the encroaching influx of spectators and athletes.

A large mega-event can often serve as a trigger for the construction of additional tangentially related public structures. These may include commercial centers, common areas, or other projects that may enhance the physical appearance of the host city or nation. This governmental mission creep has historically led to cost overrun in the hosting of such events. Every Olympics between 1968 and 2012 wound up with final costs exceeding original estimates with the median Games running 150 percent over budget. Montreal in 1976 and Sarajevo in 1984 were the worst offenders with final costs ending up more than ten times the initial estimates (Flyvbjerg and Stewart, 2012).

Failure to meet budgetary estimates suggests significant economic difficulties in organizing these events, but does not necessarily imply that corruption is a primary driver of the problem. For example, the 2012 London organizers won the bid with a budget estimate of £2.4

billion, but this figure was revised upwards two years later to £9.3 as local officials began to include major urban renewal projects into the planning for the Games (Baade and Matheson, 2016).<sup>2</sup>

However, recent allegations and investigations in several host countries of mega-events suggest that simple cost overrun may not be the only problem of concern. In fact, it may be a symptom of a more serious issue. These large funding opportunities for contractors have resulted in the potential for illicit collusion, negligence, and unnecessary costs both before and after the games are hosted. The following sections will examine such costs and behavior as they appear in each part of the local organizational process.

### **Corruption in the Awarding of Contracts**

Before preparations can begin, companies must compete to win the construction contracts being awarded by the host government for the various projects in preparation for the event. A competition between firms such as this incentivizes each to offer the highest quality at the lowest cost, which allows the host to pay as little as possible for the contract.

Despite the theoretical prowess of this system, it encounters errors when conflicts of interest and illicit actions are introduced. Politicians and local organizers willing to accept bribes and befriend businessmen allow the potential for self-interested action, rather than action in the best interest of the host country.

In 2014, The Anti-Corruption Foundation, a Russian non-profit organization, released a report which listed personal relationships between Sochi Olympics construction contract recipients and Prime Minister Vladimir Putin. He is said to be friends with the two recipients of

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<sup>2</sup> Somewhat laughably, when the final bill came to only £8.77 billion, the organizers claimed the event came in under budget despite costing 265 percent more than initially advertised.



the largest contracts, Vladimir Yakunin and Arkadiy Rotenberg. Yakunin is the former head of Russian Railways, the company which received about \$10 billion in contracts for the Sochi Olympics (Anti-Corruption Foundation, 2014).

It has since been revealed that this company has a history that would put this funding in jeopardy. According to an investigation by the broadcasting organization Radio Free Europe/Radio Liberty, Russian Railways is guilty of suspicious actions in the process of hiring subcontractors. Investigators found evidence of contracts being awarded without a bidding process or authorization, often for inflated prices (Khazov-Cassia, 2016). The cost of these contracts is then the responsibility of the Russian treasury, as Russian Railways is a state-owned company.

Putin's second friend and former Judo sparring partner, Arkadiy Rotenberg, has historically been a major recipient of funding from the Putin administration, according to the US treasury (Reuters, 2015). Rotenberg's company, Stroygazmontazh, is one of the largest subcontractors hired by the state-owned natural gas company Gazprom in preparation for the games.

Questions akin to those faced by Russia have been asked of Brazil in the hosting of both the 2014 World Cup and the 2016 Summer Olympics in Rio. Since hosting the World Cup, investigations have been launched concerning six of the twelve stadiums used in the games. These stadiums are being investigated for financial irregularities and allegations of bribery. The chairman of Odebrecht, a Brazilian construction and chemical conglomerate, admitted that the Corinthians Arena was a "gift" in exchange for many contracts given to the company by the Brazilian government. The company's former chief executive Marcelo Odebrecht confirmed these allegations in documents released in a plea deal. He stated that "there was a request from

[President Lula] to my father: Help Corinthians to have its private stadium.” In addition to this, Lula has been accused of taking R\$15 million ( $\approx$  \$4.8 million USD) in return for awarding lucrative contracts to Odebrecht (Chade, 2017).

In the Summer Olympics held two years later financial irregularities emerged again. Federal prosecutor Leandro Mitidieri disclosed that an investigation was underway into criminality in the preparation for the Olympic Games in Rio. The police have already found documents mentioning R\$1 million ( $\approx$  \$320,000 USD) in bribes paid by Odebrecht for construction contracts (Brooks, 2016).

In addition to the potential to gain from awarding contracts for construction or services associated with the execution of the event, organizers have been accused of taking bribes in exchange for marketing and television rights. Major allegations of this nature emerged after the publication of *FOUL!: the Secret World of Fifa; Bribes, Vote Rigging and Ticket Scandals* in 2006. The book, written by reporter Andrew Jennings, became the first of many major investigations into the organizational corruption of FIFA. Later that year, Jennings helped in the production of an episode of *Panorama*, a British investigative news show, on the same topic (Miller, 2015). *Panorama*'s investigation revealed that former employees of the defunct Swiss sports company International Sports and Leisure (ISL) claimed to have bribed FIFA in exchange for lucrative marketing contracts. These allegations were confirmed by company financial records, which were examined by liquidators after ISL had declared bankruptcy (Jennings, 2006).

After receiving the documentation that Jennings had discovered and retaining Chuck Blazer as an informant, the FBI carried out a formal investigation into the corruption within FIFA and its continental confederations CONCACAF AND CONMEBOL (Miller, 2015). In

May of 2015, the investigation was made public. A total of 41 entities were indicted with charges including wire fraud and money laundering. The FBI alleges that over \$200 million in bribes and kickbacks was taken in exchange for marketing and media contracts concerning the World Cup as well as other international soccer tournaments (US Department of Justice, 2015a; 2015b).

Following the first announcement of multiple indictments, Sepp Blatter stepped down as president of the FIFA executive committee (McLaughlin, 2015). Though he cited a need for a “complete overhaul” in ethics as the reason for leaving, Blatter was one of those who were implicated in the FBI’s press release concerning their investigation. His predecessor in the position of president has confirmed the allegations, saying that Blatter had full knowledge of the bribes that were taking places while he was working for FIFA as General Secretary (BBC, 2015; Owen, 2015).

Questionable integrity could potentially continue in FIFA leadership. The president to follow Blatter has also been accused of having a history of bribery and corruption. According to the Panama Papers, a compilation of leaked documents from law firm Mossack Fonseca, the recently elected Gianni Infantino was involved in suspicious deals, including one with Traffic Sports Europe, a company whose USA branch, international branch, and former CEO have all plead guilty to the FBI’s charges of bribery in exchange for contracts (Gibson, 2016a).

### **Corruption in Construction**

Once preparation has been completed, construction may begin. The contracted construction companies are given a deadline with little to no flexibility and must work with speed to be finished in time for the events. This can potentially lead to poor working conditions for laborers as firms attempt to increase productivity or decrease costs. This maltreatment of

laborers was revealed by a 2013 report published by Human Rights Watch. It described the conditions of those employed in the construction of the 2014 Olympic Games in Sochi. Among their findings was the withholding of wages and personal identification documents to force employees to stay (Buchanan, 2013). These were issues, they argued, for which the Russian government was ultimately responsible.

The hosting governments are not the only entities who have been accused of such negligence. In 2017, Human Rights Watch published another report examining the human rights abuses in the preparation of the 2018 World Cup to be held in Saint Petersburg. During this time, FIFA admitted that it had full knowledge of the poor working conditions present in Saint Petersburg but apparently did not intervene. The report stated that seventeen deaths had already occurred in the construction of the Russian stadiums (Buchanan, 2017; Conn, 2017).

These allegations of abuse continue to arise with regards to the hosting of the World Cup. Amnesty International has accused Qatari contractors of human rights abuses including forced labor and withholding of payments in preparation for the 2022 World Cup (Amnesty International, 2016). FIFA commissioned a report on the potential abuses, which confirmed the allegations. The authors of the report urged FIFA to include human rights as a criterion in its bid process for finding host countries (Gibson, 2016b).

According to the OECD, this maltreatment of laborers and poor working conditions could be explained by a contractor's goal of recuperating the money used to bribe a local organizing committee in exchange for a contract. The OECD reports that contractors offering bribes will attempt to recuperate the money using substandard material for the building project and billing for work that was not performed along with other cost-cutting acts (OECD, 2016). In addition to

this being costly for the host government and laborers hired, it may also be hazardous, because the substandard building material has the potential to be structurally unsound.

### **Corruption and Cost-Overrun in Long-Term Management of Stadiums**

In addition to high costs and corruption in the preparation for sports events, there is also a potential for large long-term costs from behavior both illicit and not. Buildings that no longer have a use become “white elephants.” These structures become burdensome to the hosting government, which must continue to pay upkeep. This cost inevitably results in increased government debt and higher taxes for citizens.

The prosecutor Leandro Mitidieri, tasked with investigation the Rio 2016 Olympic Games, published a report which spoke of the structures built for the games. Mitidieri claims they were built with “no planning” (Associated Press, 2017). Many of these stadiums are no longer used. Some are boarded up and have fallen into disrepair. The upkeep of such facilities is now the Brazilian government’s responsibility, making the citizens ultimately responsible for paying the upkeep of these unused structures.

While concerns are raised about the costs of disuse in Brazil, the costs of use carry more emphasis in London. Sadiq Khan, the mayor of London, has launched a probe into rising costs associated with the conversion of the former London Olympic stadium to a football arena for West Ham United, a premier league football team from the area. West Ham have agreed to pay 15 million for the building after the conversion, leaving the rest of the 323£ million ( $\approx$  \$427 million USD) largely a responsibility of the government and its taxpayers (Gibson, 2016c).

## **Prevention of Corruption**

Corruption, negligence, and cost overrun can potentially surface in many parts of the hosting process. This means that it is paramount to use a multi-faceted approach in the prevention of such action which can be applied to each step in the hosting process. In order to ensure the prevention of illicit behavior at each stage, the incentive to act out of self-interest must be decreased or the behavior must be prevented entirely.

The potential for corruption begins with the host country selection process. Members of the head organizational committee (e.g. FIFA's executive committee) act as principals for the interests of the committee and FIFA at large; however, in addition to the motivation to do what is in the interest of the organization, they also have the motivation to act in self-interest. Thus, if a local organizing committee or other entity offers a bribe on behalf of a given country, a principal-agent problem arises in which a member's interests no longer align with those of the organization. This also appears in the awarding of marketing and TV broadcasting rights.

The principal-agent problem continues in the awarding of contracts for construction and event services by the host country. Local organizing committees are tasked with awarding contracts and payments for which any one committee member has no direct responsibility. Instead, these costs are the responsibility of the local committee as an organization, the host government and, by extension, the taxpayers.

The OECD suggests that two of the most effective ways to prevent corruption in public procurement are through sanctions and transparency (OECD, 2016). Since the awarding of contracts for TV rights and country selection have similar issues in the mismatch of interests, these measures can be effective in preventing corruption in those areas as well. In order to decrease the incentive for a given entity to offer a bribe in return for a contract or vote, sanctions

can be applied to that entity if ever found guilty of bribery. This would increase the potential cost of an attempted bribe. If a firm were found guilty of bribery, the firm would be prevented from offering its services at subsequent events. Similarly, if a host country or person was found guilty of offering money for a vote, that country could be prevented from hosting and the person could be disallowed from participating in subsequent local organizing committees.

Contrasting with the emphasis on preventing contractors and hosts from offering bribes, transparency emphasizes the ability to monitor the actions of those who award the contracts and rights to host. The use of the internet in order to submit bids could help to decrease contact between parties, while allowing all data from each bid to be available for public scrutiny.

During the construction process non-monetary issues may begin to arise with regard to human rights abuses. As previously discussed, this could potentially be a result of the large amount of pressure placed on contractors to finish before the event with little room for error or delay. As such, firms may decide to increase the number of hours worked by each employee or spend less on the amenities given to the employees, many of whom live on-site during the construction process.

In order to prevent these behaviors, the international organizers of such events should increase the amount of time between the selection of a host country and the execution of the games to ensure that contracting firms are not incentivized to force employees to work more hours or in substandard conditions. Additionally, the right to host a given mega-event should be contingent on the completion of construction without allegations of human rights abuses. The potential for revocation of hosting rights should be used as an incentive for host countries to have continued oversight in the preparation for the event.

Since there is still the potential for unnecessary long-term costs after the event in question is complete, these costs must be given emphasis. Some white elephant buildings seem to be secondary effects of corruption during the contract awarding process, such as in Brazil; however, these costs can be incurred without illicit behavior taking place. Prevention of such costs will require additional emphasis on plans for the structures following the event in the decision-making process.

John Nauright (2015) proposes a more radical idea: choose a permanent location for the Summer Olympics and one for the Winter Olympics (presumably a similar approach would work for the World Cup and other mega-events). The largest benefit would be the savings on building new stadiums and infrastructure. An ancillary benefit would be that after the “permanent” country has been chosen one final time for a particular event, there would be no further corruption in the choosing of a host country. Construction for the first event held in the new permanent country would face the same problems as the typical event, but the construction costs for future events would be greatly diminished, as would the incentive to distort the process. It would be a great loss if every other country lost out on the excitement of the chance to host the Olympic Games or the World Cup, but sharply reducing corruption would help to restore some of the events’ lost magic.

Effective reforms may take the shape of the more modest recommendations from the OECD and others or the more extreme change of having a permanent city for each mega-event. What is clear is that mega-events would benefit greatly from successfully controlling corruption at every stage in the process.



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