

February 2003

Executive Summary

Economic Impact of Legalised Gambling in South Africa

STUDY COMMISSIONED BY THE



National Gambling Board of South Africa

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

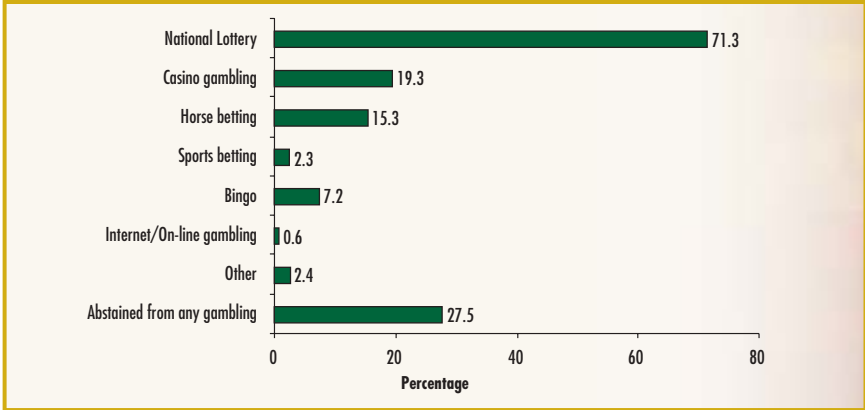
(a) The sample

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

Figure 1 shows the participation in gambling activities during the twelve months preceding the survey.

FIGURE 1 PARTICIPATION IN GAMBLING BY GAMBLING MODE DURING THE TWELVE MONTHS PRECEDING THE SURVEY



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 table 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 %

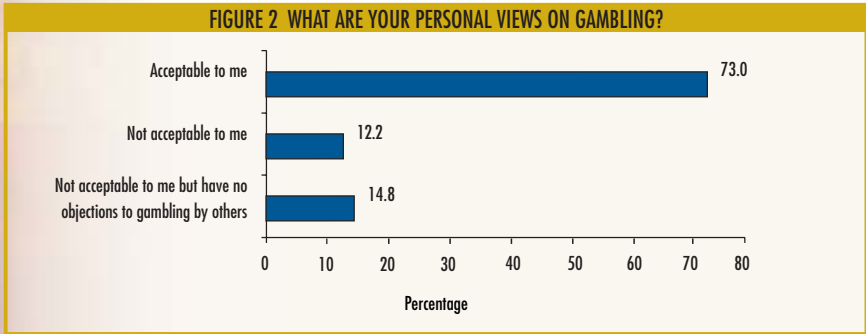
(c) Reasons for non-participation

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

Figure 2 shows the personal views of the respondents on gambling.



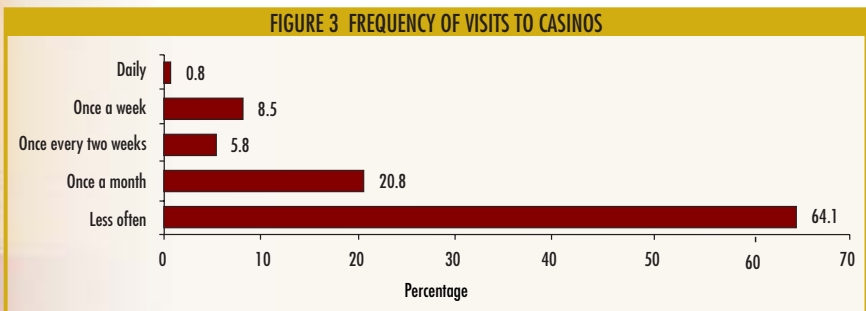
(e) Casino gambling as a leisure activity

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

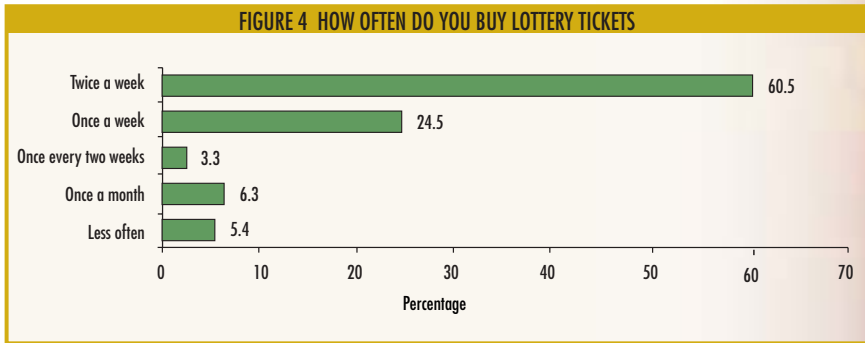
(f) Frequency of visits to casinos

Figure 3 reveals the frequency of visits to casinos.



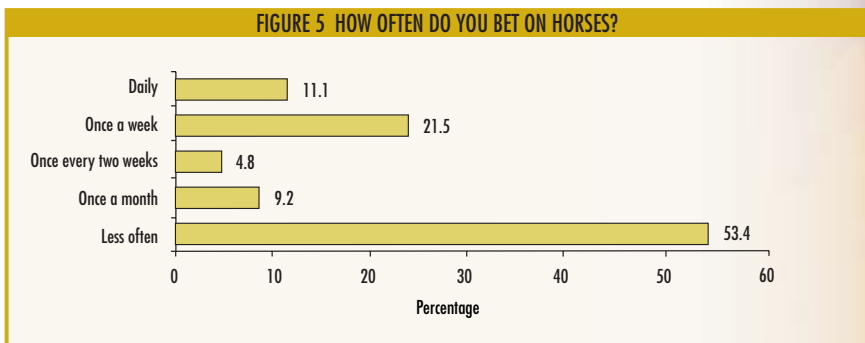
(g) **Buying of lottery tickets**

The frequency of buying lottery tickets is shown in figure 4



(h) **Horse wagering/betting**

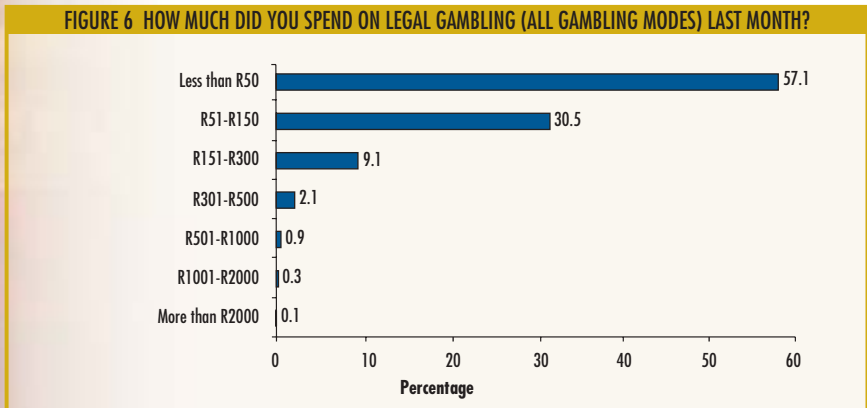
The betting frequency of those betting on horses is shown in figure 5.



(i) **Expenditure on gambling**

The average expenditure in the month preceding the survey (i.e. 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 is shown in figure 6.



(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 their winnings on a particular item.

(k) Summary

In terms of gambling behaviour, the following picture emerges:

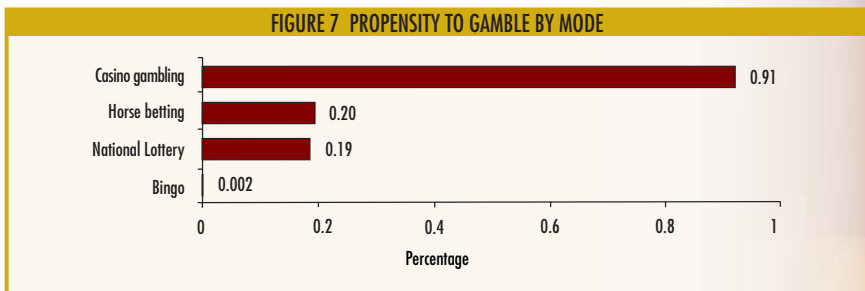
- just more than a quarter of the population abstain from gambling
- seven in every ten South Africans believe that gambling is acceptable
- seven in every ten South Africans buy lottery tickets
- six in every ten buy lottery tickets twice a week
- two in every ten frequent casinos
- winnings emanating 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 on gambling.
- 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 is shown in figure 7.



(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)

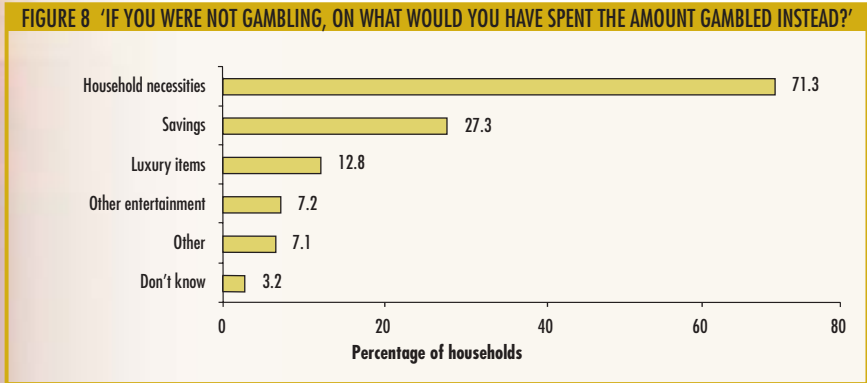
Propensity to buy lottery tickets increased from 0,19 % in 2001 to 0,60 % in 2002. If the 2001 levels for other modes are maintained, the propensity to gamble would increase to more than 1,90 % for 2002, up from 1,30 % in 2001.

(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.

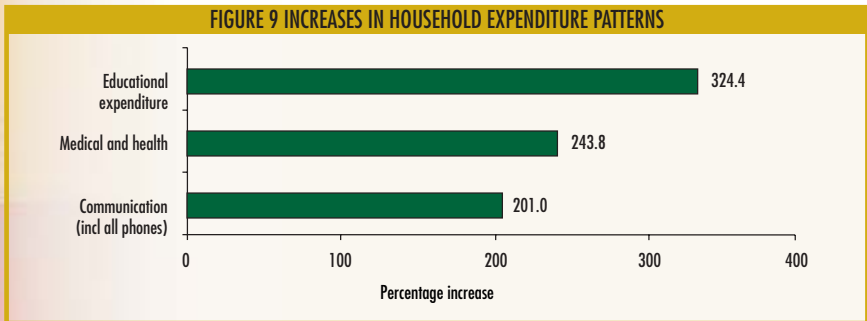
Figure 8 depicts the expenditure displacement effects reported by respondents in the survey.



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 increases in expenditure is shown in figure 9.



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**

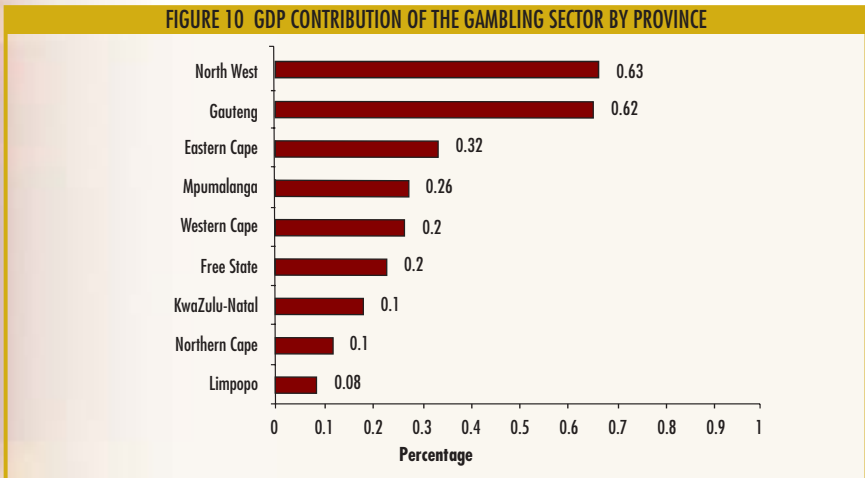
The economic impact of the gambling industry on the economy is determined by the:

- **initial impact**, measured as the direct spending of gambling institutions
- **indirect impact**, resulting from additional activities of suppliers (e.g. 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 is shown in figure 10.



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% (e.g. Mpumalanga which has a fairly well developed gambling sector).

(c) GDP multiplier

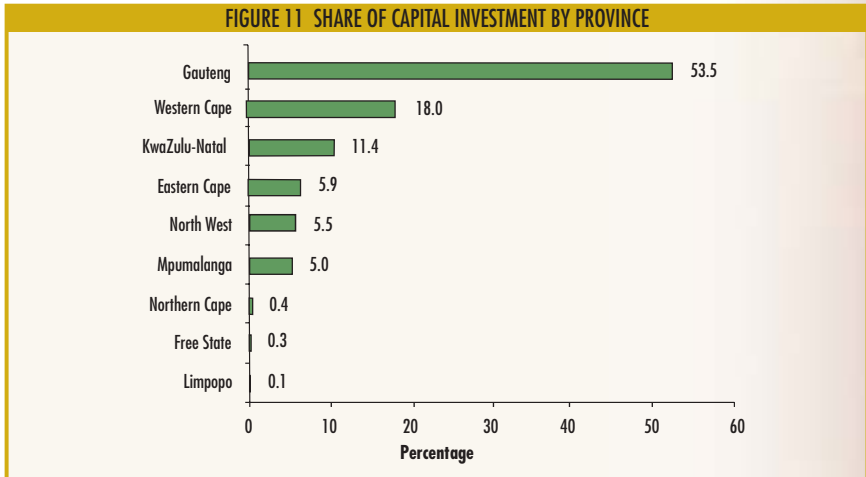
The GDP multiplier of the gambling sector is calculated at 3,00. This means that for every initial R100 value added (GDP) generated by the gambling sector, a further R200 value added (GDP) is produced through the indirect and induced effects of the initial gambling activity.

(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

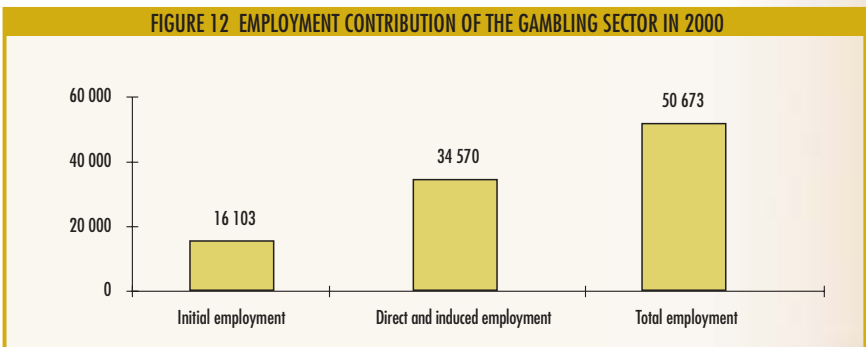
was invested between 1997 and 2000, representing 2,1 % of the total South African capital formation of R493,7 billion during the 1997 to 2000 period.

The share in investment by province is shown in figure 11.



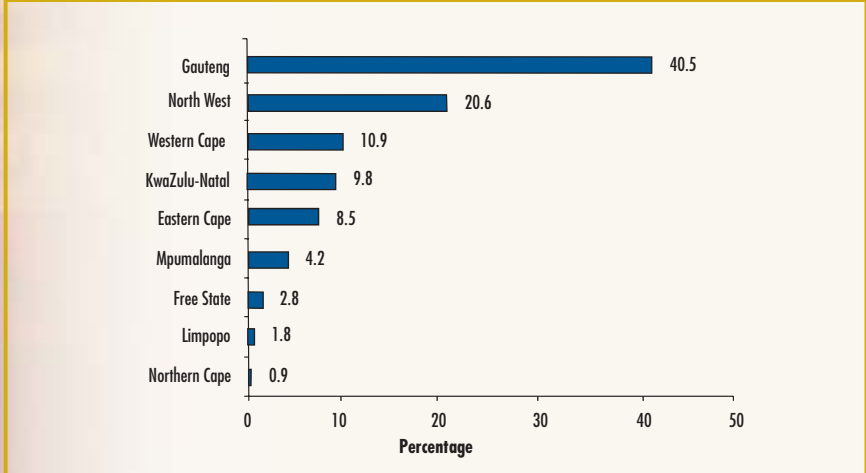
(e) Employment contribution

Figure 12 shows the employment contribution of the gambling sector in 2000.



This represents 1,1 % of total South African employment in the formal non-agricultural sectors in 2000. The provincial distribution of initial employment by the gambling sector is shown in figure 13.

FIGURE 13 PROVINCIAL DISTRIBUTION OF INITIAL EMPLOYMENT BY THE GAMBLING SECTOR



(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.

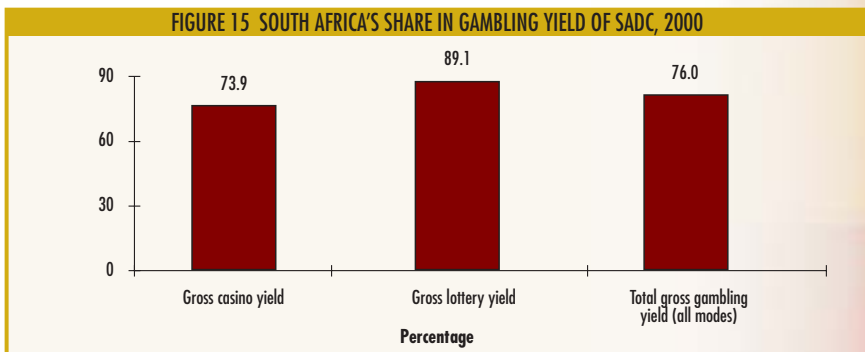
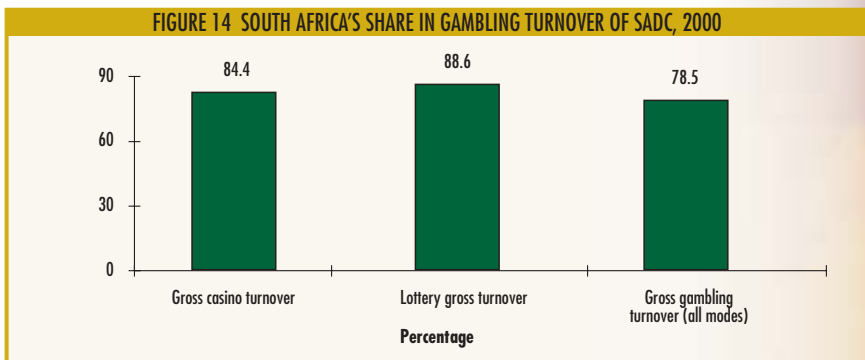
(h) Summary

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

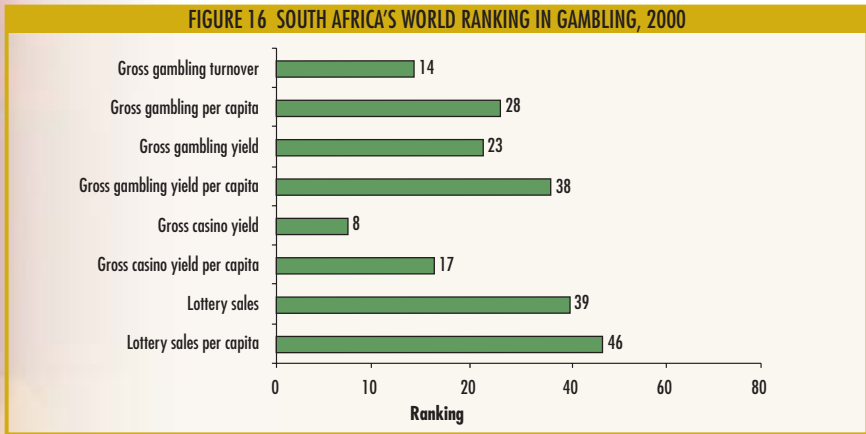
The dominance of the South African gambling sector in SADC is illustrated in figure 14 and 15.



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. Figure 16 shows South Africa's ranking in 2000.



(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 vibrancy 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 vibrancy 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 envisaged 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.

GLOSSARY

GDP	- Gross domestic product
GNI	- Gross national income
HDI	- Historically Disadvantaged Individual
NGO	- Non Governmental Organisation
SMME	- Small, Medium and Micro Enterprise



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