

Alternativní loterijní systémy v Evropě a klíčové proměnné pro využití loterie jako finančního zdroje pro sport

Alternative lottery systems in Europe and key variables for using lottery as a financial resource for sport

Marek Pavlík, Filip Hruža

*Faculty of Economics and Administration, Masaryk University, Brno
Ekonomicko-správní fakulta, Masarykova univerzita, Brno*

Abstrakt

Finanční podpora sportu z veřejných rozpočtů má dlouhou tradici, třebaže v porovnání s jinými prioritami státu nemusí být sport vždy mezi nejvyššími prioritami. Nedostatek přímých veřejných zdrojů si vynucuje hledání alternativ. Loterie a hazardní hry se jeví jako samozřejmý předmět mimořádného zdanění, respektive přerozdělení části zisku na soustavu dobrých účelů včetně sportu. Otázka je, jak toto „přerozdělení“ provést správným způsobem. V praxi jsme zaznamenali mnoho různých metod od převodu přímé daně do státního rozpočtu po přerozdělení zisku z loterie sportovní organizaci vybrané loterijní společnosti. Cílem příspěvku je shromáždit alternativní přístupy k loterii jako nástroji financování sportu ve vybraných zemích a rozpoznat a diskutovat relevantní a nejdůležitější proměnné pro loterijní systém.

Abstract

Financial support of the sport from public budgets has a long tradition however sport in comparison with other state priorities needn't be always among top priorities. Lack of direct public resources enforces seeking alternatives. Lottery and gambling seems to be natural object for extra taxation respectively reallocation part of profit to the good purposes scheme including sport. The question is how to do this "reallocation" in proper way. We have noticed many different methods in practice from direct tax transfer to the state budget to reallocation of lottery surplus to sport organization selected by the lottery company. The aim of the paper is to gather alternative approaches to the lottery as a tool for sport financing in selected countries and to identify and discuss relevant and most important variables for the lottery system.

Klíčová slova: sportovní politika, loterie, financování sportu, dotace.

Key words: Sport policy; lottery; sport finance; subsidies.

Pokrývá IGA VŠE F3/123/2014

1 INTRODUCTION

Sport is a phenomenon recognized and supported by almost each country around the world. Although state interventions into sport needn't be always positive (see cold war cases, misusing drugs, cheating etc.) but in fact being active or passive participant in sport is natural part of life. States usually support sport because of two main reasons (1) to achieve a victories, to gain Olympics medals, or simply to make a nation proud though their athletes results. To achieve this aim states support not only their actual athletes but also whole system of future athlete's preparation. Second reason (2) is support of sport activities for masses as part of healthy life style and to satisfy peoples' natural need of entertainment. However the state financial resources are limited

(see e.g. Nemeč et al 2013) and seeking other resources inevitably put a focus on lotteries and gambling. Despite the global presence of lottery games, there has been little research conducted on any international aspect of lotteries (Garrett 2001). At the very beginning of this paper it is important to distinguish lottery from gambling or betting as it could seem that they are synonyms. The opposite is true and from the perspective of this paper aim it is highly desirable to define both terms in the proper way. The issue of a range of those definitions is associated with relevant law regulation as national legislature across different countries distinguish those terms and build the construction (e.g. for financing of sport from lottery) based on proper definition of the term. Gambling is a general term or process used for certain human behavior or acting. On the other hand lottery is a specific form of gambling which is usually strictly regulated by governments and the level of regulation differs case to case from the minimum to maximum level of regulation. Due to the paper limitations we can only briefly identify their differences but the real difference between them is visible in daily practice. While lotteries usually have many participants in one single game with similar chance to win and transregional format; betting is usually associated with betting on sport events and matches results based on global format (you can bet on events out of residents country); and least but not last is gambling which usually have a local character associated with slot machines and casinos. There are various legislation approaches in each country to all mentioned types of hazard with different methods of regulation. This particular issue will be one that will be addressed further in the paper.

Payment from lottery to “good purposes” are considered by some authors as another state tax (e.g. Hansen 2005, Daniels 2006) and thus assumption for directing some of revenues into good causes and public activities even it has some different features than tax. The advantage of such specific type of tax from the regular one is that the involuntarily taxation process is not so significant and it also brings the benefit to the payer in form of chance to win. Based on above mentioned arguments the lottery is a way of how countries can raise the funding of publicly provided services in recent time.

We gathered examples from 10 selected European countries; sort them and discuss advantages and disadvantages of identified methods. Even the analyzed countries are in one community (either the EU or EMU), there are different architectures of systems of financial support to the sport industry. The discussion about the importance of sport funding via lottery revenues is important actually because there is in some countries ongoing discussion about regulating lottery business recently. Those countries which intend to regulate the lottery business downward could potentially achieve loss of income into sport from lotteries resulting from those intended regulations but this is hypothetical situation and it depends on the chosen type of regulation. We do not expect to find only one “perfect” lottery system, however we want to identify key variables which affect the system function. The comparison among selected countries enables to catch important factor and to discuss their relative strength and weaknesses. This comparison may be useful for any country seeking the way of how to improve their own system efficiency.

The European Lotteries 2013 argues that 23.2 billion euro was paid to society in 2011 by lottery operators in various forms on different purposes (75% of this resource were transferred to public budgets), among them also sport which received €1.5 billion of the total amount. Europe Economics calculate in aggregate 3,4 billion of euro allocated directly on sport thus we can emphasize the role of this external resource for sport financing. Following mentioned arguments and data we can say that almost 45% of this sum is represented by lotteries. However the impact of these moneys will depend on the allocation rules. From youth sport support to support professional teams; we can see important differences among examined countries as well as in the attitude of given lottery companies.

Eurostrategies (2010) estimates that through sport ministries (or other responsible ministries) it is allocated 3.2 billion euro, hence the lottery represents approximately 10% extra of total resources, while from local authorities it is almost 25 billion euro. Thus it is calculated that in EU almost 30 billion euro flows from public sources into sport.

We have to emphasize, that sum of public money allocated by ministries budgets may be enabled through tax revenues from the lottery. On the other hand the sum of public money seen in ministries budgets may be only smaller part of total public expenditures on sport (e.g. Czech republic according CZSO 2012 spends 111 mil. euro at the ministry level and another 370 mil. euro at the municipality level).

Anyway, aggregated results do not provide sufficient information about the countries differences properly and they can be introduced only as basic tool for comparison one country to the average situation.

Finally, to demonstrate the meaning of lotteries, we compare selected countries through expenditures per capita and though a share on total expenditures. Although the amount seems to be marginal there are two important factors: 1) part of expenditures is not caught in this statistics and 2) differences among countries are influenced by the “sport” versus “other good causes” decision.

Table 1: Percentage of lottery money on sport from the state budget expenditures

Country	Amount for sport from lottery (mil. Euro)	Contribution of lotteries to the financing of sports; in euro per capita per annum (2010)	Total general government expenditure (mil. euro)	% of lottery money to sport to general government expenditures
Austria (2009)	71	6	145 332	0,049
Czech Republic (2008)	62	4	63 478	0,098
Denmark (2008)	99	26	121 145	0,082
Estonia (2006)	1	1	4 499	0,042
Finland (2008)	104	17	91 372	0,114
Germany (2008)	361	6	1 090 460	0,033
Hungary (2008)	16	2	51 968	0,032
Slovenia	n. a.	6	n. a.	n. a.
Spain (2008)	116	3	450 348	0,026
UK	n. a.	8	n. a.	n. a.

Source: modified, Eurostat; Eurostrategies consortium; Eurostrategies. The different funding models for grassroot sports in the EU 2010

The above shown table demonstrates that even within EU area there are huge differences in the total sums or relative numbers that are directed to sport from lotteries. While the whole issue is more complex and thus complicated we try to provide deeper insight of this system in various countries through model typology identification and comparison of these models based on synthesis of knowledge and secondary research.

2 METHODS AND METHODOLOGY

The aim of the paper is to identify and sort main approaches to the lottery in selected countries as a tool for sport financing and to identify and discuss most important variables for the lottery system including discussion of their general strength and weaknesses in matrix synthesis. According to the aim of the paper we use relevant literature for analyzing different systems of financing sport in selected countries and identifying their main relevant features. The discussion is based on secondary data analysis and relevant country legislation concerning lottery.

To narrow down the research area we emphasize only lotteries and do not analyze whole gambling environment as the whole issue is very complicated and deeply heterogeneous. The reasons are rooted in huge differences among countries and the fact lotteries are more often perceived as a traditional tool for sport financing regulated by the state while the gambling is more complex activity affected by state generally only through taxes (or extra taxes).

Lottery in terms of funding process differs from gambling in the following aspects:

1. smaller proportion of prize payouts in total distribution
2. higher proportion of taxes in total distribution
3. slightly larger operating costs
4. slightly higher contribution on sport

For example in Finland where Veikkaus (2012) operates, the lottery company sales structure is following: good causes activities (28,1%), operating costs (8,2%), retail commissions 4,6%, lottery tax (5,6%) and prize payout (53,6%).

3 RESULTS

Before we compare selected countries and identify important factors; we have to consider following question. What is the state policy in the context of sport? In other words, how important is the sport for the state or society? The more important sport is the more resources needs. Hence we can assume that states with higher sport preferences will reallocate more resources on sport including more lottery resources.

For the purpose of this paper and its aim there have been identified following variables:

1. The level of state regulation through licensing the method of transfer of lottery earning to sport purposes.
 - This variable is derived from basic economic questions - how can company enter the market and how freely can a company operate on the market
2. Method of lottery earning transfers
 - In other words what is the mechanism of transfer dedicated sum of money (e.g. percentage of profit) and who is recipient of this amount of money? The recipient can be also a decision-maker, hence this variable is not only technical issue.
3. Competences of the recipient of lottery earning
 - The recipient can be only transfer center which is acting according the law or the cabinet decision or it can be more or less independent authority with competencies to allocate received money.
4. The prevalent purpose of lottery earnings transfer
 - There are two option - transfer to "good causes" while sport is among them or transfer entire earnings to sport.

Identification of relevant variables in the context of this paper research is one of fundamental determinants to fulfill the aim of this paper. Above mentioned variables are in following text closely defined and following international comparison is made based on mentioned variables and their available and known options.

A. *Level of state regulation*

The level of the state regulation is usually determined by relevant lottery law or system of legislation (more relevant laws). The lottery companies may be seen as a standard business enterprises or may be regulated strongly than the standard is. There is also an alternative of the state monopoly. The first choice for the state is between public monopoly and public versus private competition model. The first choice offers a better regulation in form of state control and lower administrative costs of the system (savings associated mainly with marketing costs elimination), however competition model may offer higher total revenues (if we assume that competition leads to better product quality with reasonable prices).

The level of this regulation determines who is the decision maker in the context of tax allocation and directs financial sport support allocation. The "competitive model" can be also more or less regulated by the law. Based on the knowledge of relevant Czech legislation we have identified

following universal aspects or variables relevant to lottery regulation – the placement of the lottery company headquarter, ownership structure, gaming principal amount or hedging deposit, country placement limit for implementation of lotteries, level (percent) of the proceeds from the lottery, purpose of using part of the proceeds, etc.

To present two different extreme systems we have distinguished all examined countries in following distribution:

Table 2: Type of lottery license system in selected countries

Public monopoly (state)	Private competition with state franchise / mix of state company with private
Austria (one license)	United Kingdom (state-franchised national lottery, National Lottery is a private lottery operator but only one license exists, very difficult to enter the market)
Germany (regional level – Bundeslands)	Estonia (licenses to a state-owned enterprise or to a not-for-profit association)
Denmark	Slovenia (private lotteries can operate in the country, subject to obtaining a license)
Finland (Finland national lottery)	Czech Republic (market is open to private lotteries, except foreign)
Hungary (only state-owned companies can apply for a lottery license through a state concession)	
Spain (state monopoly on lotteries, not to all types of betting and gambling activities)	

Source: authors.

Different architecture of lottery system through licensing can bring various benefits as well as disadvantages. Lottery operated by public monopoly could tend to rigidity of its business which can downgrade the level of sales and thus lower money to good causes projects among which is sport. On the other hand private competition can potentially bring higher sales because of more lotteries where people can bet their money but conversely higher and tougher competition among more lottery companies can also cause higher additional costs (higher marketing costs, higher winning payouts, higher operational costs etc.). This does not mean that public monopoly system has to manage lottery with lower costs especially in case of lower efficiency occurrence. It seems that not only in case of lottery business both types have dark sides.

Aside from the monopoly versus competition debate there is no country with completely unregulated market. The purpose of the regulation is always the same – to get extra money to public budget (or to cover pro society expenditures including sport).

Specific problem in the context of national lottery regulation is the phenomenon of online bets when strong company provides national language support but their headquarters are located usually in tax free countries. Hence these companies may tempt money from country but did not return part of them back though supporting of local good causes.

B. Method of lottery earnings transfers

Second variable based on the assumption that part of lottery earnings flows to sport industry is about the identification of different redistribution systems in selected countries and also in this case can be similarities between some countries. We identified four methods which are enlisted according the level of the state regulation:

1. Ministry budget – most used alternative however there are differences in transfer mechanism. E.g. Austria (Austrian Federal Sport Organization), Denmark (State budget and Ministry of Culture), UK (Department of Culture, Media and Sport), Estonia, Finland (State budget and Ministry of Education), Germany (Regional budgets – Bundesländern), Hungary (State budget), Czech Republic (since 2012)
2. Special dedicated fund – this method joins principle of self-regulation and state control, i.e. establishing special funds managed by representatives of the state and major non-profit organization (i.e. national Olympic committee). This option is used by France, Slovenia and Spain
3. Direct transfer to determined non-profit organizations (usually big sport federation) or Direct transfer to non-profit organization according a donors' will – this alternative is based on assumption that free will may generate higher total benefit than centralized redistribution. This alternative was e.g. in the Czech republic before 2012.

The form of flow direction of lottery proceeds from lottery industry to sport expressed by two extreme above mentioned models also does not provide one clear answer. If the money flows into sport via ministry budget, usually there is political decision problem. On the other hand where there is a good cause system used proportion in or against favor of sport can be changed within time and there is a lack of stability which is highly desired by sport associations and clubs. Thus there can arise the problem with long-term stability from perspective of both operational and investment funding for recipients. From perspective of long-term stability of sport industry this is not favorable condition. If the way leads through special dedicated fund the money goes directly to sport so there is higher accuracy in term of predicting revenues for sport industry. On the other hand there is lower public control over this type of money and their use. "Allocation freedom" for lottery companies may increase risk of misuse and "fictive" allocation.

C. Competences of the recipient of lottery earning

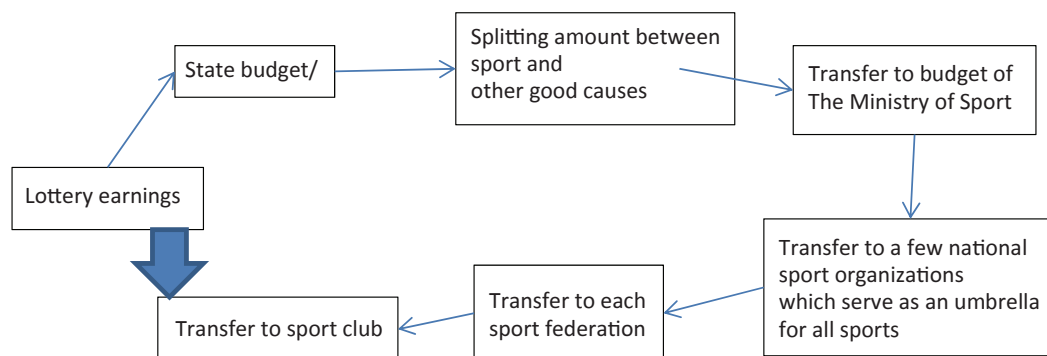
We identified three kinds of recipient in part B – state budgets, special fund and non-profit organizations. For these basic categories we identified following alternatives:

State budget – this option seems to be most easy to categorize but the opposite is true. The recipient can be only one e.g. ministry of finance which allocate money according the law or the cabinet decision or there can be different level of state and self-government institution (e.g. Czech Republic). Part of money can be allocated to municipal budgets when municipal governments decide based on their priorities. The central level of state budget can has two roles a) decision-maker which means that the ministry set allocation rules (e.g. direct transfer to one non-profit organization; open project competition; transfer to some committee, transfer to special fund for professional athletes, etc.)

Special fund – this option can operate into two regimes. The first is that the fund is under total or majority control or state authority or it can be managed by representatives both non-profit organizations and the state (a many also lottery companies).

Direct transfer to non-profit organization usually those who serve as an umbrella for sport federations and associations. This option seem to be beneficial as most simple due to skipping one or more reallocation units but also there is a highest risk of non-transparent environment.

Aside from the legal form of recipient we found out two important variables – the number of total re-allocations and the level of transparency. To catch the problem we suggest following simplified scheme with two extreme variants. Each level of re-allocation can fail in the matter of transparency and it induce consequences on total benefit generated by these money.



Scheme: Two extreme methods of re-allocation of lottery earnings

Source: own processing.

D. Variety of the purpose of lottery earnings transfer

The third variable is the general principle of how is derived the amount dedicated on sport from total transfers of lottery earnings. Who and how can decide what happens with the lottery earning?

The state has developed many areas funded from lottery due to the historical context and development of various public policies, as well as increasingly diversified use of gambling money. Mainly there are two significant models used and one of them considers good causes among which can be identified projects from areas such as culture and arts, heritage, sport, education, environment, health or charity. Due to Lottery (2013) as an example UK system of money allocation from lottery identifies following good causes areas – health, education, environment and charity (40%), sport (20%), arts (20%) and heritage (20%) – where individual local or national projects competition is supposed and by relevant bodies also the administration of money division and project applications is carried out. Similar model with different individual parameters are also in other European countries.

Comparison of countries according to question which purposes are supported by earnings from lotteries shows that whole money dedicated on sport are only in Austria, Spain, Slovenia and France; while good purposes (including sport) is used in Finland, Denmark, Estonia, Hungary, Slovakia, Spain, UK and Czech Republic

In addition to good causes in general system, among which is also sport, the model consists of two main strategies. The decision about the allocation ratio is given by the state authority or the decision is a result of project competition. The main difference in “good cause” model is in transparency of allocation process (i. e. do organization know the ratio between sport, culture, and other good purposes given by the law or ex-ante negotiations or ex-post decision made by public authority?

This system variable provides advantages as well as disadvantages which are very similar as those mentioned in previous variable in form of if the money from lottery goes into sport directly or through certain redistribution mechanism.

4 DISCUSSION

We have noticed significant differences among selected countries. The question is what are advantages and disadvantages of those various approaches and models and therefore we try to summarize all findings into following two matrix tables to demonstrate system differences.

Table: Matrix synthesis pros and cons a state regulation

	Low regulation	High regulation
Pros	(+) lower political influence on the process (+) potentially higher profit for lottery companies (as a result of free competition)	(+) sport organization can count with predictable amount of money (+) Centralized decision about allocation may bring more transparency (+) protection for clients (lottery participants) (+) lower marketing costs
Cons	(-) the risk of leaks caused by inhabitants' participation on lottery abroad (typically online activities as sport bets, poker, etc) (-) higher operational costs (in sum of all companies)	(-) costs (loss) induced by multiple re-allocation (-) system rigidity (-) lower efficiency danger (-) strong regulation may decrease total income from lottery.

Source: own processing.

It seems that during time most countries especially post-communistic countries are shifting from model with less regulation to more state controlled system. As noticed arguments were more control with license and operating, prevention of leaks from lottery earning, transparency in the Czech Republic (e.g. Lottery Law proposal 2010).

Table: Matrix synthesis pros and cons a way of transfer of lottery earnings

	Direct transfer	Indirect transfer
Pros	(+) higher state control on purpose	(+) competition among different project and selection of more desirable for society
Cons	(-) the risk of fictive transfers (misuse the system)	(-) additional operational costs (-) costs (loss) induced by multiple re-allocation

Source: own processing.

The question of transfer and consequences of multiple re-allocations was rarely discussed. The question is complex and usually as a second step after discussion about the level of state regulation. But from the economic point of view a loss caused by wrong re-allocation may be huge and may consume most of potential benefits.

5 CONCLUSION

We discussed the meaning of lottery as an additional financial resource for sport. Although the idea to use the lottery as a tool for contribution to sport is widely accepted, there are huge differences in architecture and design of such systems among countries worldwide. Even though we examined only selected European countries we showed the extent of difference from total state control to relative free market competition. Although we do not provide recommendation we identified and summarized key aspects for the future research. The question for next research is how to identify better alternatives. Almost all European countries share some statistical data, but their structure and depth is insufficient and fragmented.

The comparison also showed that more countries tend to bigger state regulation in time. As relevant case can be used some post-communistic countries (e.g. Czech and Slovak Republics) where the relatively free market competition were switched to the system with more state control. As the main reason for state control is often enlisted the better control on tax or "good causes" transfers.

As we can see that there is variety of different systems with various features it could be interesting to carry out further comparisons including other countries and to set up other research questions addressing for example whether different setting would not generate more financial sources for sport industry from lottery. But this requires further and deeper study and discussion of different systems and further comparisons. But the main disadvantage for further research in this area is inconsistency and lack of relevant data.

ACKNOWLEDGEMENT

This article has been elaborated as one of the outcomes of research project supported by the Grant Agency of Masaryk University.

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