

Chief Executive Officer's Report

Introduction

After seven years of legalised gambling activity, the South African gambling industry seems to be reaching a plateau. A picture of this industry's general trends and its effects on the economy and society is beginning to emerge.

Where the picture is still blurred, research is being undertaken to help the Board make informed decisions. The year under review saw the following highlights.



Sfiso Buthelezi
Chief Executive Officer

Public Finance Management Act (PFMA)

The Board was listed as a Schedule 3A public entity on 1 April 2001. This necessitated a comprehensive implementation programme to ensure that the Board complied with the provisions of the Public Finance Management Act and the Treasury Regulations issued thereunder. Proof of our success in this regard is reflected in the clean report issued by the Auditor-General in respect of the year under review.

It is the belief of the Board that good corporate governance is the backbone of any organisation. The Board therefore upholds high standards of corporate governance as it carries out its mandate and continues to adhere to the best practices of corporate governance.

Board Chairperson appointed to top IAGR position

In January 2002 Board Chairperson Mr Chris Fismer was appointed Deputy Chairman of the International Association of Gaming Regulators (IAGR). This appointment signified the international gaming community's vote of confidence in the progress that South Africa has made in gambling regulation within a short space of time, as well as South Africa's contribution in other international conferences and forums.

Mr Fismer is the first individual from "developing countries" to hold such a senior position in IAGR since its inception. He is an authority on gambling matters and has been involved with the process of legalised gambling in SA from the onset.

Responsible Gambling

One of the challenges faced by all gambling jurisdictions is to minimise negative effects and maximise positive effects of gambling. While gambling contributes to a country's economy through gambling taxes, investments, employment creation and enhancement of BEE, individuals need to be educated about the negative effects of gambling.

The Board faced the vital and critical task of developing a comprehensive programme to address the negative effects of gambling and encourage gambling in a responsible manner.

The Board began this campaign early in 2001 by spearheading the establishment of the South African Advisory Council on Responsible Gambling (SAACREG). The 24-member SAACREG is representative of all gambling industry stakeholders, namely: regulators, operators, manufacturers and civil society. This collaboration between regulators and the private sector in promoting responsible gambling is a world first.

The initiative has been lauded by reputable jurisdictions such as the United Kingdom (UK). The Budd Commission, which investigated the review of gambling in the UK last year recommended a similar voluntary public-private sector approach for the promotion of responsible gambling in that country.

Promotion of responsible gambling protects not only society, but a country's economy as well, against the negative impact of gambling. In South Africa this task is executed with SAACREG's support.

SAACREG has established five committees to thoroughly investigate each aspect of responsible gambling.

National Responsible Gambling Programme (NRGP)

The National Responsible Gambling Programme (NRGP) is a casino industry initiative aimed at promoting responsible gambling and treating problem gamblers.

The NRGP has been the only operational comprehensive programme in the country that incorporates problem gambling research, education and training, counselling and treatment.



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To ensure ownership of the programme by all stakeholders, SAACREG and NRGP representatives agreed to integrate the NRGP with SAACREG objectives. In this regard, SAACREG created the South African Responsible Gambling Trust (SARGT) with the primary goal to fund, manage and direct the activities and the operations of the NRGP in the Republic.

Early in 2002 the elected trustees of the SARGT signed a Deed of Donation and Trust to ensure transition and change of ownership of the NRGP from the casino industry to the gambling fraternity.

The Board, through SAACREG, will continue to advise regulators on appropriate measures and to implement recommended strategies in order to address problem gambling.

Research

The Board during the year decided to conduct a study on the economic impact of gambling in South Africa.

The tender for the research on the Economic Impact of Legalised Gambling Activities in South Africa since 1994 was awarded to a consortium consisting of the Bureau of Market Research and Khalulu Marketing Consulting.

In a nutshell, the study seeks to establish the direct and indirect economic contribution of legalised gambling in the country, such as contribution to Gross Domestic Product (GDP), Gross Provincial Product (GPP), employment creation, foreign investment in this sector, BEE and Small Micro and Medium Enterprises (SMME). It will also focus on the effects of legalised gambling on society by looking at consumer spending patterns and the effect of gambling on household expenditure displacement.

Comparisons of the South African experience with similar countries in respect of GDP growth and development of the gambling industry will also be done.

The results of this study in South Africa will aid the Board in understanding the dynamics of gambling in South Africa and in making informed strategic decisions. This will also help the government to come up with policies to enhance efficiency and effectiveness of regulation.

A complete report on the study will be available before the end of the year.

National Gambling Statistics Database

During the reporting year, the Board continued its drive to formulate a comprehensive user-friendly South African gambling statistics database. This information will go a long way towards keeping the public and stakeholders informed on financial and operational gambling data in the country.

Quarterly statistics for the financial year ended 31 March 2002 were collected from PLAs. The Board is in the process of analysing the submitted data and will publish comparative and trend analyses obtained from this data.

Horseracing

The South African horseracing industry continued its rocky ride. One of the country's two biggest horseracing operators, Phumelela Gaming and Leisure Limited, closed Gosforth Park Race Course in Germiston in an attempt to right-size its business. During this reporting period the Limpopo province reduced its totalisator tax rate from 9% of turnover to 35% of turnover, bringing it in line with Gauteng province's rate.

Tax reduction negotiations continued with Mpumalanga Province and its province's horseracing operators. Mpumalanga had previously agreed to a tax reduction, but this was awaiting their provincial legislature's approval.

The North West Province, which for many years collected little or no betting taxes, is in the process of introducing amendments to its gambling legislation, which will result in a new tax rate for horseracing.

The Board is in negotiations with the Jockey Club of Southern Africa, the "self regulatory" authority overseeing horseracing within the Republic, trying to find ways to bring the regulation of this industry in line with other forms of gambling. We hope to find a mutually acceptable way of dealing with this challenge.

During this review period, the bookmakers' Wagering Record-keeping Systems, SABS I718-4, was finalised. This will become the new technical specification for all computerised bookmakers' wagering systems in the country and will be phased in for use by all provinces.



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Internet Gambling

Unforeseen hurdles have delayed the long-awaited process of legalising and regulating Internet gambling in South Africa. One of the main reasons for this delay is the review of the National Gambling Act, 1996 that was started by the Department of Trade and Industry in the last quarter of the report year.

In 1999, Minister Erwin tasked the Board to investigate legalisation of Internet gambling in the country. In October 1999, the Board hosted an Internet conference to solicit the views of stakeholders on the subject. The sixty-plus stakeholders who attended were in favour of legalisation and regulation of Internet gambling in South Africa.

In February 2000, the Board recommended the legalisation and regulation of Internet gambling in South Africa. The Board reiterated this recommendation to Minmec (a body comprising Minister Erwin and Provincial MECs responsible for gambling). In October of the same year a decision was taken by Minmec that the Board should present a national regulatory framework on Internet gambling for their consideration.

During the report year, the Board appointed Global Gaming Services-Australia (GGS-AU) to develop an appropriate draft legislative framework for Internet gambling and prepare a set of draft regulations on interactive gambling.

The Board and GGS-AU completed the legislative framework and policy paper for Internet gambling and presented these to the Minister of Trade and Industry. GGS-AU recommended, among other things, that the regulation of Internet gambling be a national responsibility.

Minister Erwin initiated a process of including an enabling clause in the amendments of the National Gambling Act to allow the Board to regulate Internet Gambling. During the South African National Gambling Conference held in Sun City early in 2002, the Minister referred to Internet Gambling regulation as a national competence. The Minister further confirmed that some aspects of the country's gambling legislation would be reviewed in order to create uniformity and efficiency in legislation. He said this would be done by the end of 2002.

Central Electronic Monitoring System and Limited Payout Machines (LPMs)

When the National Gambling Act, 1996 was promulgated, another gambling mode was provided for, viz. gambling machines outside casinos, known as limited payout machines (LPMs).

This form of gambling is aimed at empowering small businesses and promoting BEE by allowing LPMs in places such as taverns, bars and other small business outlets. LMP gambling would be properly regulated to prevent destructive competition to other forms of gambling and to guard against over-stimulation of gambling. LPMs offer a limited payout of R500 and a limited wager of R5, with no provision for linked jackpots.

The Act allows for 50 000 LPMs countrywide. The regulations provide for two categories of business sites in this sector. The first will be allowed a maximum of five LPMs per site. The second can operate six up to 40 LPMs on good cause shown.

For these machines to operate, a legal framework had to be established through regulations. One of the regulatory requirements for LPMs is that all these machines should be linked to a single central electronic monitoring system (CEMS). In April 2001 the Board appointed Zonke Monitoring Systems (Pty) Ltd to provide and operate the CEMS on behalf on the Board.

The KwaZulu-Natal Gambling Board opted not to connect to the CEMS, which has a capacity to link all the 50 000 LPMs catered for by the Act. In November 2001 the Board applied to the Constitutional Court to stop the KZN Gambling Board from having its own monitoring system.

The Constitutional Court ruled that both parties had not satisfactorily complied with the requirements of section 41 of the Constitution, which stipulates that organs of the state should exhaust every avenue of dispute resolution before taking a matter to court.

The court found no relevance in interpreting the legislative powers of the national and provincial gambling Acts, or in considering the commercial and regulatory merits of a provincial versus national monitoring system.

At the end of the report year a meeting was awaited between the KZN Premier and Minister Erwin to resolve this matter amicably.

The Board continues to engage the PLAs and prospective industry operators to determine ways of speeding up the process of licensing LPMs and finding amicable solutions to disagreements.

Following on last year's awarding of the CEMS contract, the Board and Zonke Monitoring Systems signed a service level contract (SLC) in December 2001.

Prospective investors in this industry are waiting for the PLAs to either finalise their LPM policies or call for applications for licences.



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Certification of the CEMS by the South African Bureau of Standards (SABS) is also pending. The Board has been working with the SABS to finalise this process.

Illegal Gambling

While the Board acknowledges that the arrest of illegal gambling operators and the confiscation of illegal gambling machines remain primarily a provincial responsibility, it is obvious that illegal gambling knows no provincial borders. To fulfil its mandate as expressed in the National Gambling Act, the Board, in 1999, launched a campaign against illegal operations through co-operation with the National Directorate of Public Prosecutions and the South African Police Services.

During the report period, the Board continued its co-operation with PLA inspectors and South African law enforcement agencies.

In June last year the National Gambling Board, KZN gambling unit of the SAPS, the Directorate of Special Operations as well as the Assets Forfeiture Unit, collaborated in the arrest of one of the biggest illegal gambling operators in the country. At the end of the report year the case was nearing its completion.

As reflected in the performance report on page 12 to 16 the Board, in collaboration with the law-enforcers, achieved significant successes.

Conference

One of the permanent items at the top of the Board's agenda is promotion of dialogue within the South African gambling industry operators and regulators. This enhances understanding of one another's operations and bodes well for effective regulation. To facilitate this, the Board decided to host its second gambling conference.

This would be a follow-up to a similar conference that the Board held in 2000.

By the end of the report period preparations for the conference were at an advanced stage. The conference was scheduled to be held at Sun City on 18 - 19 April 2002. The Board had budgeted for about 350 local and international delegates.

Three international speakers and 12 local speakers were expected to attend. All three international speakers accepted the National Gambling Board's invitation to speak at the conference - Mr Leta Mosienyane, the Chairman of the Botswana Gaming and Betting Board, on the topic of the evolution of gambling in the rest of the African continent; Mr Steve Toneguzzo, President of Global Gaming Services, to address the conference on the international perspective on Internet Gambling, and, Mr Peter Dean, Chairman of the Gaming Board of Great Britain and IAGR, to give an international overview of gambling.

The Board expects this conference to continue its tradition as a biennial event and hopes to develop this conference's stature to put it on the "not to miss" international gambling conferences list with comprehensive issues, constructive debate as well as co-operation in adopting plausible recommendations.

Conclusion

The coming year promises to see a number of projects and operations come to fruition. The review of the National Gambling Act and its implications is being awaited with bated breath and will no doubt form a major part of our 2003 annual report.

Sfiso Buthelezi
Chief Executive Officer