

Lottery as Tool for Financing of Sport – Comparison of European Countries*

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Abstract - A significant portion of public budgets in Europe is spent on sport subsidies. Lottery and gambling represent opportunity of how to increase these limited financial resources. There are many methods of how to support sport from lottery profit. We noticed many different methods 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 the identification of different approaches to the lottery as a tool for sport financing. The second aim is to identify variables important for the lottery system and to discuss their general strength and weaknesses. For the purpose of this paper were chosen the sample of selected european countries and methods of relevant literature and secondary research or data analysis, comparison and synthesis of relevant findings into comprehensive models and matrix.

Index terms - Sport policy, lottery, sport finance, subsidies

1. Introduction

There has been examined a number of researches, studies and analysis in the field of economics and funding of sport, as it is one of the major human activities that just due to its significance in the individual countries are subject to public policy [1,2]. The European Union's belief that "in grassroots sport, equal opportunities and open access to sporting activities can only be guaranteed through strong public involvement" [3]. The way the funds are reallocated to the sport, respectively the form of decision-making process in the financial sources allocation in sport, has also been the subject of various studies [4]. However it is obvious that public resources are limited hence many countries seek tools of how to gain more financial resources on sport by using private profits. Lottery and gambling are usually the first choice. Payment to lottery are considered by some authors as another state tax and thus assumption for directing some of revenues into good causes and public activities even it has some different features than tax [5,6]. 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 London Economics 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 [7]. 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 [8]. 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 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 [9]. Thus together from public sources it is calculated to flow into sport almost 30 billion euro in EU.

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 spends 111 mil. euro at the ministry level and another 370 mil. euro at the municipality level [10]).

Anyway, aggregated results do not provide sufficient information about the countries differences and can be seen

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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 I Percentage of lottery money on sport from the state budget expenditures

<i>Country</i>	<i>Amount for sport from lottery (mil. Euro)</i>	<i>Contribution of lotteries to the financing of sports; in euro per capita per annum (2010)</i>	<i>Total general government expenditure (mil. euro)</i>	<i>% of lottery money to sport to general government expenditures</i>
Austria (2009)	71	4	145 332	0,049
Czech Republic	62	6	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	1090 460	0,033
Hungary (2008)	16	2	51 968	0,032
Slovakia	n.a.	n.a.	n.a.	n.a.
Slovenia	n.a.	6	n.a.	n.a.
Spain (2008)	116	3	450 348	0,026
UK	n.a.	8	n.a.	n.a.

The above shown Table I demonstrates that even within EU area there are huge differences in the total sums or relative numbers that are directed to sport from lotteries [9,11,12]. 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 gather alternative approaches to the lottery in selected countries as a tool for sport financing. The second aim is to identify variables important for the lottery system and to discuss their general strength and weaknesses. According to the aim of the paper we use a relevant literature for analyzing different systems of financing sport in selected countries and identifying their main relevant features. The discussion and identification of different models is also based on secondary data analysis for european countries selected in the research sample. There was also used the method of comparison based on mentioned different models identification and synthesis of findings in form of e.g. matrix synthesis.

To narrow down the research area we put a stress only on lotteries and do not analyze whole gambling environment. 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 though taxes (or extra taxes).

Lottery in terms of funding 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 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%) [13].

3. Results

Before we compare selected countries and identify important factor, 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.

4. Identification of Variables

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

- A) the level of state regulation through licensing the method of transfer of lottery earning to sport purposes
- B) the principle of how is derived the amount dedicated on sport from total transfers of lottery earnings
- C) the prevalent purpose of lottery earnings transfer

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

A. Level of state regulation

The level of the state regulation is usually determined by the lottery law. The lottery companies may be seen as a standard business enterprise or may be regulated strongly than the standard is. There is also an alternative of the state monopoly. The state may choose between public monopoly and public versus private competition model. The first choice offers a better regulation and a state control; however competition model may offer higher total revenues.

The level of this of regulation determines who is the decision maker in the context of tax allocation, directs 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 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 [14].

Lottery as 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 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. To demonstrate differences among countries we present following Table II.

TABLE II Type of lottery license system in selected countries

<i>Public monopoly (state)</i>	<i>Private competition with state franchise / mix of state company with private</i>
Spain (state monopoly on lotteries, not to all types of betting and gambling activities)	United Kingdom (state-franchised national lottery, National Lottery is a private lottery operator but only one license exists)
Hungary (only state-owned companies can apply for a lottery license)	Estonia (licenses to a state-owned enterprise or to a not-for-profit association)
Germany (regional level – Bundeslands)	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)
Denmark	
Austria (one license)	

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).

B. Direction 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 (see Table III).

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. Thus there can be a problem with long-term stability from perspective of financing. 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.

TABLE III Comparison – direction of financial flows

<i>Ministry budget only or also simultaneously via certain sport movements</i>	<i>Special dedicated fund</i>
Austria (Austrian Federal Sport Organization)	France
Denmark (State budget and Ministry of Culture)	Slovenia
UK (Department of Culture, Media and Sport)	Spain
Estonia	
Finland (State budget and Ministry of Education)	
Germany (Regional budgets - Bundesländern)	
Hungary (State budget)	
Czech Republic ^a	

^aSince 2012 mixture of transfers to the Ministry of Finance budget and municipality budget (the ratio is determined for each type of lottery)

Table 1 shows that two countries Denmark and Finland contribute significantly more per capita than others. Both countries choose state monopoly as well as centralized decision-making model. But this is not enough explanatory (see e.g. Hungary). To explain more about this following Table IV is useful [15]. We add to Table IV a column with lottery organization scheme.

TABLE IV Modified versions of basic traditional models

No	Country	Model features
1	Austria, Denmark, Finland, Germany	- high level of governmental support - substantial financing from other sources
2	Spain	- lower level of mass sports governmental support - level of family expenses is higher than the level of governmental expenses - creation of solidarity mechanism in sports sector in order to raise the level of financial assistance to mass sports
3	Estonia, Hungary, Slovenia	- level of family expenses for sports doing is very low as well as the contribution of volunteers' activity - governmental financing is also low, and is only one third of total sports sphere financing
4	Czech Republic, Poland	- relatively high part of financing from governmental lotteries - low family expense

C. Identification 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?

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 (see e.g. Lottery [16]). Similar model with different individual parameters are also in other European countries.

We can split up countries according to the question which purposes are supported by earnings from lotteries. The first group "All good causes including sport" consists: Finland, Denmark, Estonia, Hungary, Slovakia, UK, Czech Republic. The second group "only sport support" is formed by Austria, Spain and Slovenia.

In addition to good causes in general system, among which is also sport, the model consist 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?).

4. Discussion

We 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 matrix Table V.

TABLE V Matrix synthesis aggregating (dis)advantages of used models

	<i>Low / indirect</i>	<i>High / direct</i>
Level of state regulation -license	+ potentially higher sales - higher operational costs - the risk of leaks caused by inhabitants' participation on lottery abroad (typically online activities)	+ economies of scale - system rigidity - lower efficiency danger
Strong state regulation of other aspects	- strong regulation may decrease total income from lottery.	+ protection for clients (lottery participants) + Centralized decision may bring more transparency
How directly are money transferred from lottery company to the sport organization?	+ higher state control on purpose	- the risk of fictive transfers (misuse the system) + lower political influence
How is derived the amount dedicated on sport from total transfers of lottery earnings?	+ competition among different project and selection of more desirable for society - additional operational costs	+ sport organization can count with predictable amount of money

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 among countries. Even though we examined only European countries we showed the extend of difference from total state control to relative free market competition. The question for next research is how to identify better alternatives. Almost all European countries share some

statistical data, but their structure and deep is insufficient and fragmented.

The comparison also showed that more countries tend to more state regulation in time. As the 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.

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