

EXECUTIVE SUMMARY: ECONOMIC IMPACT OF LEGALISED GAMBLING IN SOUTH AFRICA

1. INTRODUCTION

Regulated gambling in South Africa was extended in 1994, from horse racing to include casinos, bingo and lately the National Lottery. In 2002, the National Gambling Board (NGB) commissioned a study to establish the economic impact of gambling in the country. This study constitutes a benchmark not only on the industry's impact on a macroeconomic scale with regard to its contribution to, for example, GDP but also on a microeconomic level with regard to the allocation of household resources to gambling.

The research sought to establish:

- community attitudes towards and participation in gambling
- impact of gambling on household welfare levels
- impact of gambling on the South African economy
- comparison of the South African gambling industry with a selection of other jurisdictions

2. COMMUNITY ATTITUDES AND PARTICIPATION

(a) The sample

A national survey was conducted among a sample of 2 050 respondents over the age of 18 years during April to June 2002. The sample comprised 1 000 households selected randomly for telephone interviews and 1 050 households without in-home Telkom telephones in 22 locations mainly among households living in informal settlements for personal interviews. The results were weighted in accordance with the structure of the South African population with regard to access to in-home Telkom telephones and access to physical (casino) facilities. Agricultural communities located in rural areas characterised by a dispersed location pattern were excluded from the face-to-face interviews.

(b) Participation

Participation in gambling activities during the twelve months preceding the survey was reported as follows:

- 71,3 % participated in the National Lottery
- 19,3 % in casino gambling
- 15,3 % in horse betting
- 2,3 % in sports betting
- 7,2 % in bingo
- 0,6 % in on-line gambling
- 27,5 % abstained from any gambling

Although some variation in participation rates is evident by demographic status (age group, employment status, educational level and income category) it would

seem that poorer people also actively participated in gambling activities. The following shows the share of the less affluent group in lottery sales and casino patronage:

	Percentage share in: Lottery	Casino
• Unemployed	27,2 %	22,1 %
• No formal schooling	3,5 %	3,0 %
• <R6 000 income per annum	23,3 %	21,2 %

(c) Reasons for nonparticipation

The just more than a quarter (27,5 %) of the respondents, who did not participate in any gambling activities, advanced the following reasons:

- 32,8 % - don't gamble at all (9,0 % of the population)
- 29,7 % - lack of money (8,2 % of the population)
- 21,9 % - against religious beliefs (6,0 % of the population)
- 0,8 % - no access to gambling facilities (0,2 % of the population)
- 14,8 % - other reasons (4,1 % of the population)

(d) Views on gambling

Personal views of the respondents on gambling reveal that:

- 73,0 % find it acceptable
- 12,2 % find it unacceptable
- 14,8 % do not approve of gambling personally but have no objections to gambling by others

(e) Casino gambling as a leisure activity

In response to the question 'Do you regard casino gambling as an important leisure activity'?

- 52,2 % agree
- 23,8 % disagree
- 24,0 % can't say or don't know

(f) Frequency of visits to casinos

The frequency of visits to casinos reveals that:

- 0,8 % visit casinos daily
- 8,5 % visit casinos once a week
- 5,8 % visit casinos every two weeks
- 20,8 % visit casinos once a month
- 64,1 % visit casinos less often

(g) Buying of lottery tickets

The frequency of buying lottery tickets is as follows:

- 60,5 % buy lottery tickets twice a week
- 24,5 % buy lottery tickets once a week
- 3,3 % buy lottery tickets once every two weeks
- 6,3 % buy lottery tickets once a month
- 5,4 % buy lottery tickets less often

(h) Horse wagering/betting

Those betting on horses confirm the following betting frequency:

- 11,1 % daily
- 21,5 % once a week
- 4,8 % once every two weeks
- 9,2 % once a month
- 53,4 % less often

(i) Expenditure on gambling

The average expenditure in the month preceding the survey (ie April 2002) on gambling amounted to R84,00 per household per month. It is estimated that this amount represents an underreporting in the region of 15 % to 25 %.

The distribution of monthly expenditure on gambling shows that:

- 57,1 % spent less than R50
- 30,5 % spent between R51 and R150
- 9,1 % spent between R151 and R300
- 2,1 % spent between R301 and R500
- 0,9 % spent between R501 and R1 000
- 0,3 % spent between R1 001 and R2 000
- 0,1 % spent more than R2 000

(j) Allocation of winnings

The response to the question: 'If you win money today, on what would you spend it?' reveals that:

- 52,7 % would purchase necessities
- 44,8 % would save it
- 34,5 % would purchase luxury items
- 32,1 % would pay off a debt/bond
- 8,3 % would spent it on entertainment

- 5,9 % would spend it on gambling

Note that respondents were invited to mention more than one item. The above percentages are therefore not indicative of the relative amounts that winners would spend on items. The percentages merely refer to the number of respondents who would spend some of his/her winnings on a particular item.

(k) **Summary**

In terms of gambling behaviour, the following picture emerges:

- just more than a quarter of the population abstain from gambling
- seven in every ten South Africans believe that gambling is acceptable
- seven in every ten South Africans buy lottery tickets
- six in every ten buy lottery tickets twice a week
- two in every ten frequent casinos
- winnings emanating from gambling activities were allocated to a wide variety of items ranging from necessities to luxury items and savings
- gambling money is displaced from a variety of items ranging from necessities to dissavings
- just one in every ten gamblers spent more than R150 per month
- average expenditure per month amounted to approximately R84,00

3. **IMPACT OF GAMBLING ON HOUSEHOLD WELFARE LEVELS**

(a) **Propensity to gamble**

The propensity to gamble is defined as the percentage of household expenditure allocated to gambling. This is calculated at 1,30 % for 2001 and amounts to a total expenditure of R6,8 billion. The propensity to gamble by mode shows that:

- 0,91 % goes to casino gambling (70,0 % of total)
- 0,20 % to horse betting (15,4 % of total)
- 0,19 % to the National Lottery (14,6 % of total)
- 0,002 % to bingo

(b) **Volatility in gambling expenditure**

The South African gambling market portrays typical characteristics of a developing gambling market with substantial volatility. Gambling market maturity will probably only be achieved after the various gambling modes have established themselves.

Market volatility can be illustrated by household expenditure forfeited for lottery ticket sales, namely:

- R1,4 billion in 2000 (from March to December) (Total sales R2,3 billion)
- R1,0 billion in 2001 (decline of 28 %) (Total sales R1,6 billion)

- R3,4 billion to 19 Oct 2002 (increase of 245,3 %) (Total sales R5,6 billion)

Propensity to buy lottery tickets increased from 0,19 % in 2001 to 0,60 % in 2002. If the 2001 levels for other modes are maintained, the propensity to gamble would increase to more than 1,9 % for 2002, up from 1,30 % in 2001.

(c) Expenditure displacement

Forfeiture of other household expenditure items in favour of gambling may range from small pro-rata cuts on various items to the substitution of one item with gambling. Household budget behaviour often consists of small cuts on discretionary items rather than one large substitution.

The following expenditure displacement effects were reported by respondents in the survey:

- 71,3 % from household necessities
- 27,3 % from savings
- 12,8 % from luxury items
- 7,2 % from other entertainment
- 7,1 % from other expenditure

It is important to mention that, since most respondents mentioned more than one item and did not indicate which percentage of money would be sourced from which item, it was not possible to determine the relative importance of the items. The response to this question therefore provides only the items from which displacement takes place and not the proportion of gambling money sourced from the various mentioned items.

(d) Changes in expenditure patterns

Structural changes have taken place in household expenditure patterns over the last two decades away from household products to services. The following increases in expenditure were experienced:

- 324,4 % in educational expenditure
- 243,8 % in medical and health
- 201,0 % in communication (including all phones)

The following decreases in expenditure were reported:

- 64,9 % in reading matter
- 62,9 % in clothing and footwear
- 57,6 % in furniture and equipment

The above figures confirm that household expenditure is showing long-term changes away from retail goods. In addition to gambling, items such as cellphones, health, education and security have increased their shares in household

expenditure. Gambling can therefore not be isolated as the sole cause for expenditure displacement. In addition, some variation may occur from the national average. Some types of businesses (especially those in close proximity of casinos) may experience more severe cannibalisation of their local market.

(e) **Summary**

The volatility of the gambling market resulting from its developing status will probably continue for the next few years. It would seem that expenditure on gambling is highly flexible and still in a development phase. The propensity to gamble may increase to more than 1,90 % in 2002 and may still fluctuate around this in the next few years. It should be realised that the 1,30 % for 2001 and an estimated 1,90 % for 2002 refer to a national propensity for South Africa as a whole. On a microspatial level, some deviations may occur from the national average.

4. IMPACT OF GAMBLING ON THE SOUTH AFRICAN ECONOMY

(a) **Economic impact**

The economic impact of the gambling industry on the economy is determined by the:

- **initial impact**, measured as the direct spending of gambling institutions
- **indirect impact**, resulting from additional activities of suppliers (eg additional bricks, cement and trusses are manufactured with the building of a new casino)
- **induced impact** on the economy due to the increased demand for goods and services by households on the strength of the remuneration earned due to the establishment of, say, a casino
- **total impact** = initial + indirect + induced impacts (the initial impact can be regarded as the actual contribution of the gambling sector)

Impact calculations are done for the period 1994 to 2000. This period falls into a rapid development phase for the gambling industry and major developments were still expected after 2000. Percentage contributions will, therefore, change in future.

(b) **GDP contribution**

The initial impact of the gambling sector in 2000 amounted to just more than R3 billion with an additional spillover effect (indirect and induced impact) of R6,1 billion. The initial impact represents 0,38 % of the GDP of South Africa as a whole. The contribution of the gambling sector by province shows a contribution of:

- 0,63 % in North West
- 0,62 % in Gauteng
- 0,32 % in the Eastern Cape
- 0,26 % in Mpumalanga

- 0,25 % in the Western Cape
- 0,21 % in the Free State
- 0,18 % in KwaZulu-Natal
- 0,11 % in the Northern Cape
- 0,08 % in Limpopo

The fully developed and matured sector in North West (experiencing strong competition at the moment) and the well-advanced sector in Gauteng suggest a GDP contribution of the gambling sector of just below 1 %. The more rural oriented provinces with fewer population concentrations and lower densities suggest a gambling sector's contribution of below 0,5% (eg Mpumalanga which has a fairly well developed gambling sector).

(c) **GDP multiplier**

The GDP multiplier of the gambling sector is calculated at 3,00. This means that for every initial R100 value added (GDP) generated by the gambling sector, a further R200 value added (GDP) is produced through the indirect and induced effects of the initial gambling activity.

(d) **Capital investment**

In contrast with operational expenditure, capital investment is a once-off expenditure activity not repeated at the same level on an annual basis. Limited investment in the industry materialised during the 1994 to 1996 period. No less than R10,1 billion was invested between 1997 and 2000, representing 2,1 % of the total South African capital formation of R493,7 billion during the 1997 to 2000 period.

The share in investment by province is:

- 53,5 % in Gauteng
- 18,0 % in the Western Cape
- 11,4 % in KwaZulu-Natal
- 5,9 % in the Eastern Cape
- 5,5 % in North West
- 5,0 % in Mpumalanga
- 0,4 % in the Northern Cape
- 0,3 % in the Free State
- <0,1 % in Limpopo

(e) **Employment contribution**

The employment contribution of the gambling sector in 2000 amounted to:

- 16 103 initial employment
- 34 570 direct and induced employment
- 50 673 total employment

This represents 1,1 % of total South African employment in the formal nonagricultural sectors in 2000. The provincial distribution of initial employment by the gambling sector was as follows:

- 40,5 % in Gauteng
- 20,6 % in North West
- 10,9 % in the Western Cape
- 9,8 % in KwaZulu-Natal
- 8,5 % in the Eastern Cape
- 4,2 % in Mpumalanga
- 2,8 % in the Free State
- 1,8 % in Limpopo
- 0,9 % in the Northern Cape

(f) **Employment multiplier**

The employment multiplier of the gambling sector is set at 3,15. This figure, which includes indirect and induced jobs created as a result of the development of the gambling sector, means that for every 100 jobs created in the gambling sector itself a further 215 jobs are generated in the rest of the economy.

(g) **SMME development and empowerment**

As part of collecting data for the economic impact report, some information was also collated on economic empowerment approaches by institutions in the gambling industry. The following can be reported:

- A large number of roleplayers in the gambling industry instituted policies aimed at benefiting small business development. Examples in this regard include procurement preferences, provision of finance for establishing SMMEs, maintenance of SMME databases, SMME subcontracting during the construction phase, provision of business infrastructure to the local communities in complexes, etc.
- Various schemes were designed by institutions to involve historically disadvantaged individuals (HDIs) as co-owners of newly established companies. These include equity schemes, equity funder of last resort, a predetermined percentage of equity that has to be owned by HDIs, appointment of HDI directors on company boards, etc.
- Community upliftment programmes were instituted by companies, for example trust funds to support various local NGO initiatives, upgrading of roads in less developed areas, donations towards community development, etc.

The above portrays some initiatives by roleplayers in the gambling industry to contribute to black economic empowerment. It is not meant to be exhaustive in

terms of programmes or covering the initiatives of all roleplayers in the industry. A separate study on black economic empowerment in the gambling industry has been initiated by the NGB. A request for proposals has already been advertised by the NGB in this regard.

(h) **Summary**

With its initial contribution of just more than R3 billion and a GDP multiplier of 3,00, the South African gambling sector contributed 0,38 % directly to the South African economy and just more than 1 % including the spillover effects. This may increase further given the development phase of the gambling industry at the time of compiling the report.

5. INTERNATIONAL COMPARISONS

(a) **South Africa in SADC**

The dominance of the South African gambling sector in SADC is illustrated by the fact that South Africa represents:

- 84,4 % of gross casino turnover in SADC
- 88,6 % of lottery gross turnover
- 78,5 % of gross gambling turnover (all modes)

as well as:

- 73,9 % of gross casino yield
- 89,1 % of gross lottery yield
- 76,0 % of total gross gambling yield (all modes)

Gross turnover represents the actual amount gambled with operators while the gross gaming yield (or revenue) is defined as the gross turnover less the amount paid out to customers as winnings. The latter provides a true representation of punters' losses and thus the real economic value of the gambling industry.

(b) **South Africa in world perspective**

South Africa is rated exceptionally high in world gambling terms. In 2000, South Africa's ranking was:

- 14th in gross gambling turnover
- 28th in gross gambling per capita
- 23rd in gross gambling yield
- 38th in gross gambling yield per capita
- 8th in gross casino yield
- 17th in gross casino yield per capita
- 39th in lottery sales
- 46th in lottery sales per capita

(Note that the above rankings materialised in a developing and growing gambling market in South Africa.)

The relatively high rankings should be viewed against the backdrop of South Africa being ranked only 91 in the world with regard to per capita gross national income (GNI) as a welfare indicator. This is far lower than South Africa's more prominent position with regard to gambling. In the majority of cases (especially in per capita terms), only the wealthier countries in North America, the European Union and the Far East received a ranking higher than South Africa in gambling terms.

(c) Comparing propensity to gamble

The propensity to gamble is the most reliable indicator of the importance of gambling in a particular country or community. The propensity to gamble in South Africa compares as follows to a few selected countries:

	Propensity	Per capita income
• South Africa (2001)	1,30 %	US\$3 020
• South Africa (2002)	1,90 %	N/a
• USA (2000)	0,6 %	US\$34 100
• New Zealand (1997)	1,04 %	US\$12 990
• Australia (1997/98)	3,10 %	US\$20 240

The above shows that the estimated 2002 propensity in South Africa is three fifths of the propensity in Australia, three times that in the USA and almost twice that in New Zealand. Per capita income of the USA was almost eleven times higher than that of South Africa in 2000, while that of Australia was almost seven times and that of New Zealand four times that of South Africa.

6. CONCLUSION

It is probably safe to conclude that South Africa currently portrays a relatively vibrant gambling sector, making it one of the leading gambling nations in the world. It should, however, also be noted that high growth is experienced in provinces previously excluded from gambling activities while others such as North West, with a highly developed casino industry under the previous dispensation experienced strong competition from other provinces resulting in a decline in gambling activities, especially from 1999 onwards. The vibrance is illustrated by, *inter alia*, the relatively high participation rate in gambling activities, high level of acceptability of gambling among the South African population, relatively high level of propensity to gamble and South Africa's high ranking among leading gambling nations of the world (notwithstanding its developing status).

This vibrance has been achieved within a relatively short time span of not more than five years. During the course of these few years the gambling sector has shown typical characteristics of a developing gambling market with substantial volatility. Gambling market maturity will probably only be achieved after the various gambling modes have established their physical presence and developed and marketed their products as

envisioned by the various role players. This study has, therefore, established a scientific and sound economic base line of the gambling sector in South Africa as experienced during its final development phase during the 2000 and 2001 period. A follow-up economic impact study in two to three years' time would allow the detection of any new trends in a more mature market.