Drivers of the Regional Economic Growth and the Problem of "White Elephants" of the Russian Olympic Megaproject "Sochi 2014"

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Doi:10.5901/mjss.2015.v6n4s2p267

Abstract

For Russia the Olympic megaproject "Sochi 2014" became the largest international investment and construction project and the country has not seen similar events during several decades. The mission of the Olympic megaproject went far beyond the limits of getting profit from the Olympic games organization and the creation of a favourable image of Russia in a global social and economic space. It included the build up of global competitive advantages of the Black sea zone of the Southern macroregion of Russia in such spheres like tourism, hospitality and entertainment industry, recreation and sports business. However the impact of the Olympic games on the economic development of the territory where they took place would be evident only after 3 or 5 years and the economic effect of investments would be displayed after ten years and more. The authors of the article study the problem of the post project use of the Olympic constructions. Some of them will serve as drivers of the regional economic growth and others like so called "white elephants" will only generate losses.

Keywords: megaprojects, Olympiad, investments, infrastructure, «white elephants»

1. Introduction

The state has the right to consider as a successful one a reform that leads to long term capital intensive projects. Megaprojects are the investments projects of a large scale (more than 1 billion $) having a global character (independently from the territorial level of realizatio). In contrast to financial investments, megaprojects are focused on the specific material result, exerting a considerable and a prolonged influence on a transformation of the economic space (Mitrofanova, 2011).

The objective of the research set by the authors is to make a prompt analysis of ambiguous economic results of the realization of the Olympic megaproject "Sochi -2014" as the impact of development of Olympic games on the economic development of the territory where they took place will display only after 3 or 5 years and long term effects will be visible only after 10 years and more. On the one hand a positive experience of the realization of this megaproject implies the growth of global competitive advantages of the coastal zone of the Black Sea in the Southern macroregion of Russia in such spheres like tourism, hospitality and entertainment industries, recreation and sports business. But for the complete objectivity the authors of the paper set the goal to study another side of the Olympic megaproject "Sochi-2014" consisting in the after use study of the Olympic constructions erected in the Krasnodar kray. Some of which will
unquestionably become drivers of the economic growth, others or so called “white elephants” will constantly generate losses.

2. Literature Review

A considerable contribution to the research of the experience of the realization of Olympic megaprojects in different countries of the world that had an ambiguous impact on the economic development and reputation of regions and cities where they were held made the following scientists: Haynes J., Flyvbjerg B., Glandton D., Haynes J., Rishe P.

The Olympic megaprojects proved to suffer from not only universal risks typical of large scale projects but also from specific ones intrinsic to large scale sport events. The problems of isolation and assessment of such risks are widely studied in works of such authors like Altshuler A., Buhl Soren L., Gunton T., Laidley J., Lehrer U., Luberoff D., Skamris Me K., Priemus H. and others.

The problem of assessment of costs and advantages, analysis of social and economic consequences of the realization of large scale projects concerning the construction of sports objects and creation of the corresponding infrastructure in the territory where the Olympic games were held was studied by contemporary Russian scientists: Amirkhanova M., Batmanova V., Batova V., Leibin V., Matova N., Mishulina S., Mitrofanova I., Zhukov A. and others.

3. Research Methodology

The methodological base of the study and attainment of scientific goals became the realization of the dialectical principles of research within a systematic approach. Authors used general scientific and specific methods of research: subjective and objective method, structural and functional, historical and logical, comparative, imitational, statistical ones as well as personal calculations of the authors.

The reason for use of these methods is the necessity to study in a critical way processes of formation and practical realization of large scale Olympic megaprojects as projects of a special type (using the Russian Olympic megaprojects “Sochi-2014” as an example) in order to obtain a more objective assessment of social, economic and public efficiency from the realization of these megaprojects for territories and cities where Olympic games were held. This will allow to forecast and level possible specific risks as well as to minimize universal risks typical of such instrument of territorial development as megaprojects.

4. Results Analysis

4.1 Specific features of megaprojects

The peculiarities typical of the projects of such level, status and scale are the following:

– they provide the improvement of the existing territorial proportions and the creation of new ones as well as efficient integrative interregional relations for a long term prospect which can determine the unanimity of the regional systems’ interests. They intensify the opportunities of the rational use of advantages of each of them for the achievement of common goal and growth of the aggregate efficiency of social and economic complex of the district in the whole;
– they provoke a considerable diversion of capital investments, materials, technical and labour resources at a considerable time lag for the obtaining the expected outcomes and this can lead to the arising of long term inertial tendencies in the distribution of the capital investments and the use of the production potential of the economic actors of the district;
– they become the source of centrifugal forces adjusting the interests of industries and territorial formations that can lead to a chain reaction that will affect numerous adjacent enterprises, taking place in the megaproject is realization;
– they contribute to the creation of the powerful infrastructural constructions of the strategic (district and federal) significance which later become the condition of the involvement into the economic turnover of the new resources and the creation of large centers of economic and social development;
– they require the accumulation of the resources by one common fund holder;
– they demand an absolutely new assessment of the multipurpose disposal opportunities of the territorial combinations of the resources and conditions in the interests of the macroregional community;
– they imply the participation of the organizations of different department subordination;
they are based on the combination of the sectoral, territorial and program planning;
they must reflect all the stages of the triad "economy (production) – nature – population" beginning with theoretical and methodological premises of the preplan research and investigations and finishing with real production processes;
they encourage the development of the mechanism of the integrated non-departamental expertise of large scale correlated projects, being part of a megaproject;
they have the uniqueness of temporal and special frontiers within which the problems of the territorial development having a "program nature" that can be solved most consequently (Altshuler, Lubanoff, 2003; Mitrofanova, Batmanova, Zhukov, 2012).

Accumulated in Russia administrative experience on the basis of the program and target approach to the development of territories of different level allows to reveal a number of conditions requiring the application of such an instrument as megaprojects for territorial problem solving (Amirkhanov, Mishulina, 2014).

Firstly, the impartial necessity in the territorial megaprojecting arises in presence of problems which by nature are multipurpose and integrated and the traditional methods of sectoral and territorial administration and planning turn out to be insufficient for a serious decision taking into consideration the situation complicity engendered by varied tangle interests and relations inside a territorial community.

Secondly, the time needed for the problem diagnosis and problem solution does not fit as a rule into the middle term (3 – 5 years) period. Meanwhile it is exceptionally important to analyze in time the whole history of the origin of a particular problem together with the isolation of its important stages of its intensification. Every problem of the territorial character has its own temporal logic of development.

Thirdly, megaprojects are necessary when the area of the dissemination of the territorial problems does not coincide with the nets of the economic and administrative division into districts. Territorial borders of the solution of these or those social and economic problems depend both on the potential resources capacity and the scale of the factors of production involved into the economic turnover taking into consideration the influence of the program measures.

Forth, territorial megaprojects are reasonable in case of the necessity of the complex disposal of natural resources of intersectoral and multipurpose use. Intensification of the intersectoral significance of the natural resources creates contemporary demands for the assessment of the opportunities on the multipurpose use of every resource in interest of numerous interested territorial subjects and different organizations. This fact leads to the change of the traditional approach according to which every interested department approached the prospect and resource disposal and corresponding requirements to their qualitative and quantitative features from a subjective point of view (for their own problem solving). As a result one and the same resource was examined by numerous organizations autonomously and this led to the duplication of works and consequently to their value increase. In addition during the resource assessment was inevitable from the point of view of the development of different spheres of the national economy by the strength of their contradictoriness of their interests. The integrated use of natural and intellectual resources requires an intersectoral approach. Its use will allow to create a highly efficient economic structure of a territory, to ensure the formation of a common production and social infrastructure, contributing to a more reasonable disposal of its natural resources.

Fifth, megaprojecting becomes indispensable when existing forms and methods of management prove to be incapable to ensure the reciprocal coordination of a number of projects of sectoral and intersectoral character, united by common goals and objectives. Meanwhile such linkage is absolutely indispensable already on the strength of the fact that coordination of sectoral interests inevitably engenders a chain of inner contradictions. Thus, every industry project must ensure the realization of quite specific production and economic objectives and the sequence of its stages of realization are determined in compliance with resource opportunities. The criterion for the determination of temporal parameters of a project is the purpose orientation of an industry. However optimal sectoral parameters of the project realization can not coincide with the conditions of the whole problem realization or even can lead to the violation of its temporal logic. It is evident that the creation of a net schedule obligatory for all ministries and departments even within a prospective strategic industrial planning is quite complicated. And only in the process of the development of a territorial purposeful and targeted program it becomes possible to solve problems connected with the formation of the most reasonable proportions between production and non production capital investments, various infrastructural sectors, construction industry and investment rate (Mirofanova, Mirofanova 2013).

Today when the economic growth of Russia considerably slowed down, the question concerning the territorial megaprojects arises with the whole acuteness. It is important to know whether they are the stimuli for the growth or are just intolerable load for the state budget.

The specificity of the Olympic megaprojects realized during the latest 50 year has been poorly studied so far and shows the deficit of research directed on an integrated, comparative analysis of the processes of the preparation and
realization of such megaprojects, revelation of traditional and specific risks, typical of different phases of their life cycles and the assessment of social, integrated effects especially connected with the analysis of the prospects of the post project use of the erected Olympic objects (Matova, 2014).

The research of the contemporary national economic science of the phenomenon of the Olympic megaprojecting has not got an integrated character so far. Meanwhile the historic, contemporary foreign and Russian practice of the Olympic movement shows that the objects constructed during the realization of the Olympic megaprojects, especially of the infrastructural ones, are capable of stimulating the development of a number of the economic sectors, regions becoming the points of bifurcation of territorial development. At the same time a number of Olympic objects after the realization of the games do not find an efficient after use (Gunton, 2010).

If in case of usual megaprojects it is possible to keep to projected costs but it is a rare situation but in case of Olympic games during the latest 50 years, according to the assessment of B. Flyvbjerg, N. Bruzelius, V. Rotengatter (2014), the organizers could not stick to the budget. In the opinion of these scientists, the realization of Olympic games is not the worst variant of the "project of the century" and the problem does not consist in the fact that the budget will be overrun with the probability of 100%. The necessary additional costs in case of the Olympic games prove to be higher than in any other type of such large scale projects. In average the excess of the factual costs over the planned budget made up 179% in real prices and 324% in nominal prices. However the rights of the realization of Olympic games require that the accepting part offers the guarantees of the coverage of all additional expenses, i.e. the "owners" of every Olympiad in fact underwrite under the obligation to pay any sum for the right to have sports events (Flyvbjerg).

The costs of the Olympic games include three basic components: 1) official expenses of the organizational committee at sports constructions, Olympic village, TV, media and press centers, 2) direct costs at the infrastructure (construction of roads, hotels, railway stations, airports and so on) that will be used during the games, 3) indirect costs: region, city can build objects without which they generally can do without. In reality it is possible to count on the first two types of expenses when indirect costs into the infrastructure can be assessed, as a rule but unlikely on the strength of the following reasons: first, very often the information about these costs is not available; second, in cases when they really exist, their reliability does not correspond to academic standards; third, even in these cases when the data are available and do not raise the doubts, they do not allow simple comparisons and every Olympic city has its own approach to the fact which costs consider as direct ones and which as indirect ones as B. Flyvbjerg, N. Bruzelius, V. Rotengatter think (Flyvbjerg, Bruzelius, Rottengatter, 2014).

4.2 History of the XXII Olympic winter games in Sochi

The decision about the organization of the XXII Olympic winter games in Sochi was taken on July 5th, 2007 in Guatemala during the session of the International Olympic Committee. The further activity of the State Corporation "Olympstroy" was founded on the realization of the "Program of the construction of the Olympic objects and the development of the city of Sochi as a mountain resort", within which the design, construction of new buildings, reconstruction of the existing ones as well as the exploitation of the buildings was organized.

Russian state corporation "Olympstroy" realized a large scale program having attracted private and state investments which included the following basic results:

- 2007 (November) – creation of the state company "Olymposstroy";
- 2008 – organization of the construction of the objects, development of the mechanisms of the provision of the objects with plots of land, engineering design;
- 2009 – provision of the objects with plots of land, finishing the design stage, beginning of construction works;
- 2010 – active phase of construction;
- 2011 – peak of the construction, beginning of the introduction of the objects into use, first testing competitions;
- 2012 – peak of the construction, introduction of the objects into use, test sports events;
- 2013 – introduction into use, test competitions, equipment of the Olympic objects.
- 2014 – Olympic games.

The main sports constructions and hotels are situated in two clusters: by the sea and in the mountains. In the coastal cluster of the Imeretinskaya lowlands the Olympic park is situated where the opening and closing ceremonies of the Olympic Games 2014 took place, all the competitions on ice and the winners’ rewarding ceremony was held. Besides here the Olympic village, mediacenter, hotel complexes and a well equipped embankment are situated.

In the mountains cluster the competition on cross country skiing, biathlon, bobsleigh, ski jumps, snowboard and freestyle took place. In the mountains the media village and two Olympic villages were located. The mountain and coastal clusters were joined by a conjoint car and railroad Adler – "Alpica - Service" (Zhukov, 2013).
4.3 Realization of Olympic games in different cities of the world

Preparation and the realization of Olympic projects apriori is connected with the emergence of unpredicted circumstances connected with real threats to the economic safety. The knowledge and taking into account the peculiarities of megaprojects of such type allows strategic managers in advance, even on a pre project stage to make up the opinion on the compliance of the necessary requirements (table 1).

There exist a lot of examples of the fact that the Olympic games changed the image, its infrastructure and the economic situation of the region. There exist a lot of examples of the fact that the Olympic games changed the image, infrastructure and economy of the city-organizer in a cardinal way. But all the history of the international Olympic movement shows that the influence of the games shows up completely only after 3 or 5 years and some long term effects are displayed only 10 years and after. For example, Barcelona from an industrial center turned into an international tourist resort and Beijing became a real exhibition of the achievements of the modern China.

The expenses for the organization of the Olympic games in Atlanta, USA, made 1.7 billion $. At the same moment private investments helped to revive the municipal economy and then during the following decade after the Olympic games 5 more billion US $ were invested into different spheres of the municipal economy. More than 1.8 billion US $ were spent on the construction of the hotels, office buildings and elite penthouses. The visitors after the Olympic games brought about 500 min. US $ to Atlanta during the following fifteen years. At the expense of private investments the baseball stadium was constructed. Georgia State University got a spacious campus transformed from the Olympic village, four colleges of Atlanta also got sports equipment. In other cities where games took place a rowing center, tennis courts and a horse riding stadium remained. In general good results were obtained due to a reasonable planning and the forecast of the following exploitation of the constructed objects.

Nevertheless, financial results of the Olympic games in Atlanta are assessed by the economists in multiple ways. Analysts point out that the city lacked the opportunity to apply for federal funds for the infrastructure renewal (roads and sewing systems). Some representatives of small and medium sized business went bankrupt as they did not manage to sell their goods to the visitors or to offer the available venues for rent. Many businessmen did not get a desired outcome and pretend that the main result was rather connected with the publicity, image and emotions rather with profit (Glandton, 2009).

Table 1. Peculiarities of the Olympic megaprojects influencing the provision of the economic security (Batova, 2013).

<table>
<thead>
<tr>
<th>Peculiarities</th>
<th>Requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technological complicatedness, large scales</td>
<td>Instruments providing the labour output ratio of the planning process and the management by the mass of the information and technical data. Use of managerial innovations. High quality of the project. Provision of financing and adequate division of the risks between the participants.</td>
</tr>
<tr>
<td>Unique character</td>
<td>Individual solutions, limitation of the use of standard solutions</td>
</tr>
<tr>
<td>Innovative character</td>
<td>Mechanism of the project management, taking into consideration a high degree of the uncertainty and risk</td>
</tr>
<tr>
<td>Organizational complexity</td>
<td>Organizational structure, taking into consideration the complexity of the project. Coordination of the activity of participants. Optimization of informational flows between participants. Operative identification of threats. Common information space.</td>
</tr>
<tr>
<td>High political importance</td>
<td>Ecological character. Observance of international standards of the safety provision.</td>
</tr>
<tr>
<td>Long term character</td>
<td>Strict control of terms and costs.</td>
</tr>
<tr>
<td>High risk</td>
<td>Provision of a high sensitivity of the projects to the changes in the first concept.</td>
</tr>
<tr>
<td>National and in particular economic safety</td>
<td>Participation of authorities for the determination of the conditions of the project realization. Development of efficient mechanisms of the provision of the economic safety.</td>
</tr>
</tbody>
</table>

Source: made by the authors

Expenses for the Olympic games in Sidney, 2000 made up 3.8 billion US $ and the public expenses made 30-35% from that amount (Rische, 2011).
The research showed that during the period from 1994 till 2006 the process of the preparation for the games and the consequent development lead to a stimulation of new economic activities in the amount of 6.5 billion US $. Australian economy grew 0.12% during this period. First class Olympic objects were built that provided for the city the opportunity to have first class competitions. Due to the preparation for the Olympic games the problematic poor and contaminated zone of Homebush Bay was developed where the International Aquatic Center was erected. There are dangers that the venues in Homebush Bay and partially the mentioned above Aquatic Center are remaining "white elephants" but due to a reasonable management it will be possible to avoid this problem (Haynes, 2001).

But the international practice has other examples. The winter Olympics of 1998 in Nagano plunged the city into a deep recession and as a result the tax burden from the games made up about 30 thousand dollars for every household in the city. This fact was influenced by the decision of the International Olympic Committee to include into the program of the games new sports – curling, women hockey and snowboard. The Japanese had to construct new objects and to host additional guests. As a result the organizational committee had to save money on everything.

The Olympic games in Salt Lake City in 2002 cost the American taxpayers 1.5 billion dollars and the total cost of the Olympic megaproject turned out to be higher than the price of all the seven Olympic games that took place in the USA earlier.

Games in Athens cost Greece 15 billion US $ and the problem of the Athens Olympiad became a large amount of debt. After the events of September 11, 2001 in the USA the expenses for the security and infrastructural objects grew considerably. As a result the amount of the state deficit made 5.3% from GDP in 2004 that was 3% higher of the level allowable by EU at that time. The total amount of the debt made up 112% of GDP or 50 000 euro per household (Chicago factsheet, 2012).

In spite of the fact that the Olympic games in Beijing were one of the most expensive in the history, it did not lead to the creation of the debt obligations for the country. China had enough money to construct new stadiums, metro lines and roads. Closing to the year of the Olympic games (2008) the tax profits grew 20-30% a year and the fiscal deficit decreased from 3% of GDP in 2002 till less than 1% in 2007.

It is interesting to learn that specialized Olympic objects consumed less than 25% of all funds and the main part of expenses was spent on the objects of the infrastructure of a long term use. For example, one of the Olympic objects was constructed specifically for the agricultural university and another one for the Scientific Research University of Beijing (Flyvbjerg, Stewart, 2012).

### Table 2. Factual and planned costs for the preparation and the realization of the Olympic megaprojects (Zhukov, 2013; Gladton, 2009; Chicago factsheet, 2012; Flyvbjerg, Stewart, 2012).

<table>
<thead>
<tr>
<th>Place and year of the realization of the Olympic megaproject</th>
<th>Planned costs, billion dollars</th>
<th>Factual costs, billion dollars</th>
<th>Rise of fact costs over the planned costs, times</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salt Lake City (USA), 2002</td>
<td>0,8</td>
<td>2,0</td>
<td>2,5</td>
</tr>
<tr>
<td>Athens (Greece), 2004</td>
<td>6,3</td>
<td>15,0</td>
<td>2,38</td>
</tr>
<tr>
<td>Turin (Italy), 2006</td>
<td>2,1</td>
<td>3,6</td>
<td>1,7</td>
</tr>
<tr>
<td>Beijing (China), 2008</td>
<td>5,64</td>
<td>5,86</td>
<td>1,03</td>
</tr>
<tr>
<td>Vancouver (Canada), 2010</td>
<td>0,6</td>
<td>2,5</td>
<td>4,17</td>
</tr>
<tr>
<td>London (Great Britain), 2012</td>
<td>4,3</td>
<td>16,6</td>
<td>3,86</td>
</tr>
<tr>
<td>Sochi (Russia), 2014</td>
<td>314 billion roubles*</td>
<td>51,0</td>
<td>4,8</td>
</tr>
</tbody>
</table>

*To the date of the application to the International Olympic Committee in 2007

**Source:** made by the authors

After the closing of the XXI winter games in 2010 in Vancouver it turned out to be that additional lines of the high way cost made up about 1 billion dollars. The same amount of money was spent on the modernization of the city metro. Additional 1 billion dollars was spent by local authorities on security (at the planned amount of 150 billion dollars). The police regime in Vancouver was compared to the one of the post war Berlin and the economic results of the Olympic games with hard results of the games in Montreal. On the one hand total expenses on the Olympic games increased by 10 times in comparison with the planned ones and according to others grew fourfold (table 2). The Olympic objects were offered for sale. The village for sportsmen became a ghost district whose cost rose up to 1 billion dollars. As a result of such over-expenditures for the Olympic games Canada had to cut health expenses at about 330 million dollars and to sequester
80% of the budget of the ministry of culture (Leibin, 2013). It is obvious that Russia managed to prepare completely all the objects for the Sochi Olympiad. For our country it is the largest international investment and construction project, and there were no analogues during several decades and it required many billions of investments for the design and the creation of the infrastructure, construction, exploitation of the sport objects and the provision of the security. So, the general volume of investments into the Sochi megaproject is assessed as 1.6 trillion rubles (51 billion dollars), that is not the limit (one of the precedents is the cost of the games in Beijing that made up 45 billion dollars). Besides about 80% of the sum was invested into the infrastructural development of the city of Sochi and Krasnodar kray. During the realization of infrastructural objects the largest part of the funds was put into the construction of sports objects by private investors (table 3).

Table 3. Sources of financing of the Olympic megaproject "Sochi-2014", billion rubles (billion dollars) (Leibin, 2013; Bykov, 2014; Mitrofanova, Batmanova, 2014)

<table>
<thead>
<tr>
<th>Type of object</th>
<th>Budget funds</th>
<th>Off budget sources</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Infrastructure of the region including roads and housing</td>
<td>430 (12,2)</td>
<td>900 (25,7)</td>
<td>1330 (38)</td>
</tr>
<tr>
<td>Sports objects</td>
<td>100 (2,9)</td>
<td>114 (3,3)</td>
<td>214 (6,1)</td>
</tr>
<tr>
<td>Total</td>
<td>530 (15,2)</td>
<td>1014 (28,9)</td>
<td>1544 (44,1)</td>
</tr>
</tbody>
</table>

Source: made by the authors

4.4 Russian experience of the Olympic games realization

Russia has not had so far the experience of the organization of several hundreds projects realized in one city of the country. In comparison with other Olympic projects Sochi made the impression of a poorly prepared city. Krasnodarsky kray did not have a single sports object of the Olympic scale: ice palaces, skiing courses, ski jumps. There were only several hotels of a decent level and an unfinished airport. That's why it is not quite reasonable to compare general costs for the Olympic megaproject "Sochi 2014" with the preceding Olympic capitals at the scale of works.

That's why during the realization of the Olympic megaproject the largest part of the investments was put into the infrastructure. 260 kilometers of roads were reconstructed, the circular road construction was finished, the main project of the transport program in Sochi itself – the alternate of the Sochi Resort Avenue were built (nowadays 9 from 20 kilometers of the roads are led in tunnels, it costs made up 83 billion rubles), a unique for Russia high speed combined automobile and rail road were constructed that connected Krasnaya Polyana with Sochi along with 48 kilometers with a traffic capacity 8500 km/hours (284,5 billion rubles or 8,2 billion dollars), the Sochi airport was reconstructed (14 billion rubles or 0,4 billion dollars) and its capacity grew up twofold (up to 2500 person per hour) (Mitrofanova, Batmanova, Mitrofanova, Zhukov, 2014).

The energy supply system was exposed to a considerable modernization as its wear and tear reached 70%, more than 50 objects were erected, the most considerable changes dealt with the Adler Thermoelectric Power Station and Dzhugbinskaya Thermoelectric Power Station. The gas pipe line Sochi – Jubga for 170 kilometers was extended among which 150 kilometers are lying at the bottom of the Black Sea.

The sewer system of the city was completely modernized: new source collectors and new Bzugin refining structures that are three times more powerful, a new deep water discharge going into the sea for 2 kilometers was constructed, a new refuse sorting plant in Hosta town was built. The Olympic heritage in Sochi is presented by more than 400 objects of the infrastructure that can be considered as drivers of social and economic development on both regional and meso level of the national economic system (Shchukin, 2014).

4.5 Prospects of use of constructions for Olympic games

But the most painful problem for all the Olympiads still remains. It is the so called "white elephants" i.e. objects the exploitation of which is problematic and hazy.

So, for example among 26 objects constructed for the Olympic games 2004 in Athens, only four of them are being used and the rest are in a deplorable state and the city is not ready to maintain them.

In Turin the Olympic objects of the Games of 2006 and the famous “Palasport Olympico” today represent closed empty boxes surrounded by iron fences. They could not sell the apartments in the Olympic village, firstly designed in the hope of using them after the Olympic games as commercial dwelling units.
In Vancouver (where the objects were just deinstalled) and in Sidney the maintenance of the Olympic objects was laid on the city budget (although the Olympic games are officially welcomed by the state and not by the city).

Exception is China and Beijing where tourists are taken to the Olympic sites where the Olympic games took place and by now the Olympic objects were visited by 170 billion people. By the way these (up to 97%) are local tourists that are taken there from Chinese remote places. Fortunately the potential for such a patriotic organization of the tourism does not exist in every country (Flyvbjerg, Skamris Mette, Buhl Soren, 2004).

And the program concerning the post Olympic use of the Sochi megaproject objects was engrossed in thoughts alas only one year ago.

By the way the State Company “Vneshekonombank” as the largest creditor of the Olympic construction allocated 241 billion rubles (6,9) of Olympic loans. Among them 165 billion rubles were guaranteed by the State Company “Olympstroy”. Besides the guarantee fund of the “Olympstroy” did not exceed 30 billion rubles. But as any commercial bank, “Vneshekonombank” did not finance but gave loans to investors on commercial terms. That’s why all the borrowers were the investors of the Olympic megaproject and they are paying the 10-12% yearly interest and are obliged to return the principal to “Vneshekonombank”. The situation is aggravated by unclear prospects of the use and maintaining these so called “white elephants” within a large infrastructure today but the loans have to be reimbursed anyway.

There exist precedents: starting from the spring 2013 a legal case between the company “Bazovy element” (Bazel) (the owner of the Imeretinsky port) – one of such “white elephants” and the state company “Olympstroy” and “Vneshekonombank” is being held. “Bazel” sued “Vneshekonombank” demanding to change the conditions of the payment of the loan that was used for the construction of the port giving reasons that the promised cargo traffic by the State Company “Olympstroy” through the port was not provided and the port was suffering losses and, as a result cannot fulfill the loan promises. “Vneshtorgbank” filed another claim for the Imeretinsky port in connection with the fact that the port is not returning the loan to the bank.

But the Imeretinsky port is not the only unprofitable “white elephant” of the Sochi Olympic megaproject. There are at least eight unprofitable objects: bobsleigh course, ski jump, mountain resort Roza Khutor and others. Besides it is unclear how the money spent on the construction of the living and recreational property will be compensated (Mereshko, 2013). There arises the danger that as a result all the risks connected with the returning of the budget funds allocated for the Olympic objects in fact will be transferred to the state as the defaults of the investors are inadmissible (Novikova, 2013; Tovkalo, 2013).

So the problems with the objects of the coastal cluster are inevitable. There six new ice arenas were constructed and for the city of Sochi where winter sports are not so widely spread and this number is considerable. Further it was planned that the arenas will be deinstalled and moved to other regions but as it turned out to be due to the peculiarities of the foundations, it will be possible to transport only one of them and in particular, the training hockey arena and it will be conveyed to Stavropolskiy kray.

Three objects will change the designation: skating palace will be transformed into an expo center, Mediacenter into a commercial center, curling arena into a sports and entertaining center and will be managed by the investors.

The other objects of the coastal cluster will be included into the budget of the Ministry of Sports of the Russian Federation and they will be used as the grounds for the competitions and training. Judging from the forecasts, the exploitation of the Olympic objects will cost the state 2.5 – 4 million rubles per year and for the lowering of costs for instance expensive in maintenance Big Ice Palace is planned to be transformed into a cycle track.

One more “white elephant” is “Fischt stadium” (40 thousand seats). The fact is that in Sochi there is no football team even of the second football division. In 2018 the matches of the World Football Championship will take place but so far the administration of the city will try to use the stadium for “sports and concert” events.

In the mountain cluster a number of objects will be transferred to the Ministry of Sports of the Russian Federation, for example sleigh and bobsleigh road. This will allow our sportsmen training not in Europe as it was before but here in Russia. The future of the ski jump complex is not settled (Mitrofanova, Mitrofanova, Ghykov, 2014).

The most profitable part of the Olympic complexes “Roza Khutor” and “Laura” (Gazprom) will work as mountain ski resorts. However it is unclear today whether a great number of hotels in Sochi and mountain ski resorts will become profitable under the conditions when the market is overcrowded and the owners of the largest part of the objects are trying to raise their class too high and sell the business class at the price of a “de luxe” class (Mitrofanova, Zhukov, Mitrofanova, Starokozheva, 2014).

However the idea has recently started to be discussed in an active way that will help the “Olympic debtors”. The state is supposed to allow establishing in Krasnaya Polyana a gambling zone of a high class. But for the moment the state is not ready to discuss it seriously and will try to make money on the sports and tourism. But it is hard to count on the fact that the subtropical Sochi will become the center of the Winter sports. The government has not announced its
The probability is very high that the idea of establishing a gambling zone will become important again. Today the Ministry of Finance of the Russian Federation determined the rules under which it is ready to offer subsidies to Vnesheconombank that will allow the State Corporation "Olymstroy" to reimburse the losses generated by the Olympic Games. Vnesheconombank will get a subvention if it is not able to make up money in the sales of the Olympic objects if it does not transfer these objects into the state property (Minfin opredelil, 2014).

In the budget of the country there is necessary money for the compensation. In March 2014, the state corporation "Olymstroy" has already got 10 billion rubles, the largest part of which can be spent on the reimbursement on the loan for the construction of the ski jumps "Russian hills" (9 billion rubles of costs, its construction was entrusted to the company "Krasnaya polyana").

In order to reimburse the losses of Vnesheconombank, the Ministry of Finance of the Russian Federation offered to "Krasnaya polyana" company to give up the ski jumps to the banks. After that Vnesheconombank had to give it into the disposal of the Federal Agency of Russian Property and it in its turn will give it to the Ministry of Sports of the Russian Federation. After that the state company "Olymstroy" will get the reimbursement from the state budget.

As it is well known, July 17, 2014 Vnesheconombank with other Russian companies fell under the sanctions of the USA caused by the political crisis in Ukraine. And although the assets of these companies will not be stopped the American companies and citizens are forbidden to invest into new stocks and bonds of these companies. The state has to play an important role in the support of the Russian banks that fell under the sanctions. That's why till the end of 2015 the moratorium for the return of this money was introduced that was given earlier to the construction of the Olympic objects (Putin podpisal, 2014).

There exists another important moment. Earlier the legislation allowed the creation of gambling zones in the territories of four Russian regions: Altay, Krasnodar and Primorsky krays and Kaliningrad oblast, however this was rather a declaration of intentions. The head of Sberbank of Russia suggested creating in Sochi a gambling zone. The bank as it was mentioned before, controls the public company "Krasnaya Polyana" where constructed the ski sports and tourist complex "Gornaya karoussel".

July 23, 2014 the President of the Russian Federation V. Putin signed the law, including the city of Sochi into the number of the regions in territories of which it is allowed to establish a gambling zone. For the creation of the gambling zone the change was introduced according to which the parameters of such a zone on the territory of Krasnodarsky kray will be determined by the government of the Russian Federation within the borders of the land plots offered for the placement of Olympic objects of the federal importance and whose funding and construction was not made at cost of the budgetary subsidies of the state company "Olymstroy". The decision will be made on the suggestions of the authorities of Krasnodar kray, made earlier by the federal government (Putin podpisal, 2014).

So, it is allowed to use the Olympic objects, whose construction was financed at the cost of private investors as objects of the gambling zone in Krasnodar kray.

5. Conclusion

That is why that in general it is difficult to speak about the profitability of the erected infrastructural objects, sports constructions of a limited use but it is exact that considerable amounts of money for their maintenance will be needed. At the same time a number of objects – hotel complexes, sports construction of mass use – have economically reasonable profitability terms under the condition that the main burden of the development of city of Sochi should become the tourism and if it is obvious local authorities will have to pay more attention to this.

In reality it is not quite clear how precisely the outcome of such a specific, immense and ambitious megaproject in the economic sphere can be forecasted. However if the state plans to take part fully in the economic life of the country and its regions, it should do it in a more targeted way.

Of course, the causes for the critics of the economic consequences of the Olympic megaproject "Sochi 2014" will remain. This will be an unreasoned conception of the post Olympic use of the objects, intransparency in the allocation of the architectural and construction contracts, "refluxes", corruption, order growth of the Olympic objects costs and so on. But this priceless in the author's opinion experience needs to be studied in all the details in order not to be repeated it and to minimize the miscalculations at the realization of another started immense megaproject that has already started – World Football Championship, 2018.

In the opinion of the authors, the Olympic games gave an impulse to the economic development of Krasnodar kray for 20–25 years of the evolutionary development. However the question about the future of a number of the constuctions of the Olympic megaproject "Sochi 2014" remains so far uncertain.
References


