

Foreword by the Commissioner



The National Lotteries Commission is committed to ensuring that the reputation and integrity of the lottery is protected. More importantly, we are committed to ensuring that we maximize revenue for good causes and that the proceeds are distributed in a responsible and equitable manner. It is therefore, imperative that we create an enabling environment for the sole and licensed National Lottery Operator. Our risk assessment process revealed that illegal lotteries remain the main threat to the creation revenue which the national lottery can utilize to socially uplift communities in need. It is with this background and more that the NLC

commissioned this research so as to establish the extent of illegal lotteries in the country and quantify its impact. The research has enabled us to create a compendium of these schemes, outline their modus operandi, and determine the extent in which they contravene the Lotteries Act and its impact on the National Lottery. The research revealed that amongst other things legislative gaps and overlap of gambling legislation played a role in proliferation of some of these illegal schemes. More importantly this research will enable the Commission to reposition its regulatory strategies, strengthen regulatory compliance initiatives and serve as baseline that inform and initiate policy changes to minimize the impact.



Mrs T.C.C Mampane

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List of Abbreviations and Acronyms

APP	Annual Performance Plan
CASA	Casino Association of South Africa
CAPRI	Caribbean Policy Research Institute
CBD	Central Business District
EHL	Everybody Happy Lottery
GDP	Gross Domestic Product
NCC	National Consumer Commission
NGB	National Gambling Board
NLB	National Lotteries Board
NLC	National Lotteries Commission
NLDTF	National Lottery Distribution Trust Fund
PLT	Patriotic Lottery Ticket
PRC	People's Republic of China
SMS	Short Message System
ToR	Terms of Reference

Executive Summary

From a legislative perspective, the National Lotteries Commission is mandated to not only regulate the National Lottery and other affiliated games with the objective of maximising revenue, but also to protect the national monopoly of the National Lottery. These provisions are contained within the lotteries act (Lotteries Act No. 57 of 1997 as amended).

Recent risk assessments conducted by the Commission reveal the stagnant growth of revenues generated by the National Lottery, threatening the resources that can be channelled to funding good causes throughout the country. One such cause of stagnant National Lottery revenues is believed to be the mushrooming of illegal lotteries in the country such as Fafi and betting on the outcome of the National Lottery. The competition posed by other gambling modes and the inability of the current National Lottery system to attract new participants, in the face of a changing gambling landscape where many options and alternative are available to punters, are also believed to play a part.

At the moment, various schemes have been encountered within the lottery industry that is likely having a negative impact on the National Lottery. These schemes are often unauthorised in terms of the existing legislation and therefore deduced to be illegal. The scheme that is having the largest impact on the National Lottery is seen to be totalisers offering sports pools. The total value of this scheme is estimated to be in the region of R1 billion annually. Fafi is another scheme that is having a negative impact on the National Lottery, where the large number of players in provinces such as Gauteng and Limpopo contribute to a scheme that is estimated to be in the region of R725 million per annum. Fafi is a game of chance that is entrenched in the cultural fabric of many communities throughout the country. Bookmakers accepting bets on the outcome of the National Lottery are the third largest unlawful scheme facing the National Lottery, where the revenues associated therewith are estimated at nearly R530 million per annum. Promotional Competitions, formerly under the lotteries' legislation, are estimated to be in the region of nearly R20 million per annum. Many of the competitions run for 'promotions' are in fact being run for profit, contravening the spirit of the promotional competition. Other schemes that are having an impact on the National Lottery include lottery scams, international and foreign lotteries, and permitted lotteries organised and operated outside of the legislation. The total value of these schemes together is estimated at more than R18 million per annum.

The impact of these unlawful schemes have both an economic and social dimension. In order to quantify the economic impact of these schemes, the total estimated rand value of these unlawful lotteries were determined and the consequent loss of revenue for the National Lotteries Distribution Trust Fund – revenue that is used to fund a number of good causes throughout the country. In monetary terms, this equals R643.63 million per annum, which represents the true cost of illegal schemes to the National Lottery (see table below).

Activity	Total Amount (R Millions)	NLDTF Distribution (R Millions)
Fafi	725,57	195,90
Bookmakers	531,38	143,47
Totalisers	1 092,73	295,04
Promotional Competitions	19,91	5,37
International Lotteries	5,92	1,60
Lottery Scams	10,48	2,83
Unauthorised Schemes	1,60	0,43
Total	2 387,59	644,65

Based on the funds that are not distributed by the NLDTF to fund good causes throughout the country, the wider economic implications include:

- Loss of intermediate production in the national economy of R2.5 billion
- Loss of value-addition in the national economy of R1 billion
- Loss of 5,384 employment opportunities nationally
- Loss of R504 million in wages and salaries to workers

The following recommendations are submitted to mitigate this loss in value and to find a workable solution for the National Lotteries Commission moving forward with respect to unlawful lotteries and other activities authorised in terms of any other law:

POLICY RECOMMENDATIONS:

- It is recommended that the authority to regulate, monitor and police promotional competitions be moved back to the lotteries’ legislation as the mandate of the NLC allows them to better protect consumers.
- It is recommended that the NLC be tasked with investigating and prosecuting illegal lotteries, which includes changing the current legislation to expressly state the powers of lottery inspectors to police illegal lotteries. The responsibilities of the NLC must be extended to be the same as that of gambling authorities as follows:
 - The responsibilities of the NLC must be as follows: to -
 - a) take reasonable steps to ensure that unlawful activities relating to illegal lotteries are prevented, detected and prosecuted;
 - b) and that any person who participates in or conducts, facilitates, promotes or derives any benefit from a lottery, promotional competition or sports pool unless such lottery, promotional competition or sports pool is or has been authorised by or under this Act or any other law be prosecute;
 - c) inspect websites at which illegal lottery is conducted as well as premises where equipment and software are located;
 - d) inspect equipment use for illegal lotteries;

- e) supervise and enforce compliance by licensees with the obligation of accountable institutions in terms of the Financial Intelligence Centre Act, to the extent required by that Act, in so far as it applies to the illegal lotteries;
 - f) review licenses and the activities of licensees in the prescribed manner;
 - g) suspend or revoke any licenses issued:
- The power and duties of inspectors must be brought in line to those of the national gambling authority such as:
 - An inspector may enter any premises in or from which it is suspect that any illegal lottery is conducted to conduct any enquiry that the inspector believes to be necessary, after having informed the person who appears to be in charge of the premises of the purpose of the inspector's visit;
 - require the person in control of such premises to produce any license or written permission or authorisation required under the NLA
 - question any person who is on or in those premises;
 - examine any prescribed device, object, book, record, note, recording or other document in, about, upon or around the premise seize and remove from those premises, and impound any such equipment, including computer equipment or the purposes of examination and inspection.
 - any book, record, ledger, cash box and its contents to point out any equipment, device or object referred to in those paragraphs that the person possession or custody of, or control over;
 - to produce for the purpose of examination or of making copies or extracts, any book, record, note, recording or other document referred to in that the person has possession or custody of, or control over; and
 - to provide any information in connection with anything that has been pointed out
 - without prior notice, an inspector may do anything to the benefit of the NLC.
 - It is recommended that other forms of lotteries, including private lotteries and lotteries incidental to exempt entertainment, be required to register with the NLC in order to improve the monitoring of compliance for the NLC. Sufficient attention must be paid to streamlining the process to ensure registration requirements are neither burdensome to the Commission nor the registree.
 - It is recommended that the NLC considers the feasibility of regulating and licensing Fafi and other unlawful schemes.

REGULATORY RECOMMENDATIONS:

- It is recommended that the Commission undertake a detailed legal study in order to interpret the current contradictions in the interpretation of the lotteries and gambling legislation with regard to bookmakers accepting bets on the outcome of the National Lottery and other lotteries, and totalisers offering sports pools. This includes approaching the courts for a decision on the legality of the various identified schemes.
- It is recommended that the NLC expand its enforcement footprint throughout the country so as to

have legally mandated officers working with provincial licensing authorities in enforcement activities surrounding both lawful and unlawful lotteries.

- It is recommended that direct communication must be established between FICA and SARS to monitor possible transactions that are connected to illegal online gambling or participating in overseas lotteries, which is illegal and being a contravention of exchange rate recommendations.
- It is recommended that a special task force under the Commissioner of the NLC consisting of specialist inspectors be appointed to monitor, regulate, and police lotteries incidental to exempt entertainment, private lotteries, society lotteries and any competition contemplated in the lotteries legislation. The unit must be trained in IT policing to detect and report online-based lotteries gambling.
- It is recommended that the NLC appoint any suitably qualified person as an inspector and assign the inspector to monitor, investigate or evaluate any matter on behalf of the Commission, subject to the control and direction of the commission stating; and must provide each inspector with a certificate signed on behalf of the Commission and stating that the inspector has been appointed by the Commission and any limitation on the authority of that inspector.
 - A duly appointed Inspector performing a function under the National Lottery Act must show his or her certificate of appointment to any affected person who demands to see. For all practical purposes, an inspector must be appointed as a peace officer for the purposes of the relevant sections of the Criminal Procedure Act, 1977(Act 51 of 1977).
- It is recommended that the NLC strengthen its data collection and management to provide the organisation with accurate and up-to-date statistics on the prevalence of unlawful lotteries throughout the country.

MARKET AND CONSUMER RECOMMENDATIONS:

- It is recommended that the NLC and national operator investigate ways to encourage participation in other lotteries offered alongside the National Lottery in terms of the newly established games.
- It is recommended that the NLC considers the feasibility of the introduction of a proudly South Africa game of chance that consumers can relate to.
- It is recommended that the NLC increase the number of awareness campaigns in terms of illegal lotteries and their impact on the community in order to start changing people's awareness and perception of these unlawful acts. This could be through various media campaigns, provincial offices, and the frequent national indaba.
- It is recommended that the NLC start making efforts to understand the prevalence of internet-based lottery games and to start engaging with internet providers, domain registrars, cybercrime and other relevant stakeholders to get in front of this before it becomes a serious challenge. This includes establishing the

1. INTRODUCTION

Illegal lotteries are posing an increasingly serious threat to the National Lottery and other games of chance authorised by the National Lotteries Commission (NLC). This fact was acknowledged in a recent assessment conducted by the NLC, which identified the risk that illegal and other forms of lotteries pose to the National Lottery. Left unchecked, these lotteries may threaten the very existence of the National Lottery over the long-term.

In view of its mandate to maximise the revenues generated by the National Lottery and to protect and maintain the monopoly position of the National Lottery and sports pool, the NLC has conducted a study to understand the nature of illegal lotteries in South Africa and what can be done to deal with these activities in the future.

1.1 SCOPE AND OBJECTIVES

The scope of the study, as stated in the study Terms of Reference (ToR), includes the following:

- Investigate the extent of illegal schemes, which should, amongst other things include but not limited to the geographical spread and participants (gender and age group).
- Investigate the modus operandi of these schemes.
- Quantify the amount involved.
- Assess and determine the extent to which they fall within the ambit of the Lotteries Act and other legislation. Determine the existing legal tool to combat these schemes and effectiveness thereof.
- Identify the risks and/or impact of these schemes on the existence of the national lottery.
- Recommend various regulatory options.
- Outline the policy considerations the legislations should consider.
- Explore the views of key industry players.

The objectives of the study are to:

- Assess the extent of illegal lotteries in South Africa, across provinces, age groups and gender participation.
- Assess the modus operandi.
- Assess and determine the extent to which they fall within the ambit of the Lotteries Act and other legislation.
- Determine the impact on the National Lottery.
- Quantify the extent of illegal lotteries.
- Outline the key issues that policy and legislation should address.
- Explore the views of the industry stakeholders.

1.2 LOTTERIES ACROSS THE GLOBE: HISTORY AND POPULARITY

The history of lotteries can be traced to sixteenth century (approx. 1530) Italy, where the Italian National Lottery (“Lo Giucco del Lotto d’Italia”) was organised shortly after the Italian Wars and the subsequent period of peace. The Italian National Lottery has been held almost every week since its inception back in the 16th century.

The success of the Lotto d’Italia lottery soon spread to other parts of Western Europe over time, and in the 1770s, France had its own version of the lottery – Le Lotto – which was curiously fancied by the intelligentsia class of France at the time. Thereafter, Lotto took on a more educational role in many countries, with the Germans using the lotto in a more progressive way as a means to teach children multiplication, spelling and history.

However, it was not until a fortuitous event in December 1929 that lotto became an almost universal game. On the evening of December 1929, a one Mr Edward S. Lowe, arriving early in the town of Jacksonville for his business appointments the next day, happened upon a county carnival. At this carnival, Mr Lowe came across a game called “Beano” - at the time, a derivative of the German version of lotto, where players would select a row of numbers and wait until the pitchman has called out all their numbers before yelling “Beano!” Mr Lowe, coincidentally an owner of a struggling toy company, realised the potential of this game. Not long after, Mr Lowe invited some acquaintances over to play the game, and whilst playing, a very excited participant, on the cusp of victory, yelled “Bingo” instead of “Beano.” From that day on, “Bingo”, as it now became known, would become a household name the world over and would spread the popularity of lottery-based games globally.

Today, lotteries and betting games are present in just about every country, from the Philippines in Asia to the east African plains of Kenya. However, not all lottery activity is accepted as being legal, with many variations of illegal derivatives in existence which contribute to illegal gambling activities and associated organised crime, such as money laundering. In the UK, there are various modes of lotteries, including Lotto Hotpicks, Thunderball, UK Millionaire Maker, and Millionaire Raffle. The UK government introduced lotteries as attempted financial experiments, which included the foundation of the Bank of England to raise the capital for the state. Going further back to the 1500’s, Queen Elizabeth I initiated the lottery to raise money for public works, each ticket holder would then win a prize made from silver or some other valuable material. In the southwest of the Pacific Ocean, New Zealand offers many lottery games like Keno (bingo hall type game), Bullseye (daily lottery) and Instant Kiwi (series of scratch cards). Lottery games were authorised in the country in the late 1980’s, and the then illegal Golden Kiwi lottery fell under the government’s power; it began in 1961 based on charitable art union lotteries that ran for decades earlier.

1.3 MODEL OF LOTTERY PARTICIPATION

The literature on the reasons why different communities and societies engage in different gambling activities is extensive and covers factors related to culture and shared identity, age, income and socio-economic

welfare, and education. Gambling in South Africa and indeed in other countries is therefore, an outcome of the specific socio-historical-cultural context in which the gambling activity occurs; defined and created over time with the ebb and flow of history.

For example, Chinese societies – superstitious in nature - are more open to gambling than other groups such as Caucasians. In fact, the importance of the socio-historical-cultural nexus as a driver of specific gambling activities is supported by the findings of Oei and Raylu (2010). In a cross-cultural study of the gambling behaviours of Chinese and Caucasian individuals in Australia, it was found that different ethnic groups are prone to different types of gambling and are motivated by different types of rewards. It can be seen that the reason why certain groups participate in certain gambling activities is because of a combination of factors related to culture, society and history, which all have a bearing on different aspects of gambling, such as society's view on gambling, or the income and education levels of individuals in the first place that makes them predisposed to gambling. **Figure 1-1** illustrates the socio-cultural-historical influences that impact gambling participation.

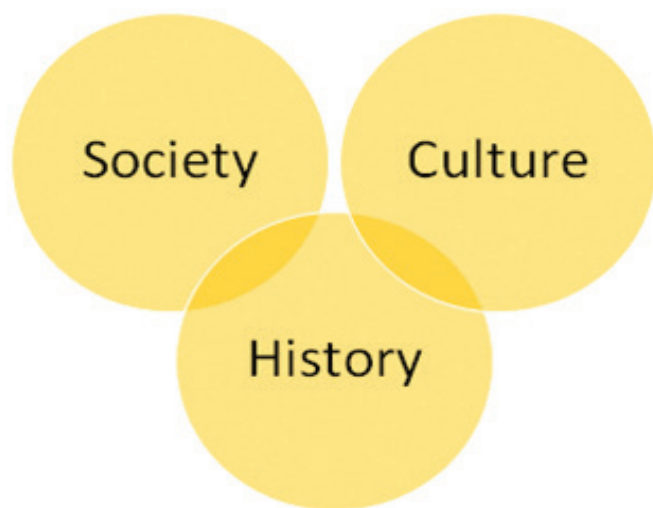


Figure 1-1: Socio-Cultural-Historical Nexus of Gambling Participation

Much of the research around lottery participation in particular has focussed on the socio-economic stature of the participants, with the general consensus being that a negative relationship between income and lottery participation exists; lottery revenues and participation in lotteries is predominantly made up of lower-income individuals. Such findings are corroborated by the work of researchers such as Zhang and Zheng (2006), which found that lottery participation in China's cities (both legal and illegal lotteries) is composed primarily of less educated and lower income individuals. It has even been hypothesised that individuals participate in lotteries, especially illegal ones, as a way for former rural inhabitants now residing in urban areas to relive the interpersonal intimacy that accompanies agrarian lifestyles in rural areas, and also as a means of acquiring the capital required for a successful life in an industrialised, cash economy (Hu, 1989). Evidence from the site visits conducted by the team, indeed reveals that participation in illegal lotteries in South Africa is driven by the need for an income, as well as the fellowship that flows therefrom.

Other facets of the societal element that are likely to influence lottery participation include age, education, race, and sex. For instance, a study by Clotfelter and Cook (1987) found that one of the greatest drivers

of lottery participation in the state of Maryland was that of race. Other studies, such as Suits (1977) and Miksell (1989) arrive at similar conclusions. Research has also shown that education and age influence lottery participation, with Cheng, Smyth and Sun (2013) finding that participation among rural-urban migrants in the illegal lottery in China is comprised of mainly males, between the ages of 20-39, with relatively high incomes and who are employed in the informal sector.

Cultural factors are also likely to have a meaningful impact on the extent to which certain groups participate in gambling activities, as mentioned before. As was discussed, a large part of why many Chinese societies participate in the illegal lottery in China is due to the superstitious nature of Chinese culture, where ideals such as fate and destiny assume a prominent role in the identities of many Chinese. The similarities among Chinese and African cultures centred on collectivism, perhaps gives an indication why certain gambling modes are popular both in China as well in parts of sub-Saharan Africa. Matondo (2012) notes in this regard that collectivism is promoted and encouraged by both African and Chinese societies, with community participation and group orientation being dominant features.

Lastly, history is seen to have an influence in terms of participation in certain gambling modes. In China during the late Imperial period for instance, gambling and participation in gambling has been regarded as a mutually dependent activity with opium use; the two activities going hand-in-hand. Such relationships may thus be mutually reinforcing. In South Africa, the discovery of vast gold reserves in the Witwatersrand in the Transvaal, lead to huge demands for labour to work on the gold mines. Although most labour was sourced from within the Transvaal territory and other areas within southern Africa, Chinese workers were brought in between 1904 and 1907, totalling roughly 64,000 individuals (Harrington, et al., 2004; Kynoch, 2003). It is likely that the introduction of Chinese workers on South African gold mines, along with the oppressive nature of work, facilitated the introduction of illegal lottery games, akin to the versions played in mainland China. Due to the similarity in culture and stature, Black African miners would have likely participated in the game, and spread further into Black African communities upon their return home. The similarities of African and Chinese culture, the deprived living conditions, as well as the game's use of superstitious symbolism means that illegal lotteries in South Africa, such as Fafi, were an almost perfect fit to the context of the day.

Lottery participation is also influenced by the charitable nature of lotteries where portions of the proceeds are contributed towards funding good causes that benefit society as a whole. In this regard, many respondents to various surveys regarding gambling participation in general and lottery participation in particular are aware that the National Lottery in South Africa contributes to good causes throughout the country, and is one of the reasons that many of them participate in the National Lottery as opposed to other forms of gambling.

1.4 PARTICIPATION IN ILLEGAL LOTTERY SCHEMES

Participation in underground lotteries in South Africa is seen to mirror participation in legal forms of lotteries, and occurs for a variety of social, cultural and historical reasons as elucidated above – although there are some unique factors that distinguish illegal participation from legal participation.

These factors include:

- Punter perception of the illegal lottery, where many punters are sometimes unaware that the lottery in question is in fact unlawful – particularly around promotional competitions, betting on the outcome of the lottery, international lotteries, and betting on sports pools offered by totalisers.
- The pay-off of unlawful lotteries is often higher for unlawful lotteries than for legally sanctioned games of chance. This is particularly the case for Fafi, where many punters prefer Fafi to the National Lottery as they feel the chances of winning in Fafi are higher than the National Lottery.
- Ease of play and access, where engaging in unlawful lotteries is often more amenable to punters than participating in legal forms of lotteries.
- Many punters, particularly due to their socio-economic welfare, engage in a number of different activities as a livelihood strategy. For instance, many punters revealed that they participate in the National Lottery on Wednesdays and Saturdays, and during the intervals in Fafi and betting on other lottery games offered by bookmakers and totalisators.

The four factors above are seen as the main reason why many individuals participate in unlawful lotteries in the country. Interestingly, it should also be pointed out that participation in unlawful lotteries may also be indirectly supported by machinations of the government in terms of proclaiming certain forms of lotteries as being ‘illegal’, which in the mind of the punter, serves to confirm notions that regulated forms of lotteries are rigged and do not offer chances to win. This situation is true in China with regards to the legal versus illegal lotteries (Bosco, et al., 2009).

2. LOTTERIES AND SPORTS POOLS IN SOUTH AFRICA

2.1 INTRODUCTION

This section seeks to unpack, define and determine illegal lottery activities in South Africa, and whether these activities fall within the ambit of the relevant legislation. In addition, illegal lottery activities in other countries are also canvassed, attempting to identify key parallels between what is going on in South Africa and the rest of the world.

2.2 POLICY RATIONALE AND OVERARCHING LEGISLATION

Gambling in South Africa had been illegal for many decades. The Dutch East India Company originally outlawed gambling in the Cape in 1798, while later laws such as the Art Unions Act (No. 28 of 1860) prohibited more specific forms of gambling such as lotteries, only allowing art unions to offer such activities (Van Wyk, 2010). More recently, all forms of gambling, aside from horse racing, were prohibited with the passing of the Gambling Act of 1965. Government’s stance on gambling changed quite dramatically in the democratic era, with both the Howard and Wiehahn commissions investigating the options for developing a unitary national policy that was more reflective of the current social views and context (Van Wyk, 2010). One of the recommendations of the Wiehahn Commission was to have a separate regulator for gambling and the state-run lottery. On a more conceptual level, the formation of a national lottery was touted due to its significant

economic and socio-economic potential in terms of industry stimulation, job creation, and human capital development.

“The National Lottery is different from other gambling categories in this it is operated with the goal of generating funds for charitable, sports, arts and other worthy causes rather than as an entity focused on maximising returns for shareholders, employees and other stakeholders.”

PWC Gambling Outlook, 2015

To this extent, the Lotteries Act was signed into law in 1997, and saw the establishment of the National Lotteries Board (NLB). The NLB was tasked with overseeing the National Lottery for the country, and had the express mandate of both maximising revenues for the National Lottery – a significant revenue generator for government, even exceeding traditional government revenue channels – and protecting and maintaining the monopoly of the National Lottery and other games of chance authorised by the Board, which included society lotteries, lotteries incidental to exempt entertainment, private lotteries and promotional competitions. The Act not only defines the different types of legal lottery activities, but also sets out the functions of the NLB (Section 10 of the Act), which include, amongst others:

- Advise the minister on the issuing of the license to conduct the National Lottery
- Ensure that the National Lottery and Sports Pools are conducted with due propriety
- Ensure that the net proceeds of the National Lottery are as large as possible
- Monitor, regulate and police lotteries incidental to exempt entertainment, private lotteries, society lotteries and any competition contemplated in Section 54
- Advise the minister on the efficacy of legislation pertaining to lotteries and ancillary matters

In an attempt to keep the lottery legislation current, a review process was initiated in February of 2012, where the NLB made amendments to the existing Lotteries Act that were subsequently approved by Cabinet and Parliament and signed into Law by the incumbent president of the country in December 2013. The Lotteries Amendment Act (No. 32 of 2013) was proclaimed in February 2015, and the new national lotteries regulator, the National Lotteries Commission (NLC), was launched in June 2015 to replace the now defunct NLB.

Through fulfilling this mandate, the National Lottery can be utilised in a sustainable manner to fund good causes that contribute to the social and economic development of the country. As at 2015, more than R17 billion has been contributed to good causes throughout the country through the NLDTF. Unlike other gambling activities, which are both a national and provincial competence under the Constitution (Schedule 4), the regulation and licensing of lotteries and sports pools is solely a national competence, with the NLC the only recognised authority within the sphere of games of chance. The Act also makes provision for the distribution of funds to good causes. The first operating license for the National Lottery was granted to Uthingo, with the first national lotto draw that took place on the 11th March 2000. As included in the legislation perused above, no entity can operate or organise a game of chance in South Africa without the authorisation from the

applicable authority that has been mandated to do so.

2.3 DEFINITION OF A LOTTERY

In order to form a basis for the determination of whether illegal lotteries fall within the ambit of lotteries legislation, it is first necessary to define exactly what a lottery is. In this regard, the Act defines a lottery, under Section 1 Article xii, as:

“Lottery” includes any game, scheme, arrangement, system, plan, promotional competition or device for distributing prizes by lot or chance and any game, scheme, arrangement, system, plan, promotional competition or device, which the Minister may by notice in the Gazette declare to be a lottery.” Based on this definition, a lottery can take the form of a lottery, lotto, numbers game, scratch card, sweepstakes, Bingo, or sports pool.

Furthermore, at a broader level, it has been found through the application of the law that in order for a game to constitute a lottery, it should meet the following elements¹:

- The distribution of prizes;
- The distribution to be totally random; and
- An element of consideration or payment to participate.

Based on the abovementioned elements, a game can be broadly considered a lottery if it meets the above criteria. However, this does not necessarily represent the full definition of what a lottery is; as witnessed in the relevant case law in the United Kingdom, where promotional and marketing competitions, based upon the above definitions, were deemed to be unlawful as they did not sell tickets (Department of Justice, Equality and Law Reform, 2000). Accurately defining what constitutes a lottery is therefore, an important consideration for future legislative amendments.

2.4 DEFINING LAWFUL LOTTERIES IN SOUTH AFRICA

The Lotteries Act makes provision for the following games of chance in the country:

- National Lottery operated by a single national operator
- Sports pools
- Society lotteries
- Lotteries incidental to exempt entertainment
- Private lotteries
- Promotional competitions

These lotteries are authorised by the Lottery Act itself or the Consumer Protection Act which regulates promotional competitions.

¹ Review of Gaming and Lotteries Acts 1956-1986 Report, Republic of Ireland.

2.5 DEFINING ILLEGAL LOTTERIES AND OTHER SCHEMES

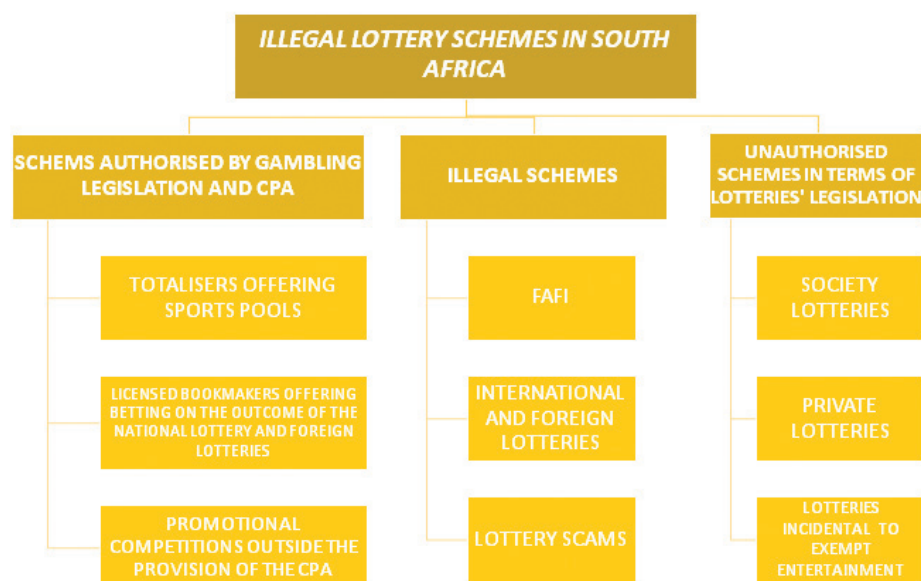
As detailed in the Terms of Reference (ToR), as well as the National Lotteries Commissions' Annual Performance Plan (APP) for the period 2013-2016, illegal forms of lotteries and other lotteries established in terms of any other law pose a serious risk to the sustainability of the National Lottery itself and consequentially the NLDTF. Moreover, the mid-year review of the APP notes that stimulating sales of tickets through "new games" and "aggressive marketing" are not attractive from a social responsibility perspective. Rather, the focus of the Commission is on improving its regulatory practice, which includes, undoubtedly, combatting illegal lotteries in the country.

Unlawful or illegal lotteries are defined as any game of chance that is not authorised by the Commission, and is contemplated in Section 57 of the Act. The Commission defines the following as forms of illegal lotteries:

- Fundraising competitions conducted by a registered society (society in terms of section 41 of the Lotteries Act) without authorisation of the Commission;
- Fundraising competitions conducted by non-profit organisations without the approval of the Commission;
- Competitions (other than promotional competitions) conducted by profitmaking companies for financial and/or commercial gain;
- Competition conducted by individuals for private financial gain;
- Competitions conducted by profit-making companies for the benefit of non-profit organisations without the authorisation of the Commission;
- Fafi/Fahfee (also known as *mochaina*);
- Scams received via SMS, phone calls, emails and letters; and
- Lotteries conducted outside the Republic that may also be accessed via internet (prohibited in terms of section 59 of the Lotteries Act).

In addition, while some lotteries and schemes related to the National Lottery and sports pools may be authorised in terms of any other law, it must be stated that these activities, although legal, do have an impact on the National Lottery and NLDTF in terms of creating competition and exposing consumers to other forms of lotteries such as foreign lotteries. The figure below lists some of the known unlawful lotteries in South Africa, as well as other schemes authorised in terms of any other law.

Figure 2-1: Types of Illegal Lottery Schemes in South Africa



2.6 KNOWN ILLEGAL LOTTERIES IN SOUTH AFRICA

Based on the assertion made above regarding the main illegal lottery activities in the country, it is necessary to determine to what extent these activities fall within the ambit of existing lottery legislation, including both the principal act and all amendments thereto.

In reality, all forms of illegal lotteries mentioned above occur within South Africa with some measure of frequency. This not only ranges from Fafi that is played throughout the inland provinces of South Africa (including the Northern Cape), but also promotional competitions through short message systems (SMS), international lotteries, scams, and unregistered or unauthorised lotteries in terms of Section 37 and 38 of the Act. However, information and statistics on the extent of these illegal activities do not exist in many instances; and where this information does exist, it is often outdated or only applicable to specific areas. Therefore, accurately quantifying the monetary value of the schemes listed above is difficult. What is possible however, is knitting together different sources of information in order to quantify the main types of illegal lotteries and other authorised schemes in the country, being:

- Fafi (mochaina)
- Bookmakers offering betting on the outcome of the National Lottery
- Totalisers offering sports pools
- Promotional competitions
- Lottery scams
- International and foreign lotteries

These unlawful lotteries and other schemes are covered in more detail below:

2.6.1 FAFI

Fafi (aka “Mo-China/Mu-China”) – a numbers’ game – can be traced back to the Malay slaves in the Cape during the late 19th century (GRC, 2011). The game derives its name from the original and current operators: individuals that identify as being Chinese. Fafi is not unique to South Africa, and identical schemes such as Pick 3, Play Whe and Cashpot can be found in China, Taiwan, and many Caribbean states such as Jamaica, Trinidad and Tobago and the Dominican Republic.

MODUS OPERANDI

Fafi involves betting a sum of money on a selection of numbers, which range from 1 to 36. These bets are often motivated by the dreams of punters, which associate specific items and objects with numbers. Fafi is a powerful cultural tool for many communities and provides a sense of hope and opportunity to the vulnerable sectors of society (GRC, 2011). The odds of winning are fixed at 1:28, leading to a pay-out of roughly 78%. For example, **Table 2-1** below shows the association of different objects with numbers 1-36.

Table 2-1: Numbers Associated with different Dream Characters in Fafi

Number 1-14	Dream Character	Number 15-24	Dream Character	Number 25-36	Dream Character
1	King, human blood, white man, left eye	13	Big fish, ghosts	25	Big house, church, boxer
2	Monkey, native, a spirit, chief, jockey	14	Old woman, fox, detective	26	Bees, big crown, bad man
3	Sea water, accident, frog	15	Bad women, prostitute, canary	27	Dog, policeman, new born baby
4	Dead man, turkey, bed	16	Small house, coffin, pigeon	28	Sardines, small fish, thief
5	Tiger, fight, strong man	17	Diamond women, queen pearls	29	Small water, coffin, rain
6	Ox blood, Gentlemen, Milk	18	Silver money, servant girl, right eye	30	Fowl, graveyard, sun
7	Lion, thief, big stick	19	Little girl, smoke, bread	31	Big fire, bishop, excitement
8	Pig, drunken man, loafer	20	Cat sky, handkerchief, body	32	Gold money, dirty, women
9	Moon, baby, Hole, owl	21	Old man, stranger, fisherman	33	Little boy, spider
10	Eggs, train, boat, grave	22	Rats, motor car, big ship	34	Meat, human dung, cripple
11	Carriage, wood, tree	23	Horse, doctor, head	35	Clothes, sheep, big grave
12	Dead women, ducks, small fire	24	Mouth, wild cat, vixen	36	Shrimp, stick, admiral

Source: African Betting, 2016.

The minimum amount is as low as 10c and there is no maximum, although punters seldom bet above a few hundred rand at any one time. Each player selects his/her numbers (a maximum of 22 numbers can be selected at any one time) from a sheet, place their bet, and insert the bet and the selected number in a small

round purse. Each purse has its own number for identification purposes. The participants then congregate at a defined location (referred to as the “bank” or “station”) where an appointed individual (termed the “runner”) collects all the individual purses.

Once the punters have congregated at the station at the scheduled time, the operator then arrives at this location, receives the collective purse, and opens each purse to identify the purses that have correctly selected the day’s number/s. Once the ‘winning’ purses are identified, the operator inserts the winnings into each winning purse and gives the collective purse back to the runner. The runner then redistributes the purses, through the use of the purse numbers, to their owners. Those who have won will find their prize money in the purse, while the losers find only their selected numbers. This event takes place twice a day for six days of the week in some areas, in other areas twice a day for weekdays and once on Saturdays, and the operator moves from station to station, neighbourhood to neighbourhood, following the same process.

It must be noted that it is not clear how the operator selects the winning numbers for each draw. For instance, the review of evidence seized from an operator revealed that a single winning number had been selected for all 56 stations along their route for both draws of the day. How these numbers are determined is unclear at this stage.

ADVANTAGES OF FAFI

The apparent advantages of Fafi vis-à-vis the national lotto include:

- **Frequency:** Bi-daily draws compared to bi-weekly draws
- **Success Rate:** Better chances of winning and more frequent success
- **Entry Requirements:** Lower betting amounts: 10c minimum vs R3.50 minimum
- **Accessibility:** Fafi ‘comes’ to the players whereas the National Lottery can only be played at specific locations, often inaccessible for communities in rural/informal areas
- **Psychology:** Personal relationships with operators where credit is available, gifts and prizes are given to players, and incentives are open to those who bet

One of the main reasons why many punters prefer Fafi to the National Lottery is due to the perceived payouts of Fafi compared to the National Lottery and the other games of chance offered by the national operator. This is due to the fact that Fafi operators do not have to pay retailers, Value Added Tax (VAT) or contribute part of the bets to good causes, while the National Lottery does, at roughly 5%, 14%, and 34%, respectively.

On a more granular level, Fafi is not only confined to the areas of residence of the players, but also to the main areas of employment/transportation/entertainment. For instance, there are those that play Fafi in their communities in which they live; Mamelodi being a typical example. Another is construction workers in Hatfield playing Fafi at the local park, close to their employment at the building sites. Another is low income earners playing Fafi at the main taxi rank in Mamelodi during their daily commute. Fafi, it appears, follows the steps of its players – a crucial strength of the game compared to the immobile lotto, which can only be

played at fixed points.

Some of the pre-requisites – based on the team’s observations – for successful Fafi activity include high population density, accessible and connected areas, low incomes, and general unemployment/joblessness. From an operational perspective, Fafi can only be profitable to run if there are a large number of players situated in close proximity to one another, so that the gains from each draw exceed transport and operational costs. From a demand perspective, it is often the unemployed or low-income individuals that play Fafi, as both are a means to a livelihood, or to supplement low/inadequate incomes.

PROFILE OF PUNTERS AND EXTENT OF PARTICIPATION

A typical profile of Fafi punters includes:

Activity	Province	Population Group	Gender	Age
Fafi	Inland provinces including Northern Cape	Majority Black African; Reports of White participation in some areas of Gauteng	Mostly female; some instances of direct or indirect male participation	Generally middle-aged women between 30 and 60 years, some instances of underage participation and those over the age of 65.

Research indicates Fafi is existent in the following provinces of South Africa:

Activity	Province	Notes
Fafi	Gauteng, Limpopo, Mpumalanga, North West, Free State, Swaziland, Northern Cape	Fafi is prevalent in former mining areas, in centres with relatively large number of individuals within the defined demographic and socio-economic group

Quantifying the true monetary extent of Fafi is challenging due to the lack of information for each province of the country. Engagements with provincial gambling boards have shed some light on the matter in terms of geographical prevalence and the typical profile of the punters. This information was further supplemented with site visits to understand the dynamics of Fafi. Previous estimates put the monetary value of Fafi as much as R25 million per month in Gauteng (information could not be verified) and as much as R210, 000 per day in Limpopo (GRC, 2011).

In order to estimate the possible value of Fafi as an unlawful lottery across the country, the total possible number of participants, based on information obtained through site visits, as well as the average amount wagered and the frequency of participation were estimated. The monetary extent of Fafi across South Africa per annum is thus detailed in the table below.

Province	Fafi (R Millions)	% Share
Western Cape	-	0%
Eastern Cape	-	0%
Northern Cape	13,27	2%
Free State	52,63	7%
KwaZulu-Natal	-	0%
North West	76,59	11%
Gauteng	380,14	52%
Mpumalanga	101,35	14%
Limpopo	101,60	14%
Total	725,57	100%

LEGAL ANALYSIS

ISSUE

The main issue pertaining to Fafi is that it is an unauthorised lottery according to the lotteries legislation which is creating unlawful competition for the National Lottery. This has an impact on the turnover of the National Lottery and by implication affects the funds available for investment in good causes.

RELEVANT LEGISLATION

As Fafi fits the definition of a lottery in that:

- The game involves the distribution of prizes;
- Of which is totally random, based on the selection of numbers by individual punters; and
- Where punters must 'purchase' a ticket through placing bets on their selection of numbers.

Therefore, the relevant legislation with regards to Fafi includes the relevant lotteries' legislation only.

PRINCIPLES

As Fafi is a lottery and not a gambling activity as covered by the relevant gambling legislation, there are no issues in terms of concurrent jurisdiction. The Lotteries Act explicitly prohibits any unauthorised lotteries under Section 56.

APPLICATION OF THE PRINCIPLES

It appears as though Fafi is relevant under the relevant lottery legislation due to its similarity to a conventional lottery, which fits the definition contained within the Act:

"Lottery" includes any game, scheme, arrangement, system, plan, promotional competition or device for distributing prizes by lot or chance and any game, scheme, arrangement, system, plan, promotional competition or device, which the Minister may by notice in the Gazette declare to be a lottery."

Information from stakeholders and site visits indeed indicate that Fafi is, prima facie, a lottery-based game where prizes are determined based on lot or chance. Due to Fafi being considered a lottery, it is then in

contravention of the Act, specifically in terms of Section 56, sub-section a, which prohibits *any competition or lottery other than one authorised by or under this Act in which prizes are offered for forecasts of the results of a future or past event*. Fafi, as it does not fit within the provisions of the Act in terms of the National Lottery or any other lottery, is therefore deemed to be within the ambit of the Act.

CONCLUSION

Fafi takes the form of a fixed-odds game of chance and is therefore defined as a lottery, therefore making it subject to the Lotteries Act and Lotteries Amendment Act only. As Fafi is currently operated throughout the country without a license or approval from the lotteries authorities, it is deemed to be an illegal lottery. Fafi competes with the National Lottery for punters and can thus have a detrimental impact to National Lottery revenues.

2.6.2 BOOKMAKERS ACTIVITIES

Licensed bookmakers throughout the country offer many different activities to punters. These include a number of bets and wagers such as betting on horseracing and other sports. Licensed bookmakers also take bets or wagers on contingencies, such as the National Lottery. In this regard, punters can bet on the outcome of the National Lottery at a licensed bookmaker. Currently, there are more than 435 operational bookmaker outlets across the country, with the majority located in the Western Cape (158), Gauteng (91) and KwaZulu-Natal (78). Betting on the outcome of the National Lottery and foreign lotteries occurs through betting at the registered premises of the bookmaker or through other platforms such as telephonically or online. Usually, many punters that bet on the outcome of the National Lottery and foreign lotteries do so at the physical premises of the bookmaker, where several site visits to such outlets has revealed large queues at the lotto counter. Bookmakers also offer other forms of betting on lottery branded games where punters select numbers or letters from which to bet on.

MODUS OPERANDI

Typically, punters place by filling in a ticket slip with their bet. More commonly, bets are placed by punters verbally which are loaded immediately onto the betting system. A receipt is printed, similar to the National Lottery and other associated schemes, which details the date, time, place, numbers selected and the total value of the bet. Punters use this receipt to check whether they have won or claim their winnings once the draw has taken place.

Draws for betting on the outcome of the National Lottery, international lotteries, and in-house lottery games, are either connected to the official draws, which usually take place 2-3 times per week in the case of the National Lottery and international lotteries, or weekly as in the case of the in-house lottery games.

Punters have a variety of options to choose from in terms of betting on the outcome of the lottery. This can include for instance:

- Betting on the total value of the balls drawn, where each total category has different odds attached

to it;

- Betting on whether the total value of the balls that are drawn is odd or even;
- Betting on individual balls;
- Betting on the value of the bonus ball
- Betting on whether the individual balls drawn are above a certain threshold or below (i.e. below 20);
- Betting on number groups; and
- Betting on the number of the first and last ball to be drawn.

These bets are available on official lotteries that include the following:

- National Lottery and Powerball of South Africa
- UK National Lottery
- Irish Lotto
- Greek Lotto
- Italian Lotto
- Spanish Lotto

Information obtained through desktop research reveals that such betting activity is highly lucrative for both bookmakers offering the bets and punters themselves, with one particular website noting the pay-out to punters based on betting on the lotto of R2.6 million in a single week.² Research indicates that betting on these schemes is becoming more popular and many punters that participate in illegal lotteries such as Fafi also generally engage in the National Lottery and betting on the outcome of the National Lottery and other lotteries. The similar nature of these games relative to the National Lottery is creating competition for the National Lottery and is seen as one of the main contributing factors to slowing National Lottery turnover. Thus, there is a possibility that public perception regarding these activities may be misguided due to the nature of the activity and its perceived affiliation to the National Lottery.

PROFILE OF PUNTERS AND EXTENT OF PARTICIPATION

A typical profile of individuals that participate in betting on the outcome of the National Lottery includes:

Activity	Province	Population Group	Gender	Age
Betting on the outcome of the National Lottery	All provinces	Same demographic as those which participate in the official National Lottery	Both male and female	Mostly middle-aged

² See: <https://www.betxchange.co.za/lotto-betting.html>

Research indicates that betting on the outcome of the National Lottery is existent in the following provinces of South Africa:

Activity	Province	Notes
Betting on the outcome of the National Lottery	All provinces of South Africa	Prevalence expected to be higher in provinces with a greater number of licensed bookmakers and betting outlets, which are the Western Cape, Gauteng and KwaZulu-Natal.

The total revenues that are derived by bookmakers from betting and wagering activities are recorded by the provincial licensing authorities. However, this information is not disaggregated into the different types of betting and wagering in terms of sports betting, betting on the outcome of lotteries, and other types of betting.

In order to determine the amount that is potentially bet on the outcome of the lottery and other lotteries, it was necessary to determine the potential population in each province that are engaged in such activity, the typical amount that is spent by each punter, and the frequency of participation. This process utilised existing sources of information such as the spread of licensed bookmaker outlets and the average spend of a punter on betting on the outcome of the lottery. The total value of betting on the outcome of the National Lottery and other foreign lotteries across the country is recorded in the table below.

Province	Betting on Outcome of National Lottery (R Million)	% Share
Western Cape	12,11	2%
Eastern Cape	3,03	1%
Northern Cape	0,02	0%
Free State	0,35	0%
KwaZulu-Natal	19,39	4%
North West	0,32	0%
Gauteng	487,66	92%
Mpumalanga	4,22	1%
Limpopo	4,28	1%
Total	531,38	100%

LEGAL ANALYSIS

ISSUE

Bookmakers are licensed to accept fixed-odds and open bets on authorised activities by provincial gambling legislation. At the moment, bookmakers are accepting bets on the outcome of the National Lottery and international lotteries such as the Euro Millions (licensed as a bookmaker in Mpumalanga under the Mpumalanga Gambling Act). This is in direct contradiction to the Lotteries Act which prohibits such activity through Section 56 and 57 of the Act. Not only are these activities impacting the National Lottery in terms of ticket sales and revenues, but these activities are also sensitising South African citizens to international gambling activities and changing the perception of these activities. The stance of all the relevant lotteries and

gambling authorities is clear in that participation in international gambling is prohibited.

RELEVANT LEGISLATION

- Constitution of the Republic of South Africa;
- Lotteries and Lotteries Amendment Act; and
- National and Provincial Gambling Acts.

PRINCIPLES

The Constitution is the supreme law of South Africa and any law or conduct which is inconsistent with it is invalid. Furthermore, the obligations imposed by the Constitution must be fulfilled.³

The Constitution sets the standards and requirements for the construction of statutes and distinguishes between National and Provincial Legislation. Statutes derive binding force from their legislators, who are empowered by the Constitution.

The National Legislative authority is vested in Parliament which is South Africa's highest legislator.⁴ The legislative authority of a province is vested in its Provincial Legislature.⁵

The Provincial Legislature has the power to pass legislation for its province with regard to: ⁶

“(i) any matter within a functional area listed in Schedule 4;

(ii) any matter within a functional area listed in Schedule 5;

(iii) any matter outside those functional areas, and that is expressly assigned to the province by national legislation; and

(iv) any matter for which a provision of the Constitution envisages the enactment of provincial legislation...”

The National Legislative authority as vested in Parliament confers on the National Assembly the power –

“(i) to amend the Constitution;

(ii) to pass legislation with regard to any matter, including a matter within a functional area listed in Schedule 4, but excluding, subject to subsection (2), a matter within a functional area listed in Schedule 5; and

(iii) to assign any of its legislative powers, except the power to amend the Constitution, to any legislative body in another sphere of government; and....”

Schedule 4 and 5 of the Constitution provide a list of functional areas in which Parliament and the Provincial Legislatures are competent to make laws. Schedule 4 lists those functional areas in which Parliament and the Provincial Legislatures jointly have the power to make laws, whereas, schedule 5 lists the functional areas in

³ Section 2 of The Constitution of the Republic of South Africa, Act 108 of 1996.

⁴ Section 44 of The Constitution of the Republic of South Africa, Act 108 of 1996.

⁵ Section 104 of The Constitution of the Republic of South Africa, Act 108 of 1996.

⁶ Ibid.

which the Provincial Legislature may make laws.

Section 150 of the Constitution provides for the interpretation of conflicts between national and provincial legislation and states that “When considering an apparent conflict between national and provincial legislation, or between national legislation and provincial constitution, every court must prefer any reasonable interpretation of the legislation or constitution that avoids a conflict, over any alternative interpretation that results in a conflict”.

Included in schedule 4 as an area of concurrent National and Provincial Legislative competence is “casinos, racing, gambling and wagering, excluding lotteries and sports pools”.

Lotteries and sports pools do not fall under schedule 5 as a functional area over which the Provincial Legislature may make laws. Thus, Parliament as the National Legislature would be empowered through the operation of section 44 of the Constitution to enact legislation to govern lotteries and sports pools.

The National Legislature has done so through the enactment of the Lotteries Act 57 of 1997 which regulates lotteries as well as sports pools.

THE LOTTERIES ACT: Act No. 32 of 2013: LOTTERIES AMENDMENT ACT, 2013

The preamble to the Lotteries Act sets out the purpose of the Act which is “to regulate and prohibit lotteries and sports pools; to establish a National Lotteries Board...”

Section 55 of the Act specifically deals with the issuing of licences to conduct sports pools and states that:

“(1) The Minister may, after consultation with the board, by licence authorise the licensee to conduct a national sports pool: Provided that the licence shall specify the sports pools, or description of sports pools, the conduct of which it authorises...”

The Act further goes on to deal with unlawful lotteries and competitions in section 56 and states that:

“Unless authorised by or under this Act or any other law, no person shall conduct through any newspaper, broadcasting service or any other electronic device, or in connection with any trade or business or the sale of any article to the public –

(a) Any competition or lottery other than one authorised by or under this Act in which prizes are offered for forecasts of the results either –

(i) A future event; or

(ii) A past event, the result of which has not yet been ascertained or is not yet generally known;

(b) Any competition other than a promotional competition contemplated in section 54 in which success does not depend to a substantial degree on skill; or

(c) Any promotional competition which is the subject of a declaration contemplated in section 54(4)”.

15. The Act considers it to be an offence when:⁷

“(1) Any person who-

(a) participates in; or

(b) conducts, facilitates, promotes or derives any benefit from a lottery, promotional competition or sports pool, Shall unless such lottery, promotional competition or sports pool is or has been authorised by or under this Act or any other law be guilty of an offence.

(2) Any person who-

(a) contravenes or fails to comply with any provision of this Act;

(b) forges or in any other fraudulent way changes any ticket or any other document or thing pertaining to any lottery or promotional competition;

(c) knowingly sells or in any other way disposes of any forged ticket or any other document or thing pertaining to any lottery or promotional competition;

(d) with intent to defraud, alters any number or figure on any ticket or any other document or thing pertaining to any lottery or promotional competition;

(e) obtains any direct or indirect financial gain, which is not solely a share in the prize payout, by forming, conducting or in any other way promoting a syndicate for the purchase of a ticket; or

(f) sells a ticket-

(i) at a price higher than that which is printed on the ticket;

(ii) on condition that the seller of the ticket shares in the prize in the event of a ticket sold by him or her being the ticket in respect of which a prize is paid;

(iii) on any condition not provided for in the rules of the lottery concerned;

(iv) on credit or with the financial assistance in any form of the seller; or

(g) conducts, organises, promotes, devises or manages any scheme, plan, competition, arrangement, system, game or device which directly or indirectly provides for betting, wagering, gambling or any other game of risk on any outcome of any lottery unless authorised by or under this Act or any other law, shall be guilty of an offence”

APPLICATION OF THE PRINCIPLES

From the founding provisions, it is clear that regulation of lotteries and sports pools fall within the competence of the National Legislature as it does not fall within the function areas of concurrent competence nor is it contained in schedule 5 of the Constitution which deals with areas over which the Provincial Legislature may legislate.

⁷ Section 57 of the Lotteries Act.

As such, currently, the Lotteries Act being a piece of national legislation regulates these spheres and the National Legislature has not delegated its powers herein to the Provincial Legislature.

The Provincial Legislature is not empowered to regulate nor authorise any activity in relation to lotteries or sports pools.

CONCLUSION

The fact that bookmakers are licenced to accept fixed-odds and open bets on authorised activities, in this instance accepting bets on the outcome of the National Lottery and International Lotteries, by provincial gambling legislation does not make it lawful as the Provincial Legislature is not empowered to do so. The accepting of bets on the outcome of the National Lottery and International Lotteries contravenes section 56 of the Lotteries Act as it is not authorised by the Lotteries Act and is considered to be an offence under section 57 (1)(b) and section 57(2)(g).

2.6.3 SPORTS POOLS

Sports pools are defined in terms of the Lotteries Act as:

“any scheme, excluding any scheme or competition in respect of horse racing which is authorised by the board, or which is conducted in the same format and manner and under the same circumstances as a scheme or competition in respect of horse racing that existed prior to June 1997, under which:

- a) Any person is invited or undertakes to forecast the result of any series or combination of sporting events in competition with other participants: and*
- b) A prize is to be awarded to the competitor who forecasts the said result correctly or whose forecast is more nearly correct than the forecasts of other competitors or a number of prizes are to be awarded on the basis on the aforesaid*

and for the purposes of this definition the forecast of a result includes not only the forecast of the person, animal, thing or team that will be victorious or otherwise, but also any forecast relating to the system of scoring employed in the sporting event in question, or to the person who will be responsible for the score”

The provisions for licenses to conduct sports pools are contained within Section 55 of the Act.

Totalisers (aka totalisator) are licensed through provincial gambling authorities. Licenses are granted based on a number of conditions, one of which states that the premises of the totaliser must be specified in the license. As at 2015, there were 402 operational totaliser outlets across the country with Gauteng (139), KwaZulu-Natal (118) and the Western Cape (57) accounting for more than 78% of the total.

Sport betting has become the second largest gambling activity in the country, comprising nearly 14% of total Gross Gambling Revenue (GGR) in 2014 and second only to casinos which accounted for 72% of GGR (PWC, 2015).

MODUS OPERANDI

Totalisers (also referred to as pari-mutuel betting) are similar to bookmakers in the sense that they are licensed to accept bets or wagers on the outcome of events or contingencies. Totalisers differ from bookmakers in the sense that all the individual bets are pooled together, from which certain expenses are deducted, where the total remaining pool is split between those with winning bets in proportion to the amount staked. The national lottery operator currently offers Sportstake, where a punter can bet on up to 12 match fixtures by betting on the outcome of each fixture which costs R1 per fixture. The fixture list from which punters select their bets is published twice a week preceding the event itself. The pay-out for Sportstake is 50%. A number of competing sports pool betting services are offered throughout the country.

Punters wishing to participate in betting on sports pools through the licensed totaliser do so at the premises of the operator, where bets are placed on events or contingencies. Alternatively, betting on sports can be conducted online through the websites of sports pool operators.

Various different sports betting are offered by sports pool operators. Typically, punters bet money on the outcome of the particular sporting event or competition based on a number of different outcomes, such as in the case of soccer:

- Team 1 wins by difference of only one goal
- Team 1 wins by difference of two goals of more
- No-score draw
- Score draw

In the different sports betting games, different amounts can be bet on the various outcomes. There is often a minimum amount that can be bet.

Betting on sports pools offered by totalisers can occur through various platforms, either at the registered premises of the totaliser, telephonically, or online through a computer or mobile device. Sports pools are predominantly offered on rugby and soccer, among other sports. These outlets are spread throughout the country and include both official outlets and licensed agents. Betting on these sporting events is pooled together by the operator, out of which certain expenses are deducted, and where the pay-out depends on the number of winning bets. These results are published on the various websites offering the service.

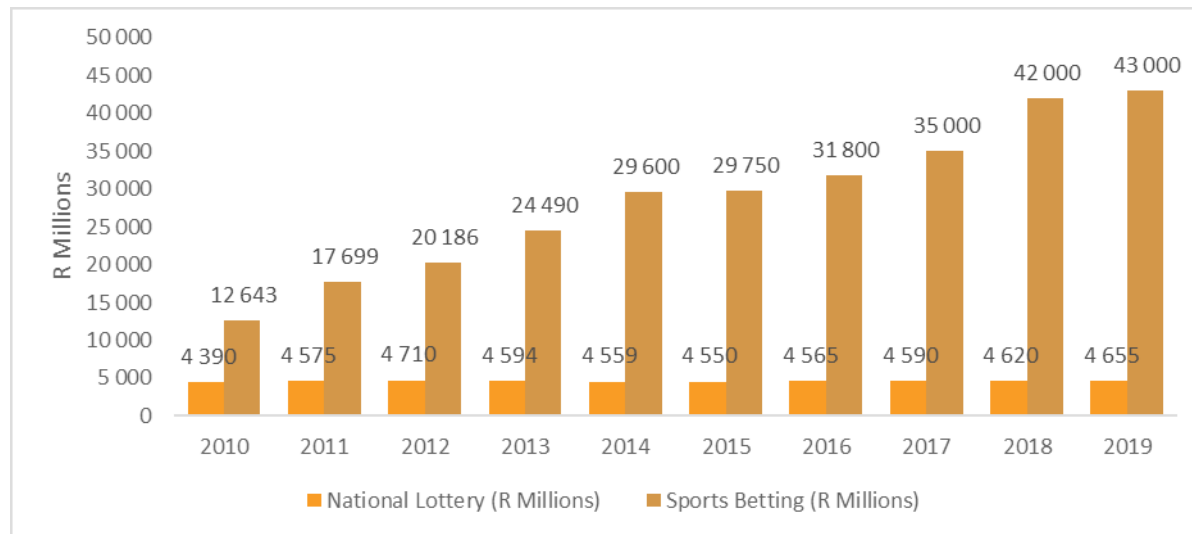
Growth in sports betting has increased sharply over the years and is expected to become one of the country's largest gambling activities. For comparative purposes, the table below reflects the growth in sports betting and the National Lottery over the 2012-2015 period.

Year	National Lottery	Sports Betting	Ratio: Lottery-Sports Betting
2012	R 4 574 900 617	R 7 211 616 089	158%
2015	R 4 559 000 000	R 19 161 315 561	420%
CAGR	-0,1%	38,5%	

Source: National Gambling Statistics, National Gambling Board (NGB), 2012-2015.

It can be seen that growth in sports betting nationally, has increased at a rapid rate since 2012 – growing at a compounded annual average rate of 38.5%, while the National Lottery has actually decreased by 0.1%. The relative size of sports betting on sporting events to the National Lottery has increased from 158% in 2012 to 420% in 2015. This trend is expected to continue as growth in sports betting maintains its trajectory while National Lottery growth remains constrained. Figure 2-2 below illustrates this.

Figure 2-2: Trend in Turnover for National Lottery and Sports Betting in South Africa, 2010-2019, R Millions



Source: PWC, 2015; NGB, 2015. *Sports betting figures reported above include betting on horse racing.

The strong growth in sports betting is expected to continue between 2016 and 2019, driven mostly by increasing in betting on sporting events, which have increased as a proportion of total sports betting from 18% in 2010 to 46% in 2015. One of the factors identified for the robust growth in sports betting has been wagering on the Fifa World Cup in 2014 (PWC, 2015). This growth is however, expected to soften as this wagering leaves the market and growth in horse racing slowing.

PROFILE OF PUNTERS AND EXTENT OF PARTICIPATION

A typical profile of individuals that participate in betting on sports pools through licensed totalisers includes:

Activity	Province	Population Group	Gender	Age
Betting on sports pools through licensed totalisers	All provinces	Same demographic as those which participate in the official National Lottery	Mostly male due to nature of the contingency (sports)	Mostly young adults between 18-35, also middle-age persons

Research indicates that betting on sports pools offered through totalisers is existent in the following provinces of South Africa:

Activity	Province	Notes
Betting on sports pools through licensed totalisers	All provinces of South Africa.	Prevalence expected to be higher in provinces with a greater number of licensed totalisers and betting outlets, being Gauteng, KwaZulu-Natal and Western Cape.

The total turnover for totalisers based on sports betting in the country is recorded by the provincial gambling authorities. This information is available through the NGB and the latest information for the 2015/16 financial year is recorded in the table below.

Province	Totalisers offering Sports Pools (R Million)	% Share
Western Cape	144,03	13%
Eastern Cape*	-	0%
Northern Cape	2,50	0%
Free State	23,54	2%
KwaZulu-Natal	50,78	5%
North West	6,26	1%
Gauteng	811,02	74%
Mpumalanga	23,88	2%
Limpopo	30,72	3%
Total	1 092,73	100%

**Statistics for sports betting is included in the horse racing statistics.*

LEGAL ANALYSIS

ISSUE

Sports pools, as with the National Lottery, are exclusively a national competence and are not subject to concurrent jurisdiction as other gambling activities. Any sports pool that is offered nationally must be authorised by the Minister, through consultation with the NLC, and currently no such authorisation has been granted to those currently operating such schemes. These operators further interpret provincial gambling legislation as allowing them to operate sports pools.

RELEVANT LEGISLATION

- Constitution of the Republic of South Africa;
- Lotteries and Lotteries Amendment Act; and
- National and Provincial Gambling Acts.

PRINCIPLES

The same principles that are applicable with regards to bookmakers accepting bets on the outcome of the National Lottery and other lotteries are applicable to sports pool, where Parliament as the National Legislature would be empowered through the operation of section 44 of the Constitution to enact legislation to govern lotteries and sports pools. The National Legislature has done so through the enactment of the Lotteries Act 57 of 1997 which regulates lotteries as well as sports pools. Lotteries and sports pools do not fall under schedule 5 as a functional area over which the Provincial Legislature may make laws.

APPLICATION OF THE PRINCIPLES

From the founding provisions, it is clear that regulation of lotteries and sports pools fall within the competence

of the National Legislature as it does not fall within the function areas of concurrent competence nor is it contained in schedule 5 of the Constitution which deals with areas over which the Provincial Legislature may legislate.

As such, currently, the Lotteries Act being a piece of national legislation regulates these spheres and the National Legislature has not delegated its powers herein to the Provincial Legislature.

The Provincial Legislature is not empowered to regulate nor authorise any activity in relation to lotteries or sports pools.

CONCLUSION

As indicated above, regulation of sports pools falls within the ambit of the National Legislature and is not an area of concurrent competence between the National and Provincial Legislature nor does it fall under schedule 5 which would have empowered the Provincial Legislature to regulate this sphere. Sports pools are regulated by the Lotteries Act and section 55 of the Act deals with the licencing of sports pools. It is prescribed in this section that the Minister may after consulting the board issue a licence to a licensee which authorises the licensee to conduct a national sports pool. The licencing under this section of the Lotteries Act is a prerequisite for any entity to conduct sports pools and any entity not authorised by the Lotteries Act may not conduct sports pools lawfully.

2.6.4 PROMOTIONAL COMPETITIONS

Promotional competitions, classified as “media gambling”, can include offering lottery-based games through various forms of media, most commonly using an SMS and sometimes using email, the post, or social media. The Annual Performance Plan for the Commission notes the risk posed by this mushrooming activity, and in particular, the “bravado” with which they operate.

MODUS OPERANDI

Promotional competitions are accessed through SMS or MMS and usually involve the payment of an entry fee of an amount not exceeding R1.50 (as prescribed under Section 11 article 1 of the CPA). Typically, punters participate in promotional competitions through sending a message to specific number, and can sometimes involve answering an entry question. Promotional competitions are usually offered on popular consumer brands and other well-known products. The SMS or MMS serves as the punter’s ‘entry’ into the draw for the prize, which is then awarded at the closing of the competition.

PROFILE OF PUNTERS AND EXTENT OF PARTICIPATION

A typical profile of individuals who engage in promotional competitions includes:

Activity	Province	Population Group	Gender	Age
Promotional Competitions	National scope, concentrated in urban areas	All populations groups participate, with Black Africans and Whites making up the majority	Higher participation by females than males	Majority of participation among 18-45 year olds, with 18-25 year olds accounting for the largest share

Research indicates that promotional competitions are existent in the following provinces of South Africa:

Activity	Province	Notes
Promotional competitions	Country-wide, concentrated in urban centres	Location of enablers and higher incomes in urban centres

An indication of the typical sums involved for these types of promotional competitions for gain includes a small competition that was operated without the promotion of any good or service⁸. This scheme attracted a total of 1,133 entrants with total revenue of R796.48, while this figure may seem irrelevant, the use of premium rated SMS's competitions is pervasive and extensive across South Africa and likely that the combined value of the individual schemes is considerable.

In this study, the derivation of the total monetary extent of promotional competitions included combining the total value of known promotional competitions as researched by the Commission with an estimation of the average participation by punters across the country. This involved determining the total number of participants, the likely average amount spent, as well as the frequency of participation. The total value of promotional competitions in the country for 2015 is estimated in the table below on a provincial basis.

Province	Promotional Competitions (R Million)	% Share
Western Cape	1,68	8%
Eastern Cape	2,23	11%
Northern Cape	0,33	2%
Free State	1,11	6%
KwaZulu-Natal	3,88	20%
North West	1,54	8%
Gauteng	5,56	28%
Mpumalanga	1,69	8%
Limpopo	1,89	9%
Total	19,91	100%

LEGAL ANALYSIS

ISSUE

While legislation makes provision for entities to use promotional competitions as a means of promoting and advertising their products only, evidence shows that many promotional competitions are overstepping the boundaries set out in the legislation, where promotional competitions either charge too high an entry fee,

⁸ See WASPA Adjudication Report 7180 of 2010. Available at: <http://old.waspa.org.za/code/download/7180.pdf>

sell more than the allowed number of tickets, or have a prize where the values exceeds a prescribed limit. As a result, these promotional competitions are being run more for commercial gain rather than for promotional purposes.

RELEVANT LEGISLATION

Prior to 2011, the Lotteries Act specifically dealt with promotional competitions under Section 54. However, subsequent to the amendments of the Act being passed and accepted in 2011, this section was repealed.

PRINCIPLES

There are no issues with regard to concurrent jurisdiction with regard to promotional competitions.

APPLICATION OF THE PRINCIPLES

Promotional competitions are made provision for in the Consumer Protection Act No. 68 of 2008, under Section 36. Herein, the Act refers to a promotional competition as *“any game, scheme, arrangement, system, plan or device for distributing prizes by lot or chance.”* In this regard, it can be seen that promotional competitions are no longer within the ambit of the Lotteries Act, but rather under the Consumer Protection Act and as a result the National Consumer Commission (NCC) as established under Section 85 of the Act. Furthermore, any promotional competition that exceeds the threshold value of R1 (Section 11(4)) is governed by the CPA.

CONCLUSION

Although promotional competitions are no longer under the ambit of the lotteries’ legislation, promotional competitions that are run on a for-profit purpose continue to exist and due to their nature as a game of chance continue to pose a risk for the National Lottery.

2.6.5 LOTTERY SCAMS

Similar in nature to promotional competitions, lottery scams, often international in nature, involve the receipt of notifications by punters of their supposed entry into, and winning of a lottery in the punters home country or another country abroad.

MODUS OPERANDI

Lottery scams are conducted by requiring ‘winners’ to pay an advance-fee to an individual, supposedly an agent of the lottery operator (hence, the inclusion of lottery scams under ‘advance-fee fraud’), which serves to confirm the winnings. Further, operators often require the winner to pay transfer and processing fees to enact the distribution of winnings, which ultimately never arrive.

Although originally limited in reach by the technology on offer at the time, lottery-scams and other advance-fee fraud have exploded with the advances in communications technology, where email, social media platforms and instant messaging services have expanded the market for scammers, away from just corporates to virtually everyone (Chang, 2008). In 2008, the national operator at the time, Gidani, stated that over 419

lottery scams had been reported to it by South African citizens.

PROFILE OF PUNTERS AND EXTENT OF PARTICIPATION

A typical profile of individuals that have participated in lottery scams includes:

Activity	Province	Population Group	Gender	Age
Lottery Scams	National scope, concentrated in urban areas	All population groups	Mostly males	Mostly older age groups

Research indicates that lottery scams are existent in the following provinces of South Africa:

Activity	Province	Notes
Lottery Scams	Country-wide, concentrated in urban centres	Location of enablers and higher incomes in urban centres

Information on the monetary extent of lottery scams in South Africa is scant. To overcome the lack of information, the total number of lottery scams from 2009, based on consumer reports made to Gidani, was multiplied by an average amount of money that is likely to have been expended by each participant involved in the scam. This amount is estimated to be in the region of R500 per participant. The total value of lottery scams in South Africa for 2015 is contained within the table below.

Province	Lottery Scams (R Millions)	% Share
Western Cape	n/a	-
Eastern Cape	n/a	-
Northern Cape	n/a	-
Free State	n/a	-
KwaZulu-Natal	n/a	-
North West	n/a	-
Gauteng	n/a	-
Mpumalanga	n/a	-
Limpopo	n/a	-
Total	10,48	100%

LEGAL ANALYSIS

ISSUE

Advanced-fee fraud is a growing criminal activity in the country and throughout the globe as the internet and other media platforms accelerate these activities and widen the potential target audience. In these schemes, an elaborate story is often pedalled to unsuspecting victims who are requested to make a small payment, often to cover administrative and other fees, in order to access a larger amount. These scams use a number of aliases, and sometimes do involve the use of the official National Lottery brand as an attempt to legitimise the scheme. Many people are not aware of the scam and often do get scammed to a greater and lesser extent.

RELEVANT LEGISLATION

Lottery scams fall outside of the ambit of the Lotteries Act as they do not constitute a lottery based on the following factors:

- Lottery scams do not involve the distribution of prizes;
- Although lottery scams follow a random approach in their advertising to potential victims; and
- These punters do not knowingly participate in the lottery scams.

The Prevention of Corrupt Activities Act (No. 12 of 2004) is the relevant legislation in this regard.

PRINCIPLES

There are no issues with regard to concurrent jurisdiction in terms of lottery scams or advanced-fee fraud.

APPLICATION OF THE PRINCIPLES

As lottery scams are not lotteries *per se* but rather a form of fraud, such activity falls outside of the ambit of the lotteries legislation. While the Lotteries Act does make provision for “*any game, scheme, arrangement, system, plan, promotional competition or device*”, in which case the lottery-based scam would fall, the scam itself does not meet the definition of indirectly or directly providing for betting, wagering, gambling or any other game of risk (Section 57, sub-section g.). Lottery-based scams are financial crimes and not lotteries *per se*, as they do not involve the operation of a lot or game of chance.

CONCLUSION

In consideration of other relevant legislation, the Prevention and Combatting of Corrupt Activities Act No. 12 of 2004, makes provision for corrupt and unlawful activities relating to “games of chance”, defined in the Act as “lottery, lotto, numbers game, scratch game, sweepstake or sports pool”, under Section 16. In this regard, the Act makes it clear that any person who either accepts (sub-section a) or gives (sub-section b) in either an activity which undermines or constitutes a threat to a game of chance is guilty of an offence. From this perspective, illegal lottery activities in the form of scams fall within the ambit of the Prevention and Combatting of Corrupt Activities Act.

2.6.6 UNAUTHORISED INTERNATIONAL AND FOREIGN LOTTERIES

The Act prohibits any resident of the Republic from participating in lottery activities that are based outside of the borders of the Republic. This includes international lotteries, national lotteries of other countries, and lotteries offered through the internet that are prohibited by the Act. While it is possible to participate in legal lottery activities in South Africa through the internet, the focus of this element is on the participation of South African residents in lotteries that are not based within the country, and not on participation in lottery games through the internet that are legal – such as purchasing Lotto tickets through the official website, or

through a banking portal.

MODUS OPERANDI

Participation in international lotteries most commonly takes the form of online participation, where punters within the country use one of the plethora of websites and online service providers to execute the transaction.

This involves a punter creating an account on a website with their details. Once registration is complete, punters can select their preferred lottery to participate in. The service provider then acts on their behalf in terms of purchasing actual tickets of the selected lottery for the punter. If the punter wins, the prize money is again collected by the service provider and conveyed to the punter through their online account. The difference between this type of lottery participation and betting on the outcome of the National Lottery and other foreign lotteries is that this type of participation is in the actual lottery whereas the latter involves betting on only the outcome of the lottery.

PROFILE OF PUNTERS AND EXTENT OF PARTICIPATION

A typical profile of individuals that participate in international lotteries includes:

Activity	Province	Population Group	Gender	Age
International Lotteries	National scope, concentrated in urban areas	All population groups, with majority being Black African or White, followed by Asians and Coloureds	Dominated by males, but close to gender parity	Participation across population, from 18 to 65 year olds. Majority within middle-aged group (30-55-years)

Research indicates that participation in international lotteries is existent in the following provinces of South Africa:

Activity	Province	Notes
International Lotteries and Scratch cards	Country-wide, concentrated in urban centres	Location of enablers and higher incomes in urban centres

While information on online gambling is available, this information does not specifically cover participation by local punters in international and foreign based lotteries. In order to arrive at an estimate of the total value of such participation, indicators from the Socio-Economic Impact of Gambling in South Africa for 2009 (NGB, 2009) was used as a guide to estimate the total possible number of participants, the average amount wagered by each participant, and the frequency of participation. Furthermore, data available from the South African Reserve Bank on confiscated winnings from international gambling were used as a guide. These figures equalled a total of more than R6 million between 2011 and 2016. The total estimated value of participation by South African residents in international and foreign lotteries is detailed in the table below.

Province	International Lotteries (R Millions)	% Share
Western Cape	0,48	8%
Eastern Cape	0,19	3%
Northern Cape	0,03	1%
Free State	0,12	2%
KwaZulu-Natal	1,32	22%
North West	0,19	3%
Gauteng	3,17	54%
Mpumalanga	0,23	4%
Limpopo	0,18	3%
Total	5,92	100%

LEGAL ANALYSIS

ISSUE

With internet access and cross-border payment systems becoming more accessible to the general population, the prevalence of online gambling and gambling through the internet has increased in the country. The Casino Association of South Africa (CASA) estimates that the cost of online gambling in terms of lost tax revenue equalled R105 million in 2015. Many individuals are able to access international and foreign lotteries through the internet, not simply in terms of betting on the outcome of these lotteries, but actually participating in these lotteries through companies which offer this type of service. These lotteries are creating competition for the National Lottery in South Africa.

RELEVANT LEGISLATION

As participation in international and foreign lotteries involves participation in lotteries, the relevant legislation is the Lotteries Act and Lotteries Amendment Act, respectively.

PRINCIPLES

As international lotteries are games of chance and not gambling activities as covered by the relevant gambling legislation, there are no issues in terms of concurrent jurisdiction. The Lotteries Act explicitly prohibits any unauthorised lotteries under Section 59.

APPLICATION OF THE PRINCIPLES

Participation by any legal person in the Republic in a lottery or promotional competition carried out outside of the Republic is considered to be in contravention of the Act, specifically Section 59. International lotteries and scratch cards, so far as they meet the definition of a lottery, which are operated outside of the Republic, are considered to be illegal. International lottery participation therefore, falls within the ambit of the Lotteries Act.

CONCLUSION

International lotteries and lotteries conducted in jurisdictions outside of South Africa are considered to be illegal by both the lotteries legislation and the gambling legislation that permit South Africa from participating

in international lottery and gambling transactions.

2.6.7 PERMITTED LOTTERIES OUTSIDE OF THE PROVISIONS OF THE LOTTERIES LEGISLATION

Permitted lottery schemes that are operated outside of the lotteries legislation include schemes such as society lotteries, private lotteries and lotteries incidental to exempt entertainment. These schemes are permitted by the lotteries' legislation as they allow non-profit organisations to raise funds for good causes, which include charities, schools, sports clubs, societies and so on.

These schemes are considered to be unlawful lotteries if they do not comply with the provisions of the Act, which primarily deals with registration requirements for society lotteries, and caps on ticket prices, overall prize values, and the regularity at which lotteries can be used to raise funds. Therefore, any one of these schemes that does not comply with the regulations is considered to be unlawful.

While limited data on the actual geographic and monetary extent of permitted lotteries that are operated outside of the provisions of the lotteries' legislation – schemes often operated for fund raising purposes – exists, the National Lotteries Commission is aware of some of these activities through its own research and enforcement efforts. Over a 2-year period covering 2014-2014, the total estimated value of these activities equalled R1.6 million with an average ticket price of roughly R150. These schemes were most schools or charitable organisations. It is likely that the true extent of these activities is higher than the available data suggests.

2.7 CURRENT ENFORCEMENT MECHANISMS

One of the ways in which the NLC contends with unauthorised and unlawful schemes is through the Compliance and Enforcement Unit. This unit derives its mandate from Section 10(d), 10(3) and 45 of the Lotteries Act as amended, Section 36 of the Consumer Protection Act, and Schedule 4 of the Constitution. The main responsibility of the unit is to monitor, regulate and police all matters relating to games of chance and sports pools in the country.

The current tools and channels utilised by the Compliance and Enforcement Unit include both informal and formal tools:

Informal tools:

- Warning letter
- Letter of demand
- Compliance notice
- Advice
- Undertakings

Formal tools:

- Revocation of registration
- Declaratory order
- Criminal prosecution

While these tools may be effective in the regulation and policing of schemes such as society and private lotteries, which are mostly operated in accordance with the law, there are a number of drawbacks to the current enforcement framework when it comes to more sinister schemes such as Fafi. This is primarily due to the lack of mandate found in the lotteries' legislation to monitor and police illegal lotteries, where explicit investigative tools required to effectively empower enforcement inspectors to monitor, investigate and police illegal schemes are absent. As a result, lottery inspectors can only assist other law enforcement agencies in carrying out investigations on illegal lottery schemes, meaning the priority and effort attached thereto may be diluted in the process. As a result, the effectiveness of the current enforcement tools available to the NLC to pursue its mandate is less than optimal.

2.7.1 SUMMARY

The findings on the relevant legislation for each identified activity is summarised in the table below.

Table 2-2: Summary of Findings on Illegal Lotteries and the Law

Activity	Relevant Legislation	Other Relevant Legislation	Notes	Monetary Value (R Millions)	Impact on National Lottery (Ascending Order)
Totalisers offering sports pools	National and Provincial Gambling Acts	Lotteries Act and Lotteries Amendment Act	Pari-mutuel sports betting are permitted by gambling legislation although sports pools are under the ambit of the Lotteries Act.	1 092.73	1
Fafi	Lotteries Act and Lotteries Amendment Act	National and Provincial Gambling Acts	More information on modus operandi of Fafi needed to understand clearly the way the scheme is operated.	R725.57	2
Bookmakers accepting bets on the outcome of the National Lottery	National and Provincial Gambling Acts	Lotteries Act and Lotteries Amendment Act	Although betting on the outcome of the National Lottery and other foreign lotteries is prohibited by the Lotteries Act, gambling legislation allows betting and wagering on games or contingencies of this nature.	531.38	3
Promotional Competitions	Consumer Protection Act	Lotteries Act and Lotteries Amendment Act	Section 54 of Lotteries Act, which dealt with promotional competitions, was repealed in 2011. CPA deals with promotional competitions under Section 36.	19.91	4
Lottery Scams	Prevention and Combatting of Corrupt Activities Act	Prevention of Organised Crime Act	Lottery-scams are not illegal lotteries per se but are rather financial crimes under advance-fee fraud. Prevention and Combatting of Corrupt Activities Act does however make provision for corrupt activities relating to games of chance under Section 16.	10.48	5
International Lotteries	Lotteries Act and Lotteries Amendment Act	National and Provincial Gambling Acts	International lotteries are sufficiently defined within the Lotteries Acts	5.92	6
Permitted lotteries outside of the law	Lotteries Act and Lotteries Amendment Act	Lotteries Act and Lotteries Amendment Act	Various forms of raising funds for good causes by societies, schools, sports clubs, etc. regulated by lotteries' legislation.	1.6	7

An illustration and high-level risk assessment of the various illegal lottery schemes is provided below.

RISK MATRIX

Based on the estimated value of each respective illegal lottery scheme, and using a logarithmic scale to represent the risk posed to the National Lottery in monetary terms, the table below (**Table 2-3**) reveals the severity each illegal schemes poses to the National Lottery and consequently NLDTF. It can be seen that currently, the illegal schemes that pose the greatest risk to the organisation and monopoly are Fafi, sports pools and bookmaking activities. Other illegal schemes, such as promotional competitions, lottery scams, foreign lotteries and unauthorised society lotteries and the like pose less of a risk. It is also worth noting that various forms of land-based lotteries similar in nature to Fafi, such as the scheme “05/90” popular in the West African countries of Nigeria and Ghana, and Pick Three from China may pose a future risk to the National Lottery, given the increasing size of the expatriate communities residing in South Africa.

Table 2-3: Risk Posed by Each Illegal Lottery Scheme

Risk Posed to National Lottery	Minimal <R1million	Minor <R10 million	Major <R100 million	Hazardous <R1 billion	Catastrophic <R10 billion
Fafi	Green	Green	Green	Orange	Green
Bookmaking activities	Green	Green	Green	Orange	Green
Sports pools	Green	Green	Green	Orange	Green
Promotional competitions	Green	Green	Yellow	Green	Green
Lottery scams	Green	Green	Yellow	Green	Green
Foreign lotteries	Green	Light Green	Green	Green	Green
Permitted Schemes outside of the law	Green	Light Green	Green	Green	Green

2.8 INTERNATIONAL EXPERIENCE OF ILLEGAL LOTTERIES

2.8.1 ILLEGAL LOTTERIES IN CHINA

Gambling is considered a traditional recreational behaviour among Chinese societies, and is believed to have been occurring in China since the late Imperial period.⁹ Gambling has been, and remains popular in China due to the societal beliefs of Chinese societies; where beliefs such as fate, destiny and luck, are an inherent part of their identity and also inherently part of gambling itself. It is therefore, no surprise that the national legal lottery market in China is second only to that of the United States, standing at a total of \$US42 billion compared to the United States' of \$US60 billion in 2012 (Cheng, et al., 2013).

Alongside the legal lottery market in China stands the shadow lottery industry, which accounts for a large share of the underground economy in the country, estimated to be in the region of \$US161 billion (Eimer, 2010). This illegal lottery first appeared in the province of Guangdong in southern China during the late 1990s, referred to as *liuhecai*. The illegal lottery is based upon the results of the legal lottery (called the Mark Six Lottery in English), and has since spread across mainland China, Taiwan and the Philippines (Yen & Wu, 2013). While no official statistics regarding the extent of illegal lotteries are available in China, there does exist some statistics for certain areas. For example, it is estimated that more than 3.3 billion RMB were spent on the illegal lottery in Guangdong province, with 40% of the expenditure flowing to bookies. In the city of Yueyang, in the province of Hunan, more than 300 million RMB flowed to bookies in 2004, roughly 56.6 RMB per each person of the city's entire population. In another city of Hunan, Miluo City, it was estimated that nearly 5 million RMB flowed to bookies on every lottery draw day, and that personal savings in local banks decreased by more than 97 million RMB in the December of 2004 alone (Cheng, et al., 2013).

Participants in *liuhecai* essentially bet on the number drawn in the official lottery, the Hong Kong Mark Six Lottery, which contains 49 balls, making the winning probability 1/49 – or 2 percent – with a typical pay-out usually 40:1. Also, a number of side-line bets are also available, such as the colour of the special number, the Chinese zodiac, whether the special number is odd or even, and so on. The Mark Six Lottery, conducted in Hong Kong, is drawn Tuesday, Thursday and Saturday.

Consistent with the socio-historical and cultural context of gambling in China, an obscure element exists within the illegal lottery industry in the form of enlightenment sources, such as hint sheets, where various photos, cartoon figures, classic poetry, riddles, etc. are circulated by punters before the lottery draws. In these hint sheets, clues are said to exist by hinting to the special number that will be drawn. In addition, punters also watch popular kids shows such as the BBC's Teletubbies, where 'hidden' messages are believed to exist. Due to the influence of cultural and societal factors on gambling behaviour in China, many participants in the illegal lottery believe that the existence of 'hidden' messages in the various media means that the lottery is not a random game based purely on chance, but rather a predictable game and hence profitable investment.

In terms of the structure and operation of the illegal lottery in China, the industry is a four-tier pyramid system. The first tier consists of the participants in the illegal lottery. The second tier is made up of the people

⁹ Imperial Period refers to the Qin Dynasty that begun circa 221 BC to the Qing Dynasty that ended circa 1911.

that collect and record bets made by the punters. The third tier is comprised of small bookies, who collate the pots of the individuals from the second tier. Finally, atop the pyramid, are large bookies, who take the large bets from the tier below. Once the draw is made, the winnings move down the pyramid for final distribution back to the punters.

In terms of the modus operandi of the different tiers, the first tier represents the individuals betting on the illegal lottery. These are often individuals from a specific socio-economic grouping that are prone to betting on the illegal lottery. The next tier involves 'collecting agents' that are often proprietors or employees at corner stores, newsagents, eateries or internet cafes. The next tier is larger, more organised bookies, followed by the larger, even more organised bookies. This system functions because of the high levels of trust between the different tiers, where credit accounts are even available for trusted and repeat punters. Another system that supports the illegal lottery is that of the communication approach, where each tier only deals with the tier above and below, thereby providing protection to the bookies. The use of telecommunications media and platforms, such as mobile phones and the internet, is another factor that facilitates the illegal lottery industry.

Figure 2-3: Breakdown of Illegal Lottery Market in China by Tier



Illegal lotteries are not only prevalent in China. Since their inception in China, they have spread to other nations in the Asia Pacific region, most notably to Taiwan.

Lotteries made their first appearance in Taiwan in the early 1900's, based on lottery tickets from China and lottery tickets of the Japanese colonial government, introduced in order to fund construction projects. From the 1950's onwards, after the establishment of the People's Republic of China (PRC), the Kuomintang government published the Patriotic Lottery Ticket (PLT) as a means to solve financial difficulties in what was a relatively poor country at the time: GDP per capita in 1950 Taiwan stood at \$936 (international dollars), compared to \$1,926 for Japan and \$1,070 for the Philippines (The World Economy). As in China, a shadow of illegal lottery in Taiwan was quick to make an appearance, operating almost exactly as the *liuhecai* in China. The Taiwanese illegal lottery, affectionately known as the 'Everybody Happy Lottery' (EHL), was also based on

the official PLT results, but the prizes on offer exceeded that of the official lottery. Such was the fervency for the EHL that many punters would gather in cemeteries at night to pray to ghosts for the winning numbers.

Table 2-4 below includes information on the history of lotteries in Taiwan over time.

Table 2-4: Historical Issuance of Lotteries in Taiwan

	Patriot Lottery	Charity Lottery	Kaohsiung Lottery	Two-in-one Lottery	Public Welfare Lottery
Issue Period	1950-1988	1990	1999	1999-2001	2002
Issue Purpose	Finance for construction	Social welfare	Social welfare	Reconstruction budget	Social welfare
Organisation	Taiwan government	Taipei government	Kaohsiung government	Ministry of finance	Ministry of finance

2.8.2 LOTTERY SCAMS IN JAMAICA

Jamaica, a relatively small country situated in the Caribbean Sea, has become a hotspot for US-based lottery scams over the years, where approximately U\$300 million has been paid into the scams in 2012, up from roughly U\$30 million three years prior. The size of the activity is immense: over 30,000 phone calls are made by the perpetrators in Jamaica to US citizens each day, targeting the relatively wealthy areas of the north east of the US. The fact that over 90% of scams remain unreported indicates the true size of this activity (Caribbean Policy Research Institute (CaPRI), 2012).

There is an interesting reason why lottery scams have burgeoned in Jamaica of late. The Caribbean Policy Research Institute (CAPRI), in a report on lottery scams in Jamaica, puts this down to policy changes made by the Jamaican Government in the telecommunications industry in 1999. The change initiated the liberalisation of the industry starting in 1999 and being completed in 2003, which subsequently led to the establishment of rapidly growing ICT sector, where many Jamaicans have gained employment, and training and education in the ICT environment: customer service, selling products and services, basic computer technology, and database management. This training, the report states, may have potentially sown the seeds for lottery scams.

Alongside the skills and knowledge of the perpetrators, other key enablers need to be present. This includes, primarily, access to modern technology, which facilitates the modus operandi of these schemes, which rely on communications platforms to send letters, emails, faxes and SMSs to unsuspecting victims.

2.9 CONCLUSION

The National Lottery was established due to the benefits that such a scheme could have on funding charitable and good causes in South Africa, as well as its possible contribution to economic growth and job creation. The NLC was established in this regard to oversee the operation of this scheme and regulate other forms of games of chance. The express mandate of the NLC includes, among others, to maximise revenue generation for the National Lottery and associated games of chance and to protect the monopoly therewith.

The principal lotteries act and relevant amendments make provision for a number of other lotteries. These include society lotteries, private lotteries, and lotteries incidental to exempt entertainment. Further, there

are a number of unlawful lotteries such as Fafi and participating in international and foreign lotteries, while a number of other activities such as betting and totalisers are authorised by national and provincial gambling legislation. Some of these activities, such as Fafi and international lotteries, fall within the ambit of the lotteries legislation, while others, such as lottery scams, bookmakers accepting bets on the outcome of the National Lottery and other lotteries, and totalisers offering sports pools, are outside the ambit of the lotteries legislation.

Currently, it appears as though activities such as Fafi, bookmaking activities which involve betting on the outcome of the National Lottery and foreign lotteries, and sports pools, are providing direct competition to the National Lottery and consequently are impacting the turnover the scheme generates. Therefore, these activities may be infringing on the provisions included in the relevant lotteries' legislation in terms of the monopoly the Commission has on the National Lottery and sports pools. One of the related issues therein is the lack of clear inspectorate duties on behalf of the Commission to enforce the Act, as well as the specificity of penalties regarding offences committed under the Act.

The legal analysis revealed that Fafi and international lotteries are within the ambit of the lotteries' legislation, while promotional competitions and lottery scams fall within the ambit of other legislation, including the Consumer Protection Act and the Prevention and Combatting of Corrupt Activities Act. With regards to bookmaking activities and sports pools, it was found that although these activities are authorised in terms of provincial gambling legislation, Provincial Legislature is not empowered to do so as lotteries and sports pools are not a concurrent function of national and provincial government (schedule 4 of Constitution) and are also not included under schedule 5 of the Constitution, which would empower provincial authorities to regulate lotteries and sports pools. Lotteries and sports pool are a national competence and the National Legislature is empowered to regulate this sphere through the relevant lotteries' legislation.

3. IMPACT OF ILLEGAL LOTTERIES AND SCHEMES IN SOUTH AFRICA

3.1 INTRODUCTION

The objective of this section is to determine the impact of unlawful lotteries and other schemes on the National Lottery, as well as how such schemes influence the wider socio-economic landscape of the country.

3.2 EXISTING DEVELOPMENT LANDSCAPE IN SOUTH AFRICA

Section 1.3 of this report elucidated some of the factors that play a part in gambling participation in society. These factors included cultural aspects, historical reasons, and societal elements. Each of these aspects has an influence on the type and nature of participation in gambling and games of chance.

In order to draw correlations between these factors and the types of unlawful lottery schemes witnessed throughout the country, an overview of the existing development landscape has been conducted. The factors that have been considered include the official unemployment rate, the rate of household savings, and the size of the population that are in the key gambling cohort.

Table 3-1 below includes information on the key population cohort, the unemployment rate, and average household saving rates for each of South Africa's nine provinces. What can be seen from the table below is that each province has a similar proportion of individuals in the key lottery participation cohort made up of 35-44 year olds. The national Socio-Economic Impact of Legalised Gambling in South Africa for 2011 revealed that the age cohort that participates more proportionately than other age cohorts in lotteries is that of the 35-44-year group, constituting the 'core' of lottery participants. This is a useful metric as site visits and engagement with stakeholders and illegal lottery participants indicates that persons who play the National Lotto also play other games, most notably illegal lotteries such as Fafi as well as games such as betting on numbers. Thus, provinces with proportionately larger 35-44 year olds may see more illegal lottery activity than others. In this regard, the provinces with the highest portion of 35-44 year olds include Gauteng (16.28%), the Western Cape (15%), and the North West (14.59%).

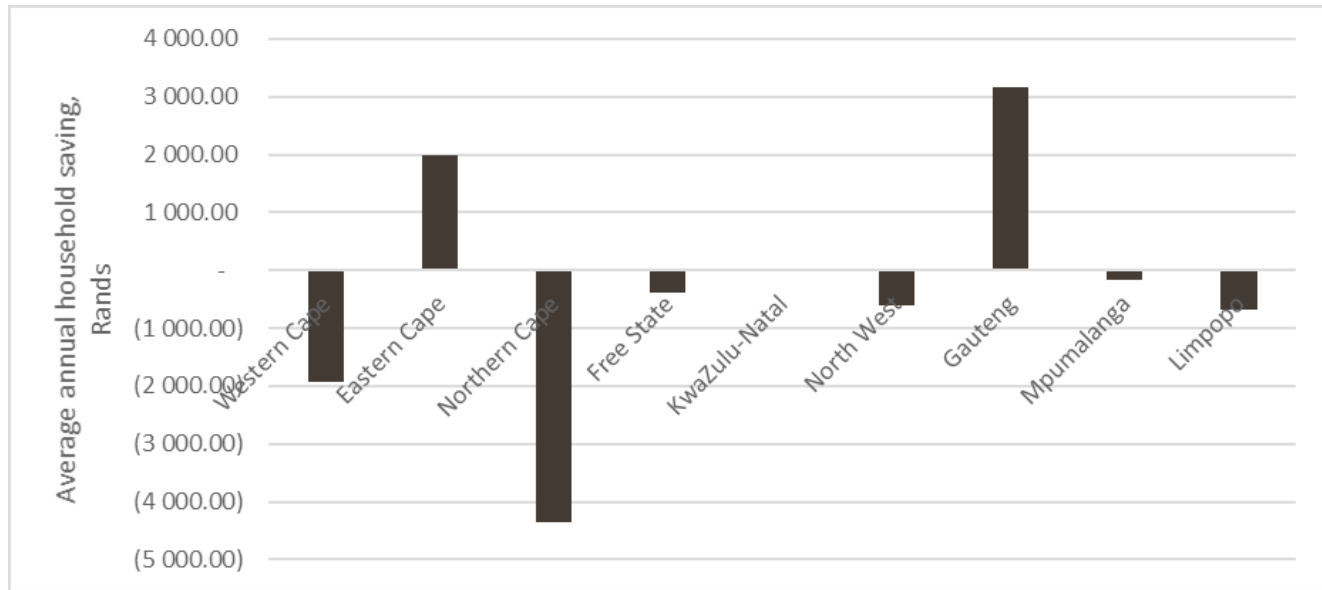
Table 3-1: Comparison of Key Indicators across South Africa's Provinces

Province	Population in Key Cohort	Unemployment Rate	Average Household Saving Rate
Western Cape	15,0%	24,43	-1 938,94
Eastern Cape	12,23%	28,18	2 001,97
Northern Cape	13,76%	28,55	-4 345,73
Free State	13,84%	30,96	-390,88
KwaZulu-Natal	12,75%	21,01	10,21
North West	14,59%	23,91	-603,66
Gauteng	16,28%	25,72	3 161,16
Mpumalanga	14,01%	27,08	-160,69
Limpopo	12,23%	17,84	-670,49

Source: Calculations based on Quantec Data, 2016.

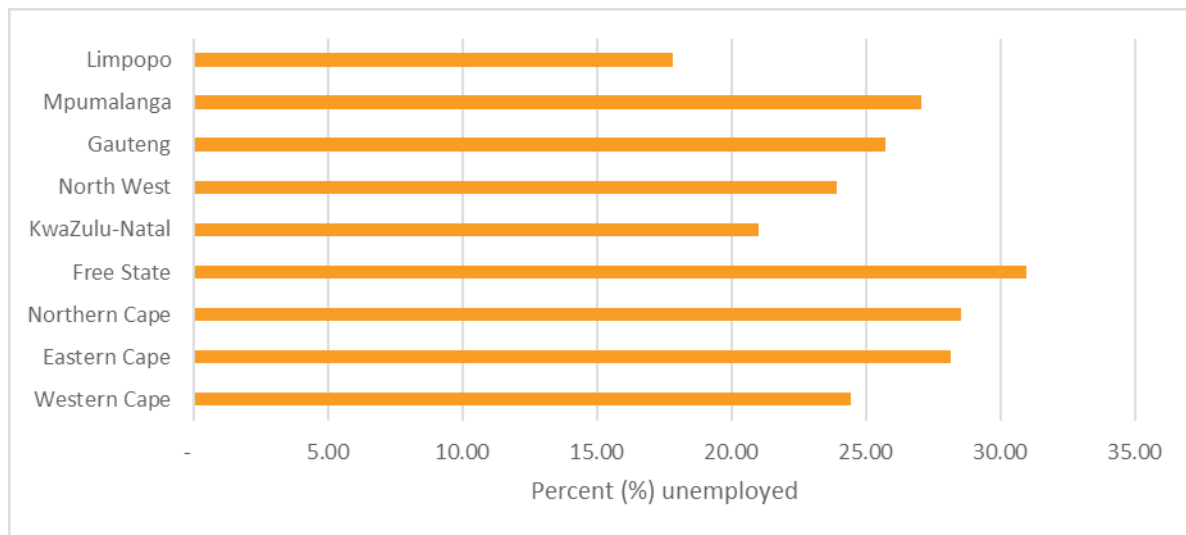
In terms of current levels of household welfare and future prospects, evidenced by average household savings rates and the unemployment rate, it can be seen that the provinces with the highest unemployment rate include the Free State (30.96%), the Northern Cape (28.55%), and the Eastern Cape (28.18%). Average household savings rates are lowest in the Northern and Western Cape (-R4, 345.73 and -R1, 938.94) and Limpopo (-R670.49). These differences are displayed in the graphs below.

Figure 3-1: Average Annual Household Savings by Province, Rands, 2015



Source: Calculations based on Quantec Data, 2016.

Figure 3-2: Official Unemployment Rate by Province, %, 2013



Source: Calculations based on Quantec Data, 2016.

The expectation of participation in illegal schemes is that the schemes that are more amenable to low-income individuals will be popular in provinces with low levels of income and larger populations of low-income earners. Fafi, for example, is common in communities that exhibit low-income characteristics in the form of high unemployment rates and low levels of economic mobility and opportunity.

In more developed areas, such as the urban centres of Johannesburg, Cape Town and Durban, it is expected that participation in schemes such as sports pools, betting on the outcome of the National Lottery, promotional competitions, and international lotteries is more prominent. This is due to the higher levels of purchasing power in these areas, and access to other key enablers such as gambling outlets, the internet and advertising and promotions.

3.3 HISTORICAL OVERVIEW OF THE NATIONAL LOTTERY IN SOUTH AFRICA

The National Lottery was introduced by the former NLB to South Africa with the inaugural draw on 11 March 2000. The first operator of the National Lottery was Uthingo (2000-2007); succeeded by Gidani through 2007 to 2014 and most recently by Ithuba (2014-present).

The concept of the National Lottery in South Africa shares many parallels with that of the UK National Lottery, in that a single entity is licensed to operate the lottery itself, with a certain amount of the ticket sales going towards the prize fund, social investment, government duty, retailers, and the operator.

The game portfolio of the National Lottery has also experienced a change since the inaugural draw, and has included the addition of Lotto Plus (2003), Powerball (2009), Powerball Plus (2015), Sportstake (2015), and Eaziwin (2015). These developments can be seen as an attempt by the NLC and national operator to remain relevant and to meet the changing preferences of the consumer. Quite interestingly, a daily lotto – Keno – was slated for introduction in 2003, but was denied by the minister of trade and industry at the time.

Despite efforts to expand the product offering, the National Lottery in South Africa remains under pressure to sustain ticket sales and revenues, which are displayed in **Table 3-2** below from 2001 to 2015.

Table 3-2: South African National Lottery: Historical Trends, 2001-2015

Year	Lotto Ticket Sales (R Million)	Average Number of Players per Week (Million)	NLDTF Distribution (R Million)
2001	2 709,89	6,00	418,31
2005	4 248,32	6,90	1 029,85
2010	4 300,00	8,70	1 500,00
2015	4 559,00	5,78	1 550,00

Source: NLC Annual Reports, 2001-2015.

From **Table 3-2** above, it can be seen that the total value of lotto ticket sales in South Africa stood at R2.71 billion in 2001, with average weekly players of roughly 6 million. The distribution to the NLDTF in 2001 totalled R418.31 million, or approximately 15.4% of total ticket sales revenue.

Over the subsequent period to 2010, lotto tickets sales increased to well over R4 billion, while the average number of players per week increased steadily to 8.7 million. Distributions to the NLDTF increased quite dramatically as well, to well over a R1 billion per annum.

However, this growth has somewhat tailed off over recent years, where total lotto ticket sales in 2015 are seen to be marginally larger (6%) than in 2010, while average weekly players have declined from 8.7 million to 5.78 million. In fact, the latest annual performance plan of the Commission states that real growth (accounting for increases in ticket prices and inflation) in revenues for the National Lottery is below expectations. Distributions to the NLDTF do however; remain substantial – buoyed perhaps by interest received on the NLDTF funds. Factors ascribed to this slow down include a slowing economy and growth in both legal and illegal gambling outlets (PWC, 2015).

In terms of future trends, **Table 3-3** below forecasts lotto ticket sales, the average number of weekly players,

and distributions to the NLDTF over the 2016-2020 period based on historical performance.

Table 3-3: South African National Lottery: Forecast Trends, 2016-2020

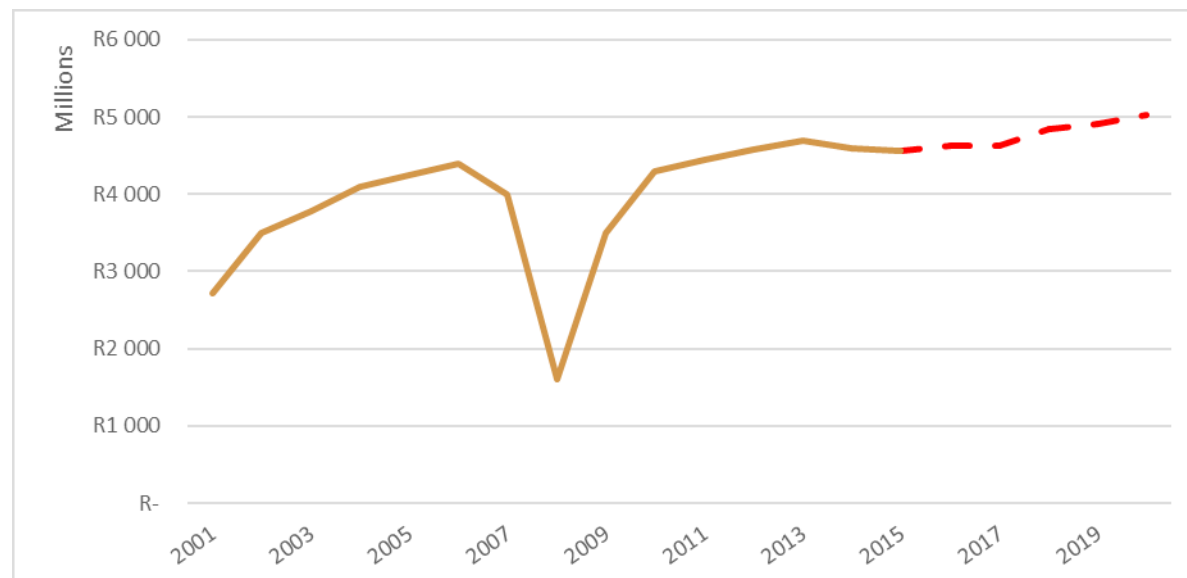
Year	Lotto Ticket Sales (R Million)	Average Number of Players per Week (Million)	NLDTF Distribution (R Million)
2016	4 629,84	5,79	1 750,25
2017	4 630,46	5,73	1 784,81
2018	4 850,90	5,97	1 873,40
2019	4 910,70	5,75	1 996,45
2020	5 029,35	5,79	2 087,27

Based on the historical data from the period 2001-2015, the trajectory of the variables listed above is seen to be modestly positive. Investment in lottery infrastructure, access to the National Lottery expanded, and economic growth are seen as factors that can contribute to growth in National Lottery turnover going forward (PWC, 2015).

For instance, growth in total lotto ticket sales is seen to increase by a compounded annual growth rate of 1.98% between 2015 and 2020. In terms of average weekly participants, this is expected to remain in the region of 5.8 million, while distributions to the NLDTF are seen, in light of previous years, to increase to above R2 billion per annum.

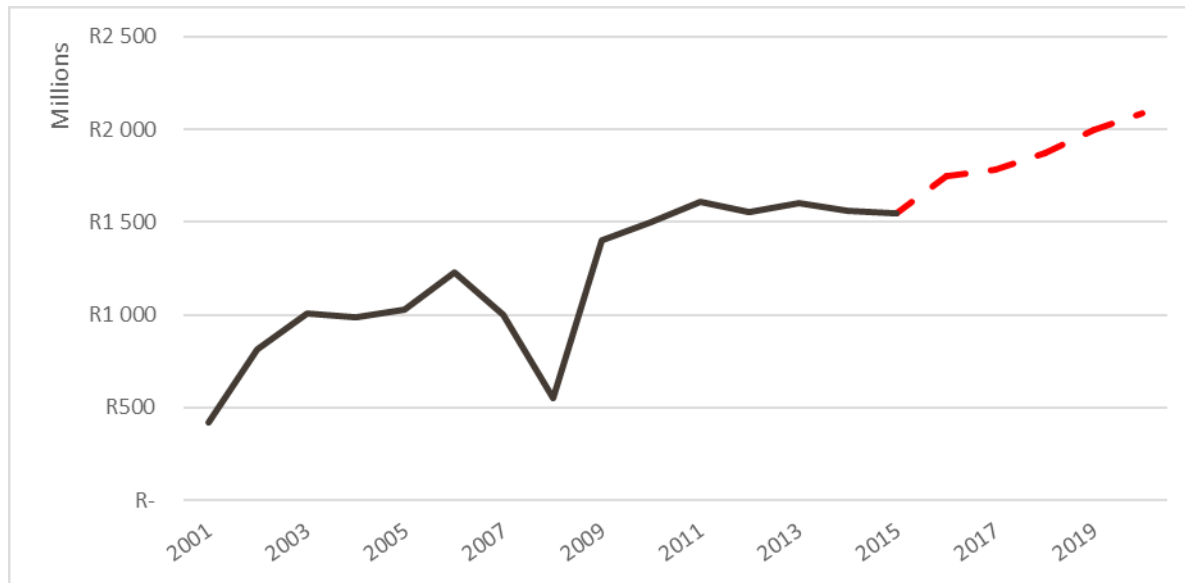
These trends are illustrated in the figures below.

Figure 3-3: Total Value of South African National Lottery Ticket Sales, 2001-2020, R Million



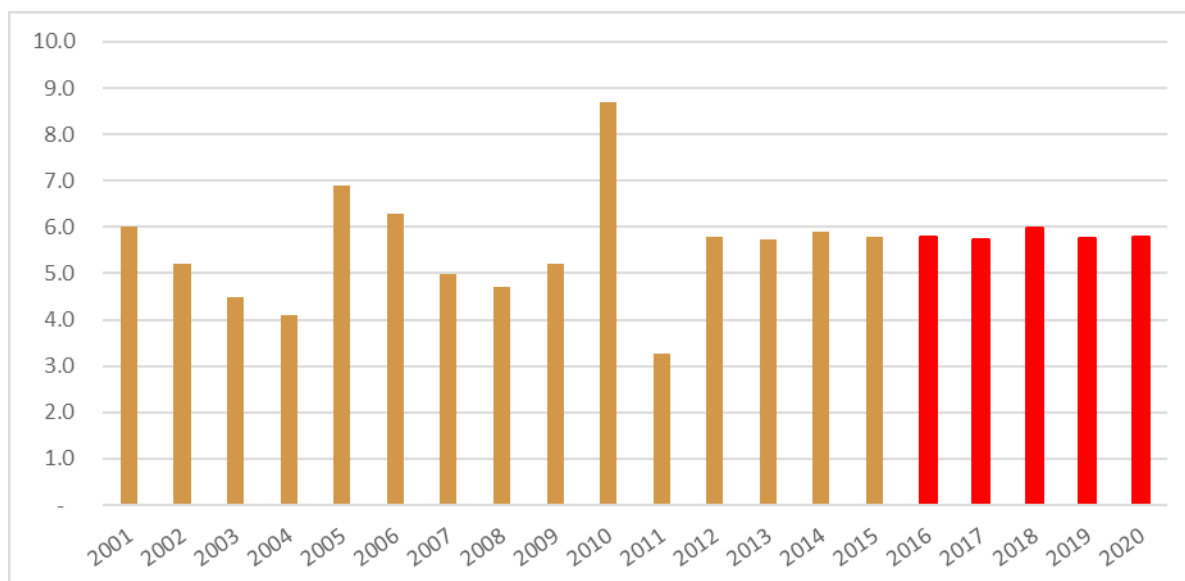
As displayed above, it can be seen that pre-2008, lotto ticket sales were increasing robustly on a year-on-year basis. However, the suspension of the National Lottery between April and October 2007, which coincided with the Global Financial Crisis of late 2008, reduced the value of ticket sales quite significantly. Only after 2009 did lotto ticket sales begin to pick-up again – perhaps buoyed by the depressed economic conditions, which may entice lower-income group’s people to play – increasing from 2009 onwards. This growth appears to have petered out from 2013, where growth increases only marginally. In terms of the forecast, future growth in ticket sales is not seen to increase substantially, continuing the anaemic growth.

Figure 3-4: Total Value of Distributions to NLDTF, 2001-2020, R Million



For the period of 2001-2015, movements in the funds distributed to the NLDTF match that of ticket sales. However, from 2016 onwards, distributions to the NLDTF on the other hand are projected to increase at a much more rapid rate than ticket sales. This suggests perhaps that other avenues of finance are being utilised by the NLC. Importantly however, is that for the NLDTF to continue and increase its contribution to socio-economic development in the country by funding good causes, ticket sales need to increase at a rate that is in line with NLDTF. Otherwise, the sustainability of the entire system is put into question. This not only encompasses increasing the number of players purchasing lotto tickets, but also the value of each transaction.

Figure 3-5: Average Weekly Participants, 2001-2020, Millions



The figure above reveals the trends in average weekly participating in the lotto, which varies quite considerably from year to year. While weekly participation has increased between 2001 and 2010, the future trajectory shows sideways movement in participation.

The main impact of illegal lotteries and other schemes in South Africa to the National Lottery, and consequently to the NLC and NLDTF, is lost revenue in the form of ticket sales and funds contributed to the NLDTF, where revenues going towards these schemes are potentially competing with the National Lottery and as a result, reducing the total amount of revenue that the National Lottery and affiliated games generate. This ultimately impacts, through the 27% allocation of ticket sales to the NLDTF, the total amount of funds that can be distributed via the NLDTF to good causes. In this sense, lost revenue and distribution funds constitute the externality cost of illegal lotteries and other schemes, which are foregone due to the presence of such schemes. Assuming that all illegal lotteries are completely quashed, and that these illegal lottery punters and players switch to legal forms of lottery activity, a certain amount of revenues can be expected to be generated; thereby increasing legal lottery revenues and what can be distributed to the NLDTF.

Table 3-4 below reflects the proportion of both legal and illegal lotteries as a share of the total.

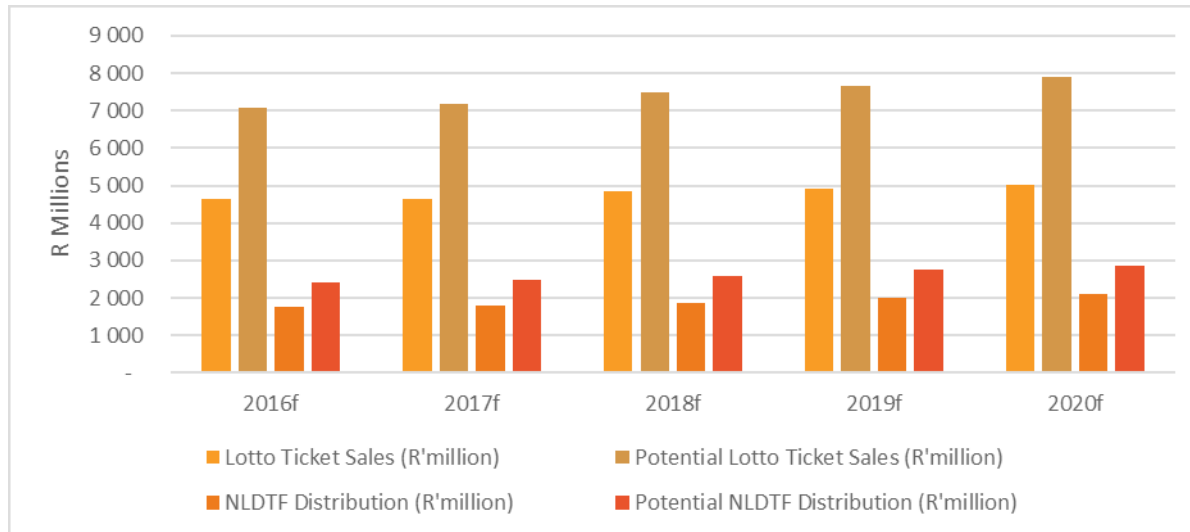
Table 3-4: Share of Lottery Activities by Total Value, R Millions, 2015

Lottery Activity	Total (R Millions)	% Share	NLDTF (R Millions)
National Lottery	4 559,00	65,6%	1 230,93
Fafi	725,57	10,4%	195,90
Bookmakers	531,38	7,6%	143,47
Totalisers	1 092,73	15,7%	295,04
Promotional Competitions	19,91	0,3%	5,37
International Lotteries	5,92	0,1%	1,60
Lottery Scams	10,48	0,2%	2,83
Permitted lotteries	1,60	0,0%	0,43
Total	6 946,59	100%	1 875,58

Based on the summation of the National Lottery ticket sales for 2015 along with the other illegal lotteries, it can be seen that the National Lottery constitutes roughly 65.6% of all expenditure on games of chance in the country. Totalisers offering sports pools account for the next largest share at 15.7%, followed by Fafi at 10.4%. The ratio of the National Lottery to other forms of both unlawful and lawful lotteries stands at roughly 1.91: The total value of other lotteries in the country for 2015 stood at R2.39 billion compared to R4.56 billion for the National Lottery itself.

Should many of these other lottery activities continue unabated, such as Fafi or totalisers offering sports pools, it can be expected that these lotteries will continue to expand and cause a challenge for the National Lottery. The figure below reveals the gap between actual and potential ticket sales for the National Lottery in light of estimated unlawful lottery expenditure.

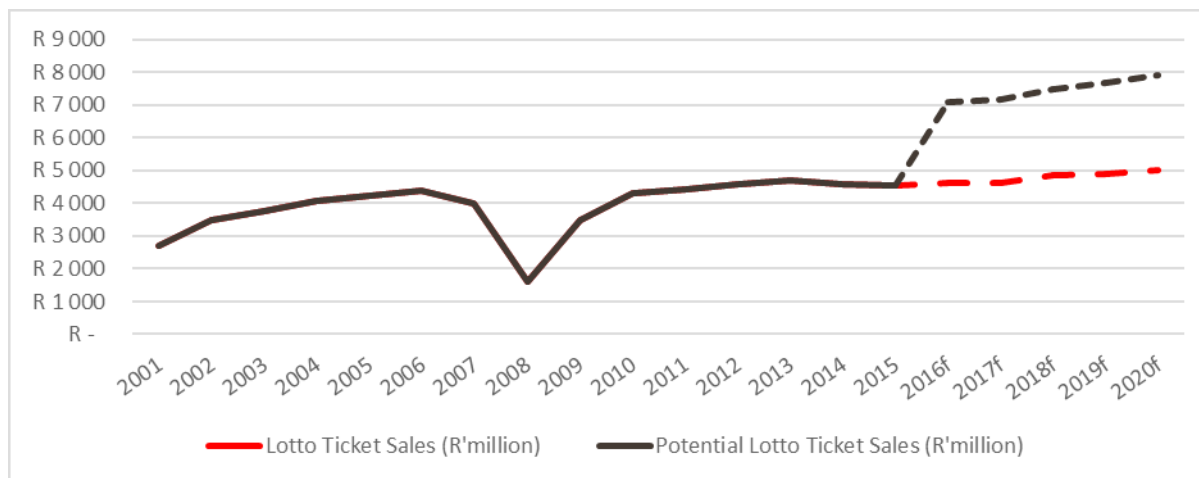
Figure 3-6: Actual vs Potential National Lottery and NLDTF Trajectory, R Millions, 2016-2020



It can be seen that the NLC will be continuously negatively affected by illegal lotteries and other schemes. This is illustrated by **Figure 3-6** above, where it shows the trend in projected National Lottery ticket sales is below that of potential National Lottery ticket sales, assuming illegal lotteries constitute a new market for the National Lottery. The same is true for contributions to the NLDTF.

The figure above reveals the annual gap between lottery ticket sales based on historical growth, and lottery ticket sales with the inclusion of illegal lottery value. This gap is illustrated below.

Figure 3-7: Actual vs Potential National Lottery Sales, R Millions, 2001-2020



Should illegal lotteries and other forms of lotteries be considered a potential part of the lottery market that can be accessed by the National Lottery, then a market gap exists between baseline National Lottery ticket sales and potential sales. This gap is caused by expenditure on other forms of lotteries that can be either illegal forms of lotteries according to the Lotteries Act, or legal according to any other act. Overtime, as the gap between potential National Lottery sales and actual sales accumulates, the losses to the National Lottery and NLDTF are significant. Table 3-5 details these losses.

Table 3-5: Accumulated Losses for National Lottery and NLDTF, R Millions, 2016-2020

Accumulated Losses	Lottery Revenue (R Millions)	NLDTF (R Millions)
2016	2 467,69	666,28
2017	2 565,80	692,77
2018	2 668,10	720,39
2019	2 774,76	749,19
2020	2 886,00	779,22
Total	13 362,35	3 607,83

Over the 2016-2020 period, it is estimated that the National Lottery will potentially lose out on almost R13.4 billion due to the presence of other forms of lotteries. From a distribution point of view, this equates to R3.6 billion lost for distribution to good causes through the NLDTF.

3.4 ECONOMIC IMPACT OF ILLEGAL LOTTERIES AND SCHEMES

The economic impact aspect attempts to determine the impact of a change in the flow of resources caused by a particular event. In the case of this study, the economic impact analysis focussed on the foregone economic activity associated with the funds that are lost to the NLDTF on account of both unlawful lotteries and other schemes authorised in terms of any other law.

The rationale for this approach is based on the fact that contributions to the NLDTF from the National Lottery and associated games are distributed to charitable causes, such as social development, arts and culture, sports and recreation, and other good causes. These distributions allow charities and other organisations to maintain and expand their services, employ people, and generally do more in their communities and fields of interest. This all has an economic impact. On the flipside, revenues that are not distributed by the NLDTF to good causes, means that the services offered by charitable organisations cannot take place, or need to be scaled down. Thus the economic impact of illegal lotteries and other schemes is *what is not spent* on good causes.

Based on this, the economic impact has been calculated as follows:

Table 3-6: Economic Impact of Lost NLDTF Contributions, 2016-2020

Impact on:	Direct	Indirect	Induced	Total
Production (R Million)	644,65	854,98	1 004,98	2 504,61
GDP (R Million)	265,14	363,50	429,38	1 058,02
Employment (No. of jobs)	1 702	1 831	1 852	5 384
Income (R Million)	131,05	184,09	188,92	504,06

Based on the quantification of lost contributions to the NLDTF over the 2016-2020 period, which equals R644.65 million, it can be seen that failure to expend this amount in the community and social services sector of the economy annually will lead to a loss of productive activity of R2.5 billion over the period. This includes the direct, indirect and induced impacts, respectively.

In terms of value-addition, an important metric of welfare, an externality loss of R1 billion can be expected in national GDP, where monetary value flowing to businesses, labour and government will be less than what

it could be.

The externality loss of R644.65 million annually will also have a negative impact on job creation, where a total of 5,384 job opportunities will not be supported or retained. In terms of income for labour in the form of salaries and wages, a further R504 million will be lost due to the externality cost.

From the perspective of each R1 million spent on illegal lotteries activities in South Africa, the loss from an economic perspective equals:

- Loss of productive activity of R3.89 million
- Loss of value-added of R1.64 million
- Loss of employment of 8 jobs
- Loss of income for those employed of R0.78 million

3.5 SOCIO-ECONOMIC IMPACT OF ILLEGAL LOTTERIES AND SCHEMES

Illegal lotteries and other schemes that compete with the National Lottery and associated games have an undoubted impact on the socio-economic landscape of the country, affecting the socio-economic welfare of many different individuals and communities. This ranges from their impact on people's incomes, their connection with other illegal activities, and their impact on service delivery through their influence on revenue generation for the state.

The table below includes the distributions made by the NLDTF over the 2015/16 financial year to different causes across the nine provinces of the country.

Table 3-7: Distributions made by the NLDTF, R Millions, 2015/16

Province	Arts & Culture	Charitable Work	Sport & Recreation	Misc.	Total	%
Western Cape	78,39	115,52	61,23	20,45	275,59	16,25%
Eastern Cape	16,07	69,56	42,83	2,99	131,45	7,75%
Northern Cape	11,34	18,28	17,74	-	47,35	2,79%
Free State	14,09	42,74	14,51	10,96	82,30	4,85%
KwaZulu-Natal	58,75	74,22	21,18	1,50	155,66	9,18%
North-West	24,84	27,41	23,52	9,69	85,48	5,04%
Gauteng	167,26	212,81	194,08	92,21	666,36	39,30%
Mpumalanga	7,74	37,71	13,37	0,60	59,42	3,50%
Limpopo	42,23	87,92	33,63	28,06	191,85	11,32%
Total	420,71	686,18	422,09	166,47	1 695,46	100,00%

It can be seen that the sector that received the largest share of funding from the NLDTF in 2015/16 was the charitable work sector, receiving roughly 40% of the total distribution. Arts and Culture, and Sports and Recreation received a roughly equal amount of 25% each, while miscellaneous distributions accounted for the remaining 10%. Across provinces, Gauteng received the largest amount of total distribution (40%), followed by the Western Cape (16%) and Limpopo (11%). In all provinces, a significant amount of money is distributed to fund good causes.

This is illustrated in the figures below.

Figure 3-8: Total NLDTF Distribution by Province, 2015/2016

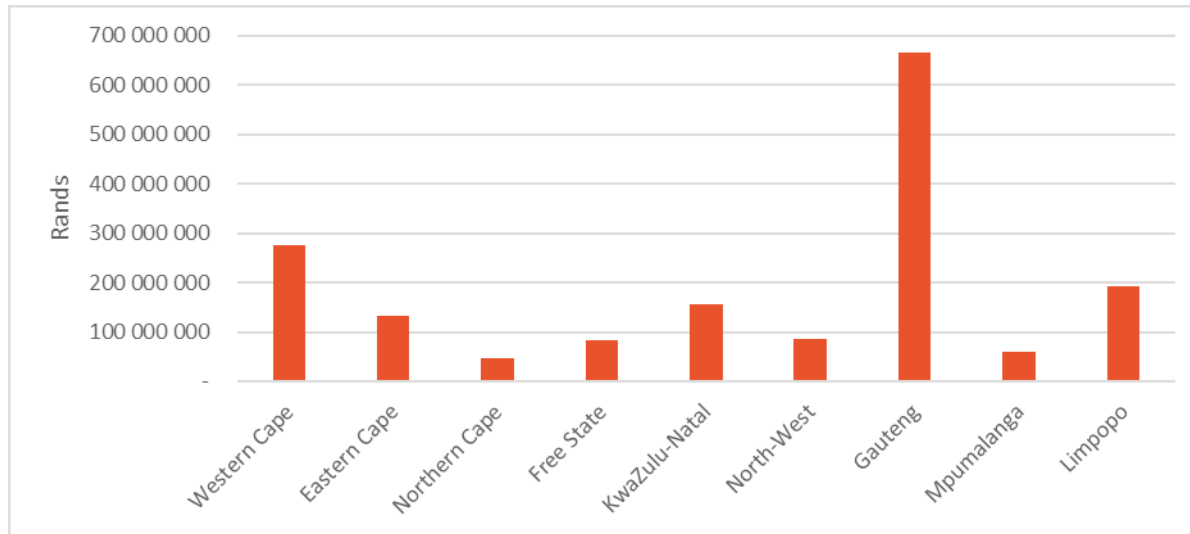
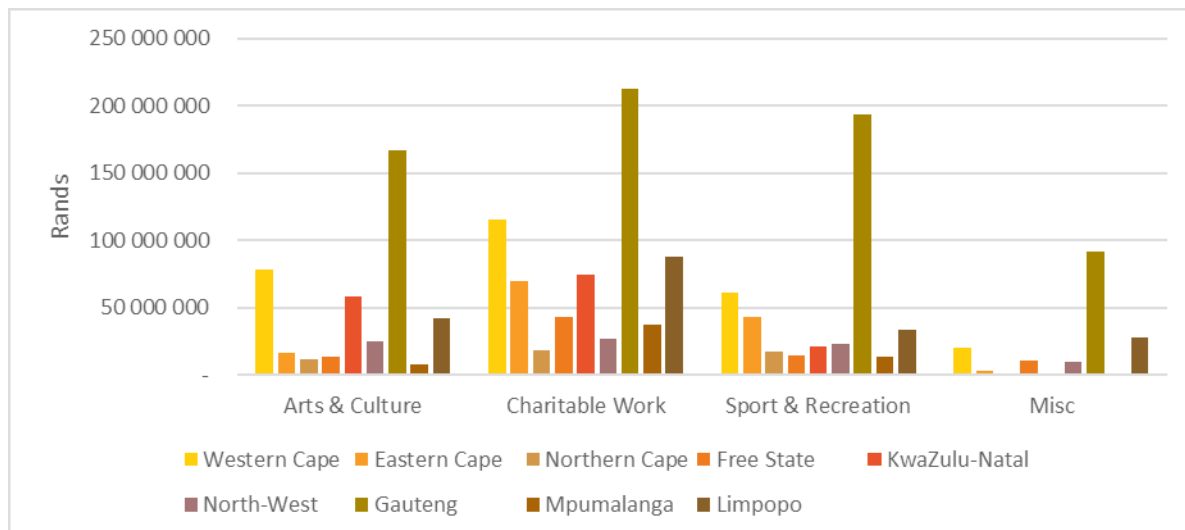


Figure 3-9: Distribution by Sector and Province, 2015/16



Distributions made by the NLDTF are therefore, seen to cover all nine of South Africa’s provinces. As noted previously, such funding in some instances exceeds traditional funding from local, provincial and national government. A reduction in the distributions made by the NLDTF can thus, have a substantial negative impact on charitable work and services across all provinces.

The impact per funding sector and per province can thus be determined based on the total estimated amount that is lost to the NLDTF due to both unlawful lotteries and other schemes. The results of this are shown in the table below.

Province	Arts & Culture	Charitable Work	Sport & Recreation	Misc.	Total	%
Western Cape	29,81	43,92	23,28	7,78	104,79	16,25%
Eastern Cape	6,11	26,45	16,28	1,14	49,98	7,75%
Northern Cape	4,31	6,95	6,74	-	18,00	2,79%
Free State	5,36	16,25	5,52	4,17	31,29	4,85%
KwaZulu-Natal	22,34	28,22	8,05	0,57	59,18	9,18%
North-West	9,45	10,42	8,94	3,69	32,50	5,04%
Gauteng	63,59	80,92	73,79	35,06	253,37	39,30%
Mpumalanga	2,94	14,34	5,08	0,23	22,59	3,50%
Limpopo	16,06	33,43	12,79	10,67	72,94	11,32%
Total	159,96	260,90	160,49	63,30	644,65	100,00%

Reduced funding of R644.65 million for the NLDTF will impact every province of the country, where the provinces that will be the hardest hit include Gauteng, the Western Cape and Limpopo. Further, the sectors to be affected the most include charitable work, and sports and recreation.

Unlawful lotteries also have a less direct impact on society. For example, many different strata of society spend a portion of their incomes on illegal lotteries, which can have impact their ability to access essential items such as food and healthcare. Particularly with Fafi, many of the punters are unemployed and depend on some sort of social assistance to make ends meet. Spending what little they may have on playing Fafi may therefore, have a determinable impact on their welfare, through reducing their ability to purchase food, education, or healthcare. This can lead to regression in the welfare of punters, particularly over the long term as the increase in the cost of essential items exceeds the increases in social welfare assistance.

Alongside the direct impact on communities in terms of their participation in illegal lotteries, expenditure on unlawful lotteries also has an impact on the revenues generated through legal lotteries, such as the National Lottery, Sportstake and Eaziwin, which ultimately impacts contributions made to the NLDTF - an important funding vehicle in the country. Impairing the contributions to the NLDTF, and consequently the distributions to good causes, means that many of the communities, which require assistance do not receive the services offered by organisations that receive the funding. It is also worth noting that many of the communities in which these organisations play an active role are characterised by impoverishment and hardship. Unlawful lotteries therefore, also indirectly impact the welfare of communities.

Evidence also reveals that unlawful lotteries form part of a wider illegal web of activities, where the operators of illegal lotteries, whether it be in the form of online lotteries or Fafi, are often connected to criminal networks which are also active in drug smuggling, prostitution, and animal poaching (Gastrow, 2001). By participating in illegal lotteries, the revenues flowing to these criminal networks may assist them in conducting other illegal activities, which have an impact on broader society: drug abuse, human trafficking, suicide, loss of animal species and biodiversity, and so on. Furthermore, resources need to be expended by the state to combat these activities, acting as a further drain on what resources are available for development and upliftment.

Although much of the socio-economic impacts of unlawful lotteries are seen to be negative at a number

of different levels, it must be noted that there are some positives associated with unlawful lotteries and in particular Fafi.

Whilst engaging with Fafi punters in Gauteng and Limpopo, it was seen how passionate and supportive the punters are of the game, where a strong bond seems to exist between Fafi operators and punters. This is so because not only do Fafi operators put time and effort in building relationships with the punters – sometimes in the form of loans, cancelling outstanding gambling debt, giving punters presents during Christmas – but the rewards of Fafi itself assist many a punter in grinding out a livelihood with what little they do have. This is because Fafi is structured in such a way that punters often win something, and while the winnings won't change their situation dramatically, they will allow them to cover the basics: buy bread, pay for rent, pay outstanding loans, purchase school uniforms and stationary for their children and grandchildren. Fafi in itself is a form of a community welfare net, where the relatively small but frequent winnings allow punters to survive. It also offers softer elements to punters, such as companionship, something to do in the day, and something to hope for.

4 OPTIONS ANALYSIS

4.1 INTERNATIONAL APPROACHES FOLLOWED TO COMBAT ILLEGAL LOTTERIES AND SCHEMES

A review of the available literature has not identified any international examples where specific approaches have been followed to combat and prohibit unlawful lotteries. It appears that the focus of combatting unlawful lotteries is on the regulatory and legislative environment where authorities focus on improving legislation and improving coordination between regulators, law enforcement and prosecutors.

In this regard, a few salient examples are available.

Gambling and lotteries in Ireland (Republic of) were regulated under the Gaming and Lotteries Act of 1956. This Act was developed with the ethos of restricting gambling, where the existing social views believed that gambling should not be promoted or stimulated. The Act therefore, renders all gaming as illegal with the exception of certain activities that are exempt. Perceptions and views on gambling have changed markedly since then with the expansion of gambling in many countries across the world. The Act in its current form therefore, no longer reflected the gambling sector and attitudes towards it. A review of the Gaming and Lotteries Acts was therefore, conducted in 2000 in order to improve the legislation and make it congruent with the prevailing landscape.

The table below highlights some of the principal issues identified in the review and recommendations made in order to correct the issues.

Main Challenge	Legislative Implication	Recommendation
Definition of Lotteries	Definition of lotteries in the legislation did not fully encompass what these games of chance entailed – some lotteries that were in fact lawful were therefore, deemed unlawful, and vice versa. Clear definitions of what a lottery constituted and the different types of lotteries that existed were required.	The recommendation to introduce 4 new categories of lotteries in the legislation aimed to remove uncertainty regarding the different types of lotteries on offer and what part of the legislation is applicable.
Promotional competitions	It was found that private lotteries were being run in Ireland where the number of tickets sometimes exceeded the total size of the society; therefore, contravening the legislation. These lotteries were in essence promotions but purported to be lotteries. Promotional competitions are used for the commercial marketing of services or products and not necessarily true lotteries. While some courts have found promotional competitions to be in fact lotteries, the issue is what status to attach to promotional competitions.	Clear distinction made between the different types of lotteries (4 categories) where each category has its own set of regulatory and license conditions. It was recommended that promotional competitions remain within the regulatory framework of lotteries, and separated into their own category (Category 4) with a different set of regulatory and licensing conditions.
Limits on periodical lotteries	Periodical lotteries, the largest type of lotteries permitted in Ireland for fundraising purposes, have a cap on the prize level of 10,000 pounds. Many within the industry have regularly called for the removal of this cap. This may bring other forms of lotteries into direct competition with the National Lottery of Ireland.	The recommendation was to increase the prize cap from 10,000 to 15,000 pounds per week.
Licensing and administrative requirements	Under the relevant lotteries legislation (Periodical Lottery Regulations [S.I. No 212 of 1961] [S.I. No 32 of 1966], organisers of the larger types of lotteries in the country are required to report certain detailed information in respect of their lottery activities. There is no such requirement for smaller types of lotteries. The issue is therefore what the most effective means of achieving control and monitoring is for all types of lotteries.	This issue is addressed by the introduction of the 4 new categories of lotteries, each with their own set of regulatory and licensing requirements.
Foreign lotteries	Prohibition of foreign lotteries is present in almost all countries where a state-run national lottery is operated. In Europe, the courts have upheld this prohibition on the grounds of national interest. In Ireland, the promotions of foreign lotteries, especially in the UK, are considered a threat for the future.	The recommendation of the Review Group was to maintain the prohibition on foreign lotteries. Further, it was recommended that the lotteries authorities be given the mandate to take effective proceedings against offences in this area.

4.2 POSSIBLE APPROACHES FOR SOUTH AFRICA

Based on the information collected through fieldwork, desktop research and stakeholder engagements, there are a number of options going forward in terms of how the national lottery authority can approach the issue of unlawful lotteries. These options are included in the table below.

Table 4-1: Options for Approaching Illegal Lotteries in the Future

Scenario	Approach	Rationale
1. Do Nothing	<p>Continue as normal with the uncertainty between the National Gambling Act and National Lotteries Act, while with provincial gambling inspectors continue to be unable to enforce or prosecute illegal lottery operators.</p> <p>The NLC can expect to continue to incurring the costs of the illegal lottery industry in the form of stagnant National Lottery ticket sales and contributions to the NLDTF.</p>	<p>The gap between policy amendments (5 years) means that the next revisions and amendments that can be made to the Lotteries Act will only come into effect 2018 and beyond.</p> <p>Solving the issue of unlawful lotteries through legislative action is unlikely, and this scenario is therefore highly possible.</p>
2. Enforce	<p>To make adjustments to the National Lottery Act, in terms of removing the ambiguity on the definition of an illegal lottery (as per activities on the ground) and the powers vested in lottery inspectors, which currently have no powers to enforce the National Lotteries Act.</p> <p>Also, in order to overcome uncertainty regarding the exact definition of unlawful lotteries, such as Fafi and other associated games that meet the definition of a lottery, such definitions must be clearly defined in the legislation.</p>	<p>In terms of a regulatory approach to illegal lotteries – where Fafi and other unlawful lotteries remain strictly prohibited – this is the most plausible option.</p> <p>However, there are two concerns:</p> <ol style="list-style-type: none"> 1. That NLC-employed inspectors will be able to attain powers under the CPA, as with the provincial gambling board inspectors; 2. There will be a long lead time before the necessary amendments needed to bring the legislation in line with policy can be affected in the Lotteries Act. <p>Following an enforcement approach solely where only legislation is used as a tool to combat unlawful lotteries may therefore not be effective or efficient until the legislative framework can be properly addressed in the future.</p>
3. Regulate	<p>To offer illegal lottery operators licenses in order to continue operations. This could take the form of various approaches, for instance Fafi operators could be offered licenses to operate on specific routes/areas/provinces. The NLC can then receive a commission/fee/share of revenue from the operators.</p> <p>In other instances, bookmakers could be licensed to take bets on the outcome of the National Lottery, allowing the Commission to extract rents from this ongoing activity. The existing compliance and enforcement framework, operating primarily through provincial licensing authorities, could be used to monitor compliance.</p> <p>The same can be used for totalisers.</p>	<p>This option may be particularly attractive as it is seen that the NLC, due its own constraints and loopholes with the existing legislative framework.</p> <p>Enforcing the law with an inefficient framework on the one hand and highly organised criminal network on the other will be an extremely difficult exercise, where the costs of implementing enforcement will probably outweigh the benefits.</p> <p>Offering the illegal lottery operators, a chance to become licensed, such as tax amnesty used to coax tax dodgers to comply, may be a wise approach.</p> <p>This scenario is plausible but unlikely to be effective due to the nature of illegal lotteries – why would unlawful lottery operators choose to comply under this scenario when they have been getting away with non-compliance?</p>

<p>4. Enforce and Compete</p>	<p>This approach is a hybrid enforcement approach, where the NLC uses two separate but complimentary mechanisms to combat and prohibit illegal lotteries and other activities in the country.</p> <p>The one tool is the enforcement tool as stated above. The second is a market-based approach where the NLC, in coordination with the NGB and provincial gambling boards as well as other stakeholders, embarks on a market campaign to both educate people about the consequences of organised crime facilitated through illegal lotteries, as well as to provide an alternative game of chance to the illegal lottery, one which maintains (read <i>mimics</i>) the strengths of the illegal lottery to keep the customer happy. In other words, replace Fafi with a game operated by the NLC, which covers the traditional advantages and modus operandi of Fafi:</p> <ul style="list-style-type: none"> ▪ Frequency of games ▪ Lower ticket prices and entry requirements ▪ Accessibility and operation in rural areas ▪ Higher rewards and better chances of winning ▪ Use of existing networks to build relationships between runners/operators/punters 	<p>The main drawback with the regulatory option is that illegal lotteries most often form part of larger criminal syndicates, which are also involved in other illegal and criminal activities. It is unlikely that they will therefore, be willing to accept regulation, given their involvement in other crimes.</p> <p>This is perhaps the most robust approach to combatting and prohibiting illegal lotteries, where the dual strengths of the law and of the market are combined to fight illegal lotteries in a multi-dimensional manner.</p>
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it is noted that effectively combatting and prohibiting illegal lotteries in the future will require both legislative and market-based actions to be effective. This is encompassed in Option 4, where the strategic changes and refinement is made to the lotteries’ legislation in order to improve its effectiveness and robustness in terms of closing the existing loopholes. This will ensure that the state has a greater framework from which to enforce the law and combat non-compliant operators. In addition, there are various advantages of a market-based approach, where people are essentially encouraged to switch lottery participation from unlawful to lawful lotteries by changing their perception of the risks and rewards of participating in unlawful lotteries.

This option is further supported by recent developments with regard to the NLC, in terms of successful cases brought against unlawful lotteries. These include the First National “Million a Month” case¹⁰ and the Children’s Trust “WiniKhaya” case¹¹, which were both upheld by the courts (GRC, 2011). These successful cases strengthen the credentials of the NLC as a regulator, and by further closing the loopholes that exist in the legislative framework, the mandate and authority of the NLC to enforce the law regarding lotteries and sports pools can be formally defined – giving the NLC the ability to combat unlawful lotteries from a

10 National Lotteries Board v FirstRand Bank Limited (37196/05) [2006] ZAGPHC 106

11 National Lotteries Board v Bruss NO and Others (13046/06) [2007] ZAGPHC 268

regulatory standpoint. Again, these efforts can be completed with demand-side interventions in terms of public perception and awareness and the introduction of new lottery-based games to compete with unlawful lotteries.

5. CONCLUSION

The purpose of this report was to identify the major types of lotteries – both unlawful in terms of the lotteries' legislation and lawful in terms of any other legislation – in the country that are impacting the National Lottery, and to what extent these lotteries are taking place in South Africa. Other objectives included to determine whether the illegal lotteries fall within the ambit of the law, and the modus operandi of the identified schemes.

The available research and information indicates that a number of different schemes are having an impact on the National Lottery. These include unlawful lotteries such as Fafi, foreign lotteries and unauthorised society lotteries. Other schemes, relevant under other legislation, include bookmakers offering betting on the outcome of the National Lottery, totalisers offering sports pools, promotional competitions, and lottery scams. The geographical spread of these lotteries is scattered across the country: The main urban centre, however, seem to account for the largest proportion of this activity. The annual monetary value of these activities combined equals R2.37 billion with totalisers (46%), Fafi (30%), bookmakers (22%), promotional competitions (1%), while international lotteries and lottery scams account for the remainder.

The impact of illegal and other schemes to the National Lottery and consequently the NLDTF in South Africa is substantial, and manifests itself in various forms. The most obvious form is through lost lottery revenues which impacts contributions to the NLDTF – impacting the available funds to fund good causes. Secondly, which is less obvious but nonetheless present, are unlawful lotteries and their association with organised crime and other criminal activities, where the proceeds of unlawful lotteries may be used by organised criminal networks to fund other illegal operations in the country, most notably rhino and abalone poaching, as well as the trading of counterfeit goods. It is therefore, appropriate for the NLC, in light of its legislative mandate, to explore options for combatting and prohibiting unlawful lotteries and other schemes in the future.

6. STRATEGIC RECOMMENDATIONS

The main challenges pertaining to the effective prohibition and combatting of unlawful lotteries in the country include:

- The lotteries' legislation is not clear on exactly what constitutes an illegal lottery, where many current forms of illegal lotteries, such as Fafi, being open to interpretation. Currently, there are some instances where different authorities regard and perceive illegal lotteries in different ways.
- Current lotteries legislation is not clear on sports pools and their authorisation (GRC, 2011).
- In many instances, provincial licensing authorities, particularly in the provinces in which illegal lotteries are prominent, are actively enforcing the law in terms of combatting these unlawful

activities. However, the cases that result cannot be successfully prosecuted due to issues around the mandate of provincial authorities to combat illegal lotteries, which are a national competence and not a provincial competence.

- Collaboration and coordination between the lottery and gambling authorities is infrequent, particularly at the national level. Further, engagement within the trinity of lottery and gambling authorities, law enforcement and prosecutors is disorganised.
- While the current operator has rebranded the National Lottery and even tried to implement new lottery games, the feedback from punters indicates that there are some issues. Most importantly, many people do not understand what 'Phanda Pusha Play' is and how it relates to the previous 'Tata ma Chance' – many think it is a different lottery and are thus, sceptical. Also, the willingness to participate in the new lottery games implemented by the national operator, such as their own version of Fafi, is low for very similar reasons. The fact that illegal lotteries offer better chances, are cheaper to play, and are more accessible contributes to this feeling.

In order to address these challenges and strengthen the prevention and combatting of illegal lotteries throughout the country, and in order to protect and maintain the position of the National Lottery, the following is recommended:

POLICY RECOMMENDATIONS:

- It is recommended that the authority to regulate, monitor and police promotional competitions be moved back to the lotteries' legislation as the mandate of the NLC allows them to better protect consumers.
- It is recommended that the NLC be tasked with investigating and prosecuting illegal lotteries, which includes changing the current legislation to expressly state the powers of lottery inspectors to police illegal lotteries. The responsibilities of the NLC must be extended to be the same as that of gambling authorities as follows:
 - The responsibilities of the NLC must be as follows: to -
 - take reasonable steps to ensure that unlawful activities relating to illegal lotteries are prevented, detected and prosecuted;
 - and that any person who participates in or conducts, facilitates, promotes or derives any benefit from a lottery, promotional competition or sports pool unless such lottery, promotional competition or sports pool is or has been authorised by or under this Act or any other law be prosecute;
 - inspect websites at which illegal lottery is conducted as well as premises where equipment and software are located;
 - inspect equipment use for illegal lotteries;
 - supervise and enforce compliance by licensees with the obligation of accountable institutions in terms of the Financial Intelligence Centre Act, to the extent required by that Act, in so far as it applies to the illegal lotteries;

- review licenses and the activities of licensees in the prescribed manner;
 - suspend or revoke any licenses issued:
- The power and duties of inspectors must be brought in line to those of the national gambling authority such as:
- An inspector may enter any premises in or from which it is suspect that any illegal lottery is conducted to conduct any enquiry that the inspector believes to be necessary, after having informed the person who appears to be in charge of the premises of the purpose of the inspector’s visit;
 - require the person in control of such premises to produce any license or written permission or authorisation required under the NLA
 - question any person who is on or in those premises;
 - examine any prescribed device, object, book, record, note, recording or other document in, about, upon or around the premise seize and remove from those premises, and impound any such equipment, including computer equipment or the purposes of examination and inspection.
 - any book, record, ledger, cash box and its contents to point out any equipment, device or object referred to in those paragraphs that the person possession or custody of, or control over;
 - to produce for the purpose of examination or of making copies or extracts, any book, record, note, recording or other document referred to in that the person has possession or custody of, or control over; and
 - to provide any information in connection with anything that has been pointed out
 - without prior notice, an inspector may do anything to the benefit of the NLC.
- It is recommended that other forms of lotteries, including private lotteries and lotteries incidental to exempt entertainment, be required to register with the NLC in order to improve the monitoring of compliance for the NLC. Sufficient attention must be paid to streamlining the process to ensure registration requirements are neither burdensome to the Commission nor the registree.
 - It is recommended that the NLC considers the feasibility of regulating and licensing Fafi and other unlawful schemes.

REGULATORY RECOMMENDATIONS:

- It is recommended that the Commission undertake a detailed legal study in order to interpret the current contradictions in the interpretation of the lotteries and gambling legislation with regard to bookmakers accepting bets on the outcome of the National Lottery and other lotteries, and totalisers offering sports pools. This includes approaching the courts for a decision on the legality of the various identified schemes.
- It is recommended that the NLC expand its enforcement footprint throughout the country so as to have legally mandated officers working with provincial licensing authorities in enforcement activities surrounding both lawful and unlawful lotteries.

- It is recommended that direct communication must be established between FICA and SARS to monitor possible transactions that are connected to illegal online gambling or participating in overseas lotteries, which is illegal and being a contravention of exchange rate recommendations.
- It is recommended that a special task force under the Commissioner of the NLC consisting of specialist inspectors be appointed to monitor, regulate, and police lotteries incidental to exempt entertainment, private lotteries, society lotteries and any competition contemplated in the lotteries legislation. The unit must be trained in IT policing to detect and report online-based lotteries gambling.
- It is recommended that the NLC appoint any suitably qualified person as an inspector and assign the inspector to monitor, investigate or evaluate any matter on behalf of the Commission, subject to the control and direction of the commission stating; and must provide each inspector with a certificate signed on behalf of the Commission and stating that the inspector has been appointed by the Commission and any limitation on the authority of that inspector.
 - A duly appointed Inspector performing a function under the National Lottery Act must show his or her certificate of appointment to any affected person who demands to see. For all practical purposes, an inspector must be appointed as a peace officer for the purposes of the relevant sections of the Criminal Procedure Act, 1977(Act 51 of 1977).
- It is recommended that the NLC strengthen its data collection and management to provide the organisation with accurate and up-to-date statistics on the prevalence of unlawful lotteries throughout the country.

MARKET AND CONSUMER RECOMMENDATIONS:

- It is recommended that the NLC and national operator investigate ways to encourage participation in other lotteries offered alongside the National Lottery in terms of the newly established games.
- It is recommended that the NLC considers the feasibility of the introduction of a proudly South Africa game of chance that consumers can relate to.
- It is recommended that the NLC increase the number of awareness campaigns in terms of illegal lotteries and their impact on the community in order to start changing people's awareness and perception of these unlawful acts. This could be through various media campaigns, provincial offices, and the frequent national indaba.
- It is recommended that the NLC start making efforts to understand the prevalence of internet-based lottery games and to start engaging with internet providers, domain registrars, cybercrime and other relevant stakeholders to get in front of this before it becomes a serious challenge. This includes establishing the legislative, institutional and physical framework required therein.

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- <http://mg.co.za/article/2008-08-28-south-africans-luck-runs-out-with-lottery-scams>

ANNEXURE A

Socio-Economic Profile by Province

Coastal Provinces

Western Cape

A coastal province situated in the south-western part of South Africa, Western Cape is home to over 6 million individuals. The provinces' age distribution is spread mainly between the 25- to 44-year age categories, with the majority of people being of Coloured descent. Around a quarter of the provincial economically active population are unemployed, and more than 70% of the entire population are in the workforce.

Table 0-1 below includes information on the population of the Western Cape, which has been delineated according to age and racial group.

Table 0-1: Population by Age and Racial Group, Western Cape, 2015

Age Group	Black African		Coloured		Asian		White	
	Male	Female	Male	Female	Male	Female	Male	Female
00-14	4,3%	4,3%	6,0%	5,9%	0,1%	0,1%	1,2%	1,1%
15-24	2,8%	3,1%	4,4%	4,5%	0,1%	0,1%	0,9%	0,9%
25-34	4,5%	4,5%	3,9%	4,0%	0,2%	0,1%	1,2%	1,2%
35-44	3,2%	3,1%	3,0%	3,5%	0,1%	0,1%	1,0%	1,1%
45-54	1,8%	1,6%	2,8%	3,3%	0,1%	0,1%	1,0%	1,0%
55-64	0,8%	0,8%	1,7%	2,1%	0,0%	0,0%	0,9%	1,0%
65+	0,4%	0,5%	1,1%	1,6%	0,0%	0,0%	1,3%	1,6%
% of Total	17,8%	17,9%	22,9%	25,0%	0,6%	0,5%	7,3%	7,9%

Source: UE calculations based on Quantec Data, 2016.

In terms of the population, it can be seen that the largest racial group by way of numbers is that of Coloured, followed by that of the Black African, White and finally Asian groups. What is also certain is that the Black African and Coloured communities have relatively younger populations than that of the Asian and White groups.

Table 0-2 below includes data on average household consumption, income and saving for the Western Cape between 2005 and 2015.

Table 0-2: Average Household Consumption, Income, and Saving, Western Cape, 2005-2015, Rands, Current Prices

Indicator	2005	2015	Trend
Average Household Consumption	107 600	218 728,52	111 128,93
Average Household Disposable Income	106 429	216 794,51	110 365,40
Average Household Saving	-1 170	-1 938,94	-768,46
Average Disposable Income by Population	27 936	30 666	2 729,67

Source: UE calculations based on Quantec Data, 2016.

It can be seen that average consumption per annum for households in the Western Cape has increased by more than double between 2005 and 2015, from roughly R110,000.00 per annum, to well over R210,000.00

per annum. This has been matched almost exactly by average household income, but a shortfall has persisted between 2005 and 2015, meaning that on average, households spend more than they earn. In terms of average disposable income per capita, it can be seen that this has increased by 9.7% over the 10-year period. In essence, people in the Western Cape have R2,729.67 more to spend than in 2005.

In terms of the dynamics of the labour market in the Western Cape, Table 0-3 includes information of a number of different labour market indicators.

Table 0-3: Labour Market Dynamics, Western Cape, 2005-2015

Indicator	2005	2015	Trend
Labour Force (Number)	2 249 905	2 498 541	11%
Formally Employed - HS	10%	10%	0%
Formally Employed - S	28%	24%	-4%
Formally Employed - US	30%	22%	-8%
Informally Employed	14%	19%	5%
Unemployed	18%	26%	8%
Unemployment Rate	17,57	24,43	7%
Labour Force Participation Rate	70,52	70,70	0%
Absorption Rate	58,13	53,43	-5%

Source: UE calculations based on Quantec Data, 2016.

The labour force of the Western Cape has increased by 11% between 2005 and 2015, meaning there are more individuals in the working age population in 2015 than there were in 2005. In terms of employment by skill level, it can be seen that there has been a general shift in the type of employment, moving away from skilled (-4%) and low-skilled employment (-8%), to informal employment (+5%) and even unemployment (+8%). The provincial unemployment rate has therefore, increased over this period, from 17.57% in 2005 to 24.43% in 2015. The labour force participation rate – the number of individuals in the labour force actively searching for employment – has increased marginally, while the absorption rate – the ratio of employed individuals to the working age population – has declined by % percentage points, indicating that the working age population is increasing faster than employment growth.

Eastern Cape

Close to 7 million people call Eastern Cape home, with a staggering majority of them classified as African (over 85%). The area is generally poor due to the many former homelands in the Province, so a lot of the African population earn very low incomes as indicated by the low average population income per annum. A majority of the population are young persons aged between 1 and 34 years old and a higher share of the residents are female. The provincial unemployment rate is relatively high at 28%, which may be due to a higher number of people leaving the labour force.

Table 0-4 below includes information on the population of the Western Cape, which has been delineated according to age and racial group.

Table 0-4: Population by Age and Racial Group, Eastern Cape, 2015

Age Group	Black African		Coloured		Asian		White	
	Male	Female	Male	Female	Male	Female	Male	Female
00-14	14,19%	13,65%	1,03%	0,99%	0,03%	0,03%	0,33%	0,31%
15-24	7,48%	8,28%	0,47%	0,49%	0,02%	0,02%	0,15%	0,16%
25-34	7,71%	8,94%	0,29%	0,39%	0,02%	0,02%	0,15%	0,19%
35-44	4,65%	5,63%	0,61%	0,70%	0,03%	0,03%	0,28%	0,32%
45-54	3,18%	4,40%	0,51%	0,55%	0,02%	0,02%	0,32%	0,31%
55-64	2,23%	3,10%	0,32%	0,35%	0,02%	0,02%	0,30%	0,31%
65+	1,77%	3,42%	0,17%	0,24%	0,01%	0,02%	0,37%	0,43%
% of Total	41,23%	47,44%	3,42%	3,70%	0,14%	0,15%	1,90%	2,02%

Source: UE calculations based on Quantec Data, 2016.

It can be seen from the table above that the provincial population of the Eastern Cape is largely Black African, which accounts for more than 85% of the entire population. The Coloured community is the second largest grouping, followed by that of the White and Asian groups. In terms of age dynamics, a large part of the provincial population (roughly half) is below the age of 24. In terms of the most likely age group to play illegal lotteries, it can be seen that this group (35-44 year olds) accounts for roughly 12% of the entire population.

Table 0-5 below includes information on average household income and expenditure for the Eastern Cape between 2005 and 2015.

Table 0-5: Average Household Consumption, Income, and Saving, Eastern Cape, 2005-2015, Rands, Current Prices

Indicator	2005	2015	Trend
Average Household Consumption	54 981	128 252,75	73 271,60
Average Household Disposable Income	55 589	130 243,18	74 654,22
Average Household Saving	608	2 001,97	1 394,17
Average Disposable Income by Population	13 739	15 337	1 598,55

Source: UE calculations based on Quantec Data, 2016.

Average household income has increased by more than double in nominal terms between 2005 and 2015, from R55,589.00 to R130,243.18 in 2015. This has exceeded the increase in average household consumption, meaning that on an individual basis, average household saving increased from R608 in 2005 to R2,001.97 in 2015. On a per capita basis, average income has only increased marginally from R13,739.00 in 2005 to R15,337.00 in 2015. The purchasing power per capita in the Eastern Cape has therefore, not increased dramatically over the last 10 years. Table 0-6 below reveals some pertinent labour market dynamics for the Eastern Cape between 2005 and 2015.

Table 0-6: Labour Market Dynamics, Eastern Cape, 2005-2015

Indicator	2005	2015	Trend
Labour Force (Number)	1 963 505	2 091 432	7%
Formally Employed - HS	8%	9%	1%
Formally Employed - S	18%	20%	1%
Formally Employed - US	26%	18%	-9%
Informally Employed	18%	26%	8%
Unemployed	29%	28%	-1%
Unemployment Rate	28,86	28,18	-1%
Labour Force Participation Rate	51,66	48,96	-3%
Absorption Rate	36,75	35,16	-2%

Source: UE calculations based on Quantec Data, 2016.

On a whole, the labour force has expanded by 7% between 2005 and 2015, meaning the size of the working age population actively seeking employment has increased. This has been matched by slight improvements in employment levels, where overall employment is up and unemployment down. Changes within employment are however, quite discouraging, with a clear shift towards high-skilled and skilled positions and informal employment. Individuals that identify as being “low-to-unskilled” are therefore, likely to have been negatively affected by the changes. This has therefore, affected both the labour force participating rate and absorption rate negatively, with more people likely choosing to leave the labour force due to the depressed prospects.

Northern Cape

Being the largest province in the Country, but being the smallest in terms of population, the distances between inhabited areas are sparse and the population density is an extremely low 3.2 people/km². The African and Coloured racial groups outweigh the others by over 30 percentage points, and like the Eastern Cape, the provincial age distribution consists mostly out of persons aged below 34 years. Unemployment is a common issue in the Northern Cape, with typically high levels in recent years.

Population dynamics by racial group and age for the Northern Cape are presented in the table below.

Table 0-7: Population by Age and Racial Group, Northern Cape, 2015

Age Group	Black African		Coloured		Asian		White	
	Male	Female	Male	Female	Male	Female	Male	Female
00-14	7,58%	7,39%	5,77%	5,51%	0,01%	0,01%	0,58%	0,56%
15-24	4,49%	4,67%	3,26%	3,32%	0,01%	0,01%	0,38%	0,36%
25-34	5,86%	5,71%	2,80%	3,15%	0,02%	0,01%	0,61%	0,54%
35-44	3,38%	3,47%	2,85%	3,15%	0,02%	0,01%	0,45%	0,43%
45-54	2,34%	2,63%	2,12%	2,51%	0,01%	0,01%	0,57%	0,57%
55-64	1,43%	1,54%	1,36%	1,59%	0,01%	0,01%	0,47%	0,46%
65+	1,05%	1,46%	0,89%	1,35%	0,01%	0,01%	0,55%	0,68%
% of Total	26,14%	26,86%	19,04%	20,57%	0,10%	0,07%	3,61%	3,60%

Source: UE calculations based on Quantec Data, 2016.

More than 90% of the Northern Cape population is of the Black African and Coloured communities, with the White (7.22%) and Asian (0.17%) communities making up the remainder. In terms of age groups, similar to

the Eastern Cape, a large majority of the population is below the age of 24 years, while age group of focus (35-44 year olds) account for roughly 14% of the entire provincial population.

Table 0-8 below includes information on average household saving, income and expenditure for the 2005-2015 period for the Northern Cape.

Table 0-8: Average Household Consumption, Income, and Saving, Northern Cape, 2005-2015, Rands, Current Prices

Indicator	2005	2015	Trend
Average Household Consumption	66 408	140 405,89	73 997,87
Average Household Disposable Income	66 130	136 568,82	70 439,01
Average Household Saving	-278	-4 345,73	-4 067,51
Average Disposable Income by Population	16 995	19 106	2 110,75

Source: UE calculations based on Quantec Data, 2016.

Average household income in the Northern Cape has increased quite considerably between 2005 and 2015, from R66,130.00 to R136,568.82. On average, households in the Northern Cape had 106% more to spend in 2005 than 2015. However, consumption has exceeded income growth, with the result being that average household savings has worsened over the period, increasing from -R278 to -R4,345.73. On a per capita basis, income has increase from R16,995.00 to R19,106.00.

The labour market dynamics for the Northern Cape are included in Table 0-9 below.

Table 0-9: Labour Market Dynamics, Northern Cape, 2005-2015

Indicator	2005	2015	Trend
Labour Force (Number)	335 639	457 668	36%
Formally Employed - HS	9%	10%	1%
Formally Employed - S	21%	19%	-2%
Formally Employed - US	33%	27%	-7%
Informally Employed	11%	16%	5%
Unemployed	26%	29%	3%
Unemployment Rate	26,27	28,55	2%
Labour Force Participation Rate	59,94	59,80	0%
Absorption Rate	44,20	42,73	-1%

Source: UE calculations based on Quantec Data, 2016.

The size of the labour force has increased significantly during the period of review, from 335,639 to approximately 460,000 – equalling an increase of 36%. The growth in the labour force has not been met with a commensurate increase in employment; however, unemployment in the Province has increased by roughly 2% since 2005. Similarly, to the previous provinces, within-employment changes have been towards an increase in the proportion of highly-skilled employment and away from skilled- and unskilled-employment. Resultantly, the proportion of those employed ‘informally’ has increased by almost 5 percentage points. The labour force participation rate has remained flat, while the absorption rate has declined, owing to an increase in the working age proportion relative to those that are employed.

KwaZulu-Natal

KwaZulu-Natal (KZN) is currently the second leading province in terms of population mass, following Gauteng, and this applies in terms of population density. Most of this populace derive from the African racial group, and as with the previous two provinces, many are aged below 34 years old. The general labour levels are better than the national case, with a lower unemployment rate of 21%.

Table 0-10 below contains information on the provincial population dynamics for KwaZulu-Natal, covering the 2005-2015 period.

Table 0-10: Population by Age and Racial Group, KwaZulu-Natal, 2015

Age Group	Black African		Coloured		Asian		White	
	Male	Female	Male	Female	Male	Female	Male	Female
00-14	12,93%	12,68%	0,17%	0,17%	0,71%	0,68%	0,30%	0,28%
15-24	8,11%	9,65%	0,10%	0,10%	0,52%	0,49%	0,16%	0,17%
25-34	8,63%	10,20%	0,05%	0,07%	0,59%	0,56%	0,17%	0,21%
35-44	5,11%	5,81%	0,08%	0,10%	0,61%	0,60%	0,21%	0,25%
45-54	2,92%	4,21%	0,06%	0,09%	0,47%	0,52%	0,27%	0,29%
55-64	2,00%	2,53%	0,05%	0,06%	0,37%	0,42%	0,30%	0,30%
65+	1,03%	2,26%	0,02%	0,04%	0,27%	0,37%	0,31%	0,40%
% of Total	40,73%	47,33%	0,53%	0,63%	3,54%	3,63%	1,72%	1,88%

Source: UE calculations based on Quantec Data, 2016.

The population of KwaZulu-Natal is majority Black African (88%), followed by the Asian (7%), White (3.61%) and Coloured (1%). From an age-category standpoint, the largest age group is that of those under the age of 14 (30%), followed by the 25-34 cohort (20%), and the 15-24 cohort (19%). The focus cohort counts for approximately 13% of the entire population.

Table 0-11 includes information on average household saving, income and expenditure between 2005 and 2015. This table can be found below.

Table 0-11: Average Household Consumption, Income, and Saving, KwaZulu-Natal, 2005-2015, Rands, Current Prices

Indicator	2005	2015	Trend
Average Household Consumption	68 611	146 688,08	78 077,09
Average Household Disposable Income	69 076	146 583,33	77 507,18
Average Household Saving	465	10,21	-454,95
Average Disposable Income by Population	16 195	17 960	1 764,78

Source: UE calculations based on Quantec Data, 2016.

Average household expenditure in the Province has increased by more than double from 2005 to 2015, from an initial level of R68,611.00 to more than R145,000.00. Although income has increased similarly, the net result is that average household saving has declined from R465 in 2005 to R10.21 in 2015. The average household in KwaZulu-Natal, in effect, has fewer saving in 2015 than they had in 2005. Moreover, income per capita has increased less rapidly than average household income, where income per capita has moved from R16,195 in 2005 to R17,960 in 2015.

Table 0-12: Labour Market Dynamics, KwaZulu-Natal, 2005-2015

Indicator	2005	2015	Trend
Labour Force (Number)	3 326 823	3 448 311	4%
Formally Employed - HS	8%	10%	2%
Formally Employed - S	21%	24%	3%
Formally Employed - US	25%	21%	-4%
Informally Employed	15%	26%	11%
Unemployed	31%	20%	-11%
Unemployment Rate	31,07	21,01	-10%
Labour Force Participation Rate	56,45	50,47	-6%
Absorption Rate	38,91	39,87	1%

Source: UE calculations based on Quantec Data, 2016.

In contrast to other provinces, such as the Northern Cape, the labour market dynamics in KwaZulu-Natal appear to be positive, demonstrated by a rather large decline in provincial unemployment levels, which may have been stimulated by a slower growing labour force. Employment at the highly-skilled and skilled levels has increased, while those informally employed has also expanded. The only downside has been employment in the unskilled group, which declined from 25% to 21%. The labour force participation rate has also worsened over the period; interesting, if one considers the decline in the official unemployment rate, while the absorption rate has improved slightly by 1 percentage point.

Inland Provinces

Gauteng

Gauteng is the smallest province with the highest population density by far, and it is also probably the most urbanised in terms of infrastructure and income. The population consists mostly of African individuals but also has a higher number of White people. Despite being one of the most developed regions, the unemployment rate is on similar level as the national rate, which may indicate that there are not enough jobs to meet the demand. Table 0-13 below includes the population dynamics for the province of Gauteng for the year 2015.

Table 0-13: Population by Age and Racial Group, Gauteng, 2015

Age Group	Black African		Coloured		Asian		White	
	Male	Female	Male	Female	Male	Female	Male	Female
00-14	9,02%	8,94%	0,38%	0,38%	0,21%	0,21%	1,07%	1,02%
15-24	6,81%	7,57%	0,29%	0,30%	0,21%	0,20%	0,99%	0,94%
25-34	10,17%	10,02%	0,23%	0,27%	0,31%	0,27%	1,04%	1,03%
35-44	6,89%	6,51%	0,21%	0,27%	0,22%	0,22%	0,92%	1,04%
45-54	4,20%	4,05%	0,15%	0,20%	0,14%	0,14%	0,82%	0,94%
55-64	2,26%	2,24%	0,09%	0,12%	0,08%	0,09%	0,69%	0,76%
65+	1,18%	1,59%	0,04%	0,08%	0,06%	0,08%	0,78%	1,01%
% of Total	40,53%	40,93%	1,41%	1,61%	1,24%	1,22%	6,32%	6,74%

Source: UE calculations based on Quantec Data, 2016.

Gauteng is one of the most populous provinces in the country, and has the highest population density. In terms of population according to racial group, it can be seen that roughly 80% of the provincial population is

made up by Black Africans, followed by the White community at 13%, the Coloured community at 3%, and the Asian community at 2.5%. Similarly, to the other provinces, most of Gauteng's population falls under the age of 24 (38.55%). The population in the focus cohort (35-44) is slightly higher than other provinces at 16.28%.

Average income, expenditure and saving for Gauteng between 2005 and 2015 are included in Table 0-14 below.

Table 0-14: Average Household Consumption, Income, and Saving, Gauteng, 2005-2015, Rands, Current Prices

Indicator	2005	2015	Trend
Average Household Consumption	109 589	225 117,27	115 527,89
Average Household Disposable Income	108 793	227 066,80	118 274,15
Average Household Saving	-797	3 161,16	3 957,88
Average Disposable Income by Population	33 796	37 266	3 470,33

Source: UE calculations based on Quantec Data, 2016.

Both average household income and expenditure have more than doubled, in nominal terms, between 2005 and 2015, taking average household saving from a negative R797 in 2005 to a positive R3,161.16. Effectively, the average household in Gauteng is in a better position financially as income exceeds consumption. In terms of average income per capita, Gauteng has witnessed an increase of 10.3% over the period.

The labour market dynamics for Gauteng are included in the table below.

Table 0-15: Labour Market Dynamics, Gauteng, 2005-2015

Indicator	2005	2015	Trend
Labour Force (Number)	4 622 010	5 971 996	29%
Formally Employed - HS	10%	10%	0%
Formally Employed - S	28%	25%	-3%
Formally Employed - US	23%	18%	-5%
Informally Employed	16%	21%	6%
Unemployed	24%	26%	2%
Unemployment Rate	23,79	25,72	2%
Labour Force Participation Rate	70,94	72,72	2%
Absorption Rate	54,06	54,01	0%

Source: UE calculations based on Quantec Data, 2016.

The labour force in Gauteng has increased robustly over the period, increasing by 29% from 4.6 million to 5.9 million. This however, has not been matched by concomitant increases in employment, as witnessed by the unemployment rate that has subsequently increased by 2 percentage points. As seen in most other provinces, there has been a general shift in employment from skilled and unskilled employment towards informal employment, while highly skilled employment remains steady. The absorption rate also remains unchanged.

North West

Located to the north of Gauteng, the mining province is the second smallest region in population terms, with the majority of the individuals being of African race. As with the Eastern Cape and Northern Cape, much of the inhabitants fall in the 1 to 34-year age category. Roughly only half of the populace are in the workforce, which is a minutely better than the Eastern Cape case, but can still be considered low.

Population dynamics for the North West province are displayed in Table 0-16 below.

Table 0-16: Population by Age and Racial Group, North West, 2015

Age Group	Black African		Coloured		Asian		White	
	Male	Female	Male	Female	Male	Female	Male	Female
00-14	12,81%	12,24%	0,20%	0,19%	0,02%	0,02%	0,50%	0,51%
15-24	7,45%	7,88%	0,11%	0,11%	0,02%	0,01%	0,37%	0,37%
25-34	10,07%	9,45%	0,07%	0,08%	0,03%	0,01%	0,35%	0,35%
35-44	7,06%	6,29%	0,11%	0,13%	0,04%	0,02%	0,44%	0,50%
45-54	4,97%	4,36%	0,09%	0,09%	0,02%	0,02%	0,37%	0,38%
55-64	2,73%	2,62%	0,04%	0,06%	0,01%	0,01%	0,30%	0,36%
65+	2,05%	2,72%	0,03%	0,04%	0,01%	0,01%	0,41%	0,49%
% of Total	47,13%	45,57%	0,66%	0,70%	0,14%	0,10%	2,74%	2,96%

Source: UE calculations based on Quantec Data, 2016.

The North West Province is one of the provinces with a smaller population compared to the rest, and is dominated by the Black African community, which accounts for roughly 92% of the entire provincial population. The second largest community in the province is that of the White community, which accounts for roughly 5.7%, followed by that of the Coloured community (1.36%) and the Asian community (0.24%). From an age perspective, the largest cohort is that of 00-14-year group, accounting for over one quarter of the population, and once added to the 15-24 cohort, this figure climbs to 43%. The key cohort accounts for 14.6% of the entire provincial population.

Average income, expenditure and saving for households in the North West province are included in Table 0-17 below.

Table 0-17: Average Household Consumption, Income, and Saving, North West, 2005-2015, Rands, Current Prices

Indicator	2005	2015	Trend
Average Household Consumption	72 831	135 912,70	63 081,76
Average Household Disposable Income	73 604	130 734,92	57 130,61
Average Household Saving	773	-603,66	-1 377,02
Average Disposable Income by Population	20 782	22 744	1 961,89

Source: UE calculations based on Quantec Data, 2016.

While average household income has increased quite considerably – although less than other provinces – this increase in income has been matched by increases in average household expenditure. As a result, the net position of households in the North West has regressed, from a surplus of R773 in 2005, to a deficit of -R603.66 in 2015. The average household in the North West is therefore, likely to be in some form of debt. From a per capita perspective, average income has increased by 9.44% between 2005 and 2015.

The labour dynamics for the Province over the period of analysis is included in Table 0-18 below.

Table 0-18: Labour Market Dynamics, North West, 2005-2015

Indicator	2005	2015	Trend
Labour Force (Number)	1 330 072	1 092 870	-18%
Formally Employed - HS	8%	9%	0%
Formally Employed - S	20%	20%	0%
Formally Employed - US	28%	29%	0%
Informally Employed	14%	19%	5%
Unemployed	29%	23%	-6%
Unemployment Rate	28,91	23,91	-5%
Labour Force Participation Rate	56,14	53,12	-3%
Absorption Rate	39,91	40,42	1%

Source: UE calculations based on Quantec Data, 2016.

Interestingly, the provincial labour force has decreased in size from 2005 to 2015 by almost one fifth. In addition, the provincial unemployment rate has declined by 6 percentage points, from almost 29% to 24%. Most of these new jobs have been added, however, in the informal sector, as formal employment numbers have been flat. The labour force participation rate has declined somewhat by 3%, while the ratio of employed persons to the working age population has increased by 1%.

Limpopo

At present, Limpopo has around 5.7 million residents, with the majority being African. Next to Northern Cape, it has the lowest quantity of White people. Like previously mentioned, the population's age structure is larger for the 1 to 24-year age categories. In terms of labour dynamics, the Province has the lowest unemployment rate recorded for 2015 between all provinces.

The population dynamics for Limpopo are included in Table 0-19 below.

Table 0-19: Population by Age and Racial Group, Limpopo, 2015

Age Group	Black African		Coloured		Asian		White	
	Male	Female	Male	Female	Male	Female	Male	Female
00-14	15,67%	15,32%	0,02%	0,02%	0,02%	0,01%	0,12%	0,12%
15-24	9,10%	9,55%	0,01%	0,01%	0,01%	0,01%	0,06%	0,08%
25-34	7,86%	9,61%	0,00%	0,01%	0,01%	0,01%	0,06%	0,09%
35-44	5,10%	6,82%	0,01%	0,01%	0,02%	0,02%	0,12%	0,12%
45-54	3,44%	4,72%	0,01%	0,01%	0,01%	0,01%	0,10%	0,11%
55-64	2,10%	2,87%	0,00%	0,01%	0,01%	0,01%	0,13%	0,13%
65+	1,88%	4,11%	0,00%	0,01%	0,01%	0,01%	0,15%	0,18%
% of Total	45,14%	53,00%	0,05%	0,07%	0,08%	0,08%	0,75%	0,83%

Source: UE calculations based on Quantec Data, 2016.

The provincial population for Limpopo is comprised predominantly by the Black African community,

accounting for roughly 98% of all persons. The second largest grouping is that of the White community, which accounts for roughly 1.6% of the population. The Asian (0.16%) and Coloured (0.12%) populations make up the remainder. The largest age cohort in the Province is that of the 00-14 group (31.29%), followed by that of the 15-24 group (18.83%), meaning that most of Limpopo's population are below the age of 24. The key cohort accounts for 12.23% of the provincial population.

Table 0-20 below includes information on average household income, expenditure and savings for the province of Limpopo over the 2005-2015 period.

Table 0-20: Average Household Consumption, Income, and Saving, Limpopo, 2005-2015, Rands, Current Prices

Indicator	2005	2015	Trend
Average Household Consumption	48 544	95 924,03	47 380,11
Average Household Disposable Income	49 493	94 906,96	45 413,97
Average Household Saving	949	-670,49	-1 619,56
Average Disposable Income by Population	11 753	12 748	994,59

Source: UE calculations based on Quantec Data, 2016.

In 2005, average household saving in Limpopo was roughly R950 per annum, where average consumption of R48,544.00 was less than average income of R49,493. In 2015 however, the dynamic has changed: average household consumption now exceeds average household income by R670.49, precipitated by faster growth in consumption than in income. From an income per capita perspective, average income per capita has increased marginally from R11,753 in 2005 to R12,748 in 2015.

Table 0-21 below reveals the dynamics prevalent in Limpopo's regional labour market between 2005 and 2015.

Table 0-21: Labour Market Dynamics, Limpopo, 2005-2015

Indicator	2005	2015	Trend
Labour Force (Number)	1 299 673	1 682 069	29%
Formally Employed - HS	8%	8%	1%
Formally Employed - S	19%	18%	-1%
Formally Employed - US	23%	23%	0%
Informally Employed	20%	35%	15%
Unemployed	31%	17%	-14%
Unemployment Rate	30,78	17,84	-13%
Labour Force Participation Rate	43,03	45,93	3%
Absorption Rate	29,78	37,73	8%

Source: UE calculations based on Quantec Data, 2016.

The provincial labour force of Limpopo has increased by roughly a third between 2005 and 2015, increasing from 1.3 million to 1.7 million. The labour force participation rate has also seen an increase over the same period, increasing by roughly 3 percentage points over the period. The absorption rate too has increased, indicating that employment, relative to the working age population, has increased. This is supported by the employment and unemployment figures for the province over this period, where a massive decrease in the official unemployment rate has been witnessed (-13%), spurred on primarily through a large increase in

the proportion of those informally employed (15%). Similar to other provinces, informal and highly-skilled employment has been generally positive, while skilled and unskilled employment has been negative.

Mpumalanga

A vast majority of Mpumalanga's population are African (over 90%), and much of this population are categorised as young (0-14 years, 15-24 years and 25-34 years). Around 27% of the region's population are unemployed, with more than 60% of the workforce population looking for work.

Population and age dynamics for Mpumalanga are included in Table 0-22 below.

Table 0-22: Population by Age and Racial Group, Mpumalanga, 2015

Age Group	Black African		Coloured		Asian		White	
	Male	Female	Male	Female	Male	Female	Male	Female
00-14	13,16%	12,96%	0,07%	0,07%	0,02%	0,02%	0,39%	0,36%
15-24	8,62%	9,42%	0,04%	0,04%	0,02%	0,02%	0,18%	0,23%
25-34	9,60%	10,40%	0,03%	0,04%	0,03%	0,01%	0,28%	0,33%
35-44	6,26%	6,92%	0,03%	0,05%	0,04%	0,03%	0,34%	0,33%
45-54	3,96%	4,62%	0,03%	0,04%	0,02%	0,02%	0,40%	0,39%
55-64	2,24%	2,52%	0,03%	0,02%	0,01%	0,01%	0,34%	0,35%
65+	1,49%	2,44%	0,01%	0,02%	0,01%	0,01%	0,28%	0,37%
% of Total	45,33%	49,27%	0,25%	0,29%	0,15%	0,12%	2,22%	2,37%

Source: UE calculations based on Quantec Data, 2016.

Mpumalanga's provincial population is dominated by the Black African community, which accounts for a large proportion of the entire population at 95%. The White community accounts for roughly 4.6%, while the Coloured and Asian groups account for the remainder. Again, the largest age group in the Province is that of the 00-14, making up 27% of the population; the 25-34 group is the second largest in the province, accounting for 20.72%. The key age cohort accounts for 14% of the population, and it itself dominated by the Black African community.

Table 0-23 below includes information on average income, expenditure and savings in the province between 2005 and 2015.

Table 0-23: Average Household Consumption, Income, and Saving, Mpumalanga, 2005-2015, Rands, Current Prices

Indicator	2005	2015	Trend
Average Household Consumption	69 452	125 018,36	55 566,77
Average Household Disposable Income	70 201	124 612,85	54 411,45
Average Household Saving	750	-160,69	-910,49
Average Disposable Income by Population	17 746	18 754	1 008,23

Source: UE calculations based on Quantec Data, 2016.

Average household savings have witnessed a negative decline in fortunes between 2005 and 2015, where greater increases in expenditure than in incomes have seen average annual saving decline from a positive R750 per annum to a negative R160.69. This has been caused by a more than proportional increase in expenditure of 80% compared to income of 77.5%. On a per capita basis, average income has increased by 5.68%. Table

0-24 below includes the dynamics of the provincial labour market between 2005 and 2015.

Table 0-24: Labour Market Dynamics, Mpumalanga, 2005-2015

Indicator	2005	2015	Trend
Labour Force (Number)	1 166 670	1 664 994	43%
Formally Employed - HS	8%	8%	0%
Formally Employed - S	20%	19%	-2%
Formally Employed - US	27%	21%	-6%
Informally Employed	19%	25%	7%
Unemployed	26%	27%	1%
Unemployment Rate	26,27	27,08	1%
Labour Force Participation Rate	59,24	63,06	4%
Absorption Rate	43,67	45,99	2%

Source: UE calculations based on Quantec Data, 2016.

The provincial labour force of Mpumalanga has increased by over two fifths over the period under consideration, from 1.16 million to 1.66 million. Also to increase is the provincial unemployment rate, from 26% to 27%. More people who wish to work are now unable to find employment in Limpopo in 2015 than in 2005. The labour force participation and absorption rates have however increased, meaning that there is some positivity in the labour market. From an employment perspective, similar trends evident in other provinces are also present in Mpumalanga, high-skilled and informal employment remains steady or has increased, while skilled and unskilled employment has declined.

Free State

This mainly agricultural region is the second smallest province in population terms, and as with all the previous provinces discussed, the main racial group is Africans and much of the total population are also considered as young. The Free State is the province with the highest level of unemployment, a staggering 31%, the loss of jobs can be attributed to contractions in the agriculture and mining industries, with the gold sector particularly affected, over the recent period.

Table 0-25 below includes information on the provincial population of the Free State in terms of racial group and age.

Table 0-25: Population by Age and Racial Group, Free State, 2015

Age Group	Black African		Coloured		Asian		White	
	Male	Female	Male	Female	Male	Female	Male	Female
00-14	11,63%	11,52%	0,39%	0,36%	0,01%	0,01%	0,60%	0,53%
15-24	8,05%	8,87%	0,26%	0,23%	0,01%	0,01%	0,37%	0,31%
25-34	9,28%	9,55%	0,16%	0,17%	0,02%	0,02%	0,43%	0,50%
35-44	6,07%	6,41%	0,22%	0,25%	0,02%	0,01%	0,40%	0,46%
45-54	4,34%	4,74%	0,17%	0,20%	0,01%	0,01%	0,48%	0,52%
55-64	2,53%	2,92%	0,10%	0,12%	0,00%	0,00%	0,41%	0,49%
65+	1,65%	2,71%	0,05%	0,08%	0,00%	0,00%	0,59%	0,77%
% of Total	43,54%	46,72%	1,34%	1,41%	0,08%	0,06%	3,28%	3,58%

Source: UE calculations based on Quantec Data, 2016.

Similar to other provinces, the population of the Free State is comprised primarily of the Black African community, which accounts for approximately 90% of the entire population. The White community accounts for a large share of the remainder at 6.85%, while the Coloured and Asian communities account for the remaining margins. From an age standpoint, the age group that accounts for the largest share of the population is that of the 00-14 (25%), followed by the 25-34 (20%) and the 15-24 (18%). Over 43% of the population is below the age of 24. The key focus cohort accounts for 14% of the population.

Table 0-26 below includes information on average incomes, expenditure and saving for households in the Free State between 2005 and 2015.

Table 0-26: Average Household Consumption, Income, and Saving, Free State, 2005-2015, Rands, Current Prices

Indicator	2005	2015	Trend
Average Household Consumption	70 717	143 995,70	73 278,23
Average Household Disposable Income	71 506	143 023,60	71 517,32
Average Household Saving	789	-390,88	-1 179,69
Average Disposable Income by Population	20 358	22 684	2 325,23

Source: UE calculations based on Quantec Data, 2016.

The average household has seen somewhat of a regression in fortunes between 2005 and 2015, moving from a position of financial surplus in 2005 of R789 to a position of deficit in 2015 of -R390.88. This has been caused by a more than proportional increase in expenditure compared to income, a difference of 3.62 percentage points. Per capita income has increased by 11.42% over the period.

Table 0-27 below includes information on the dynamics of the labour market for the Free State over 2005-2015.

Table 0-27: Labour Market Dynamics, Free State, 2005-2015

Indicator	2005	2015	Trend
Labour Force (Number)	1 163 695	1 218 071	5%
Formally Employed - HS	8%	8%	0%
Formally Employed - S	20%	18%	-2%
Formally Employed - US	29%	23%	-6%
Informally Employed	14%	20%	6%
Unemployed	29%	31%	2%
Unemployment Rate	29,03	30,96	2%
Labour Force Participation Rate	62,00	62,69	1%
Absorption Rate	44,00	43,28	-1%

Source: UE calculations based on Quantec Data, 2016.

The labour force of the Free State expanded from 1.16 million individuals to 1.22 million over the period, equalling a 5% change. Also to increase was the provincial unemployment rate, increasing by 2 percentage points from 29% to 31%. This reveals the downward pressure in the provincial labour market, which has seen a net decline in employment, and a general shift in the type of employment away from the middle (skilled and unskilled) to the highly-skilled and informal groups. The absorption rate has also declined by 1% from

44% to 43%.

Profile of Lottery Participants in South Africa

Quantifying the extent of illegal lotteries in South Africa requires that the number of players, frequency of play, and the sums involved be known. Therefore, in order to quantify these flows, the following questions need to be asked and answered:

- What types of people participate in lotteries deemed illegal?
- How many individuals participate in lotteries deemed illegal?
- How often do these individuals participate? and
- What do they typically spend?

In order to answer these questions, a profile of the typical individual that participates in illegal lotteries needs to be established using existing sources of information as well as information gathered through stakeholder consultation and site visits. As a basis, the results of the Socio-Economic Impact of Legalised Gambling in South Africa for 2009 are used, along with other more recent sources of information such as The Economic Impact of Legalised Gambling in South Africa for 2013. The information sourced from these documents is discussed below.

Table 0-28: Participation in gambling activities, 2002 - 2009

Gambling Mode	2002 NGB Survey	2005 NGB Survey	2009 NGB Survey
Lotto tickets & scratch cards	71.3	-	-
Lotto	-	45.8	29.2
Scratch cards	-	7.8	6.4
Casino-gambling	19.3	7.1	6.3
Horse/sports betting	15.3	2.7	2.9
No participation	43.2	50.2	65.1

Source: Socio-Economic Impact of Legalised Gambling in South Africa, 2009.

As of 2009, nearly one third of survey respondents participated in the National Lottery, which declined substantially on the preceding study by 16.6 percentage points; owing to the depressed economic conditions of 2009, which was the year following the Global Financial Crisis. The survey also looked to identify what gambling mode different age groups actively participate in.

Table 0-29 below includes this information.

Table 0-29: Participation in gambling activities by age group, 2009

Gambling Mode	18-25	26-35	36-45	46-55	55+
Lotto	23,7	30	34,5	35	24,1
Casino gambling	4,9	4,5	8,3	7,9	6,8
LPMs	0,8	0,7	1	0,2	1,9
Wagering	0,5	0,8	1,2	3,3	0,6
Sports betting	2,3	2,1	2	1,2	0,4
Bingo	0,1	0,1	0,3	0,2	0,6
Scratch cards	5,7	7,6	8,4	6,5	2,9
Interactive gambling	0,5	0,7	0,1	0	0,2
Fafi	1,3	2	3,9	3,7	1,5
Dice	2,4	1,7	0,4	1,4	0,4
Gaming competitions e.g. per SMS	4,1	3,5	4,2	2,8	1,3
Other	1,5	0,7	0,1	0,2	0
No gambling participation	69,1	64,8	59,4	59,3	72,6

Source: Socio-Economic Impact of Legalised Gambling in South Africa, 2009.

In terms of participation in the National Lottery, it can be seen that more than one fifth of each age cohort participates in legal lottery activity in the country, while the age cohorts of 26-55 seem to have the highest proportion of individuals playing the lottery. On the illegal side of lotteries, between 1.3% and 3.9% of each age cohort participate in Fafi, and as with the National Lottery, this participation seems to be proportionately more in the 26-55 age cohorts. Another illegal lottery – gaming competitions – is also quite prevalent, but unlike Fafi, it seems to be more prominent among younger age cohorts. As was argued in the preceding section of this report, participation in different gambling modes can be affected by and individuals' employment status, where Table 0-30 below includes these results.

Table 0-30: Participation in gambling by gambling mode and status, 2009

Gambling Mode	Employed full-time	Employed part-time	Unemployed or looking for work	Retired or pensioner	Home duties	Student
Lotto	35	34,2	26,4	21,3	19,5	21,4
Casino gambling	9,4	7,2	3	4,5	4,9	5,3
LPMs	1	0,2	0,9	2	0	0,7
Wagering	2	0,7	0,9	0,3	0,8	0,7
Sports betting	2,3	1,4	2,1	0	0	1,8
Bingo	0,1	0,5	0,1	0,8	0	0,4
Scratch cards	7,4	10	5,4	2,8	4,1	5,3
Interactive gambling	0,3	0,2	0,3	0	0,8	1,4
Fafi	2	2,8	4,1	2,3	0	0,4
Dice	1,6	0,9	1,7	0,5	0,8	1,1
Gaming competitions e.g. per SMS	3,9	4	2,9	1,3	2,4	4,9
Other	0,3	0,2	1,6	0	0,8	0,7
No gambling participation	58,5	60,2	68,2	74,2	77,2	73

Source: Socio-Economic Impact of Legalised Gambling in South Africa, 2009.

Across the employment spectrum, the most widely played game is that of the lotto, which is played proportionately more by employed individuals than it is by the unemployed or individuals outside of the labour market. Fafi is played predominantly by those employed part time or those that wish to work yet are unable to secure employment, while promotional competitions are played mostly by employed individuals and students. Related to employment is education, as an individuals' education and training can affect their success in the labour market. Table 0-31 below include the survey results in this regard.

Table 0-31: Participation in gambling by gambling mode and educational level, 2009

Gambling Mode	No formal schooling	Primary	Secondary	Tertiary
Lotto	10,1	26	30,7	28,6
Casino gambling	0	2,3	602	9,9
LPMS	0	0,3	1	1,3
Wagering	1,3	1	1,3	0,7
Sports betting	0	0,8	1,8	2,3
Bingo	1,3	0	0,3	0,3
Scratch cards	5,1	6,5	6,6	5,6
Interactive gambling	0	0	0,2	1
Fafi	5,1	4,7	2,4	0,9
Dice	0	0,8	1,8	0,4
Gaming competitions e.g. per SMS	0	0,8	3,5	4,6
Other	0	0,5	0,8	0,1
No gambling participation	84,8	69	63,7	65

Source: Socio-Economic Impact of Legalised Gambling in South Africa, 2009.

Most of the individuals that participate in the lotto are educated beyond primary school, and often have some sort of secondary or tertiary education. This contrasts with regard to Fafi, where most of the individuals that play Fafi have no formal schooling or have a primary school-level education. Gaming competitions differs again from Fafi, where most players have tertiary and secondary education. In terms of participation by gender, Table 0-32 below includes this information.

Table 0-32: Participation in gambling by gambling mode and gender, 2009

Gambling Mode	Male	Female
Lotto	37,4	24,5
Casino gambling	8	5,4
LPMS	1,1	0,9
Wagering	2,7	0,3
Sports betting	4,1	0,4
Bingo	0,2	0,3
Scratch cards	8,1	5,3
Interactive gambling	0,4	0,3
Fafi	1,8	2,8
Dice	3	0,4
Gaming competitions e.g. per SMS	3,1	3,5
Other	0,8	0,5
No gambling participation	56,2	70,3

Source: Socio-Economic Impact of Legalised Gambling in South Africa, 2009.

From a lotto standpoint, 37.4% of males play the lotto compared to 24.5% of females. Generally, 1.8% of males play Fafi compared to 2.8% of females, while 3.1% of males participate in gaming competitions compared to 3.5% of females.

The table below includes statistics of the proportion of individuals that expend different amounts on gambling each month, where it can be seen that roughly 60% of those participating in gambling activities spend less than R50 per month. A further 21.5% spend between R51 and R150, while a large share of the rest spends no more than R500 per month.

Table 0-33: Personal expenditure on gambling per month, 2009

Expenditure on Gambling	
Less than R50	59,4
R51-R150	21,5
R151-R300	9,2
R301-R500	5,2
R501-R1,000	3,1
R1,001-R2,000	1,3
R2,001-R5,000	0,2
More than R5,000	0,1

Source: Socio-Economic Impact of Legalised Gambling in South Africa, 2009.

In terms of average monthly expenditure by employment status, it can be seen that employed individuals spend the most at R162 per month. This is followed closely by those included under 'Home Duties', which spend R147 per month. Part-time employed individuals are the third largest spenders at R126 per month.

Table 0-34: Average monthly expenditure on gambling per month, 2005 and 2009

Average monthly expenditure	
Employed full-time	162
Employed part-time	126
Unemployed or looking for work	82
retired or pensioner	80
Home duties	147
student	90

Source: Socio-Economic Impact of Legalised Gambling in South Africa, 2009.

In terms of participation in different gambling modes by different racial groups, the table below includes this information.

Table 0-35: Participation in gambling by gambling mode and population group, 2009

Gambling Mode	Asians	Africans	Coloureds	Whites
Lotto	21,3	31,7	17,1	26,7
Casino gambling	8,5	5,6	3,7	11,5
LPMs	6,4	0,4	0,7	2,6
Wagering	1,1	1,3	0,7	0,7
Sports betting	0	2,1	1	0,7
Bingo	1,1	0,2	1	0
Scratch cards	5,3	7,8	3,7	1,3
Interactive gambling	1,1	0,2	0,7	0,9
Fafi	0	3,3	0	0
Dice	0	1,6	1,7	0
Gaming competitions e.g. per SMS	1,1	3,8	1,7	2,6
Other	0	0,7	0,7	0,2
No gambling participation	74,5	62,7	77,3	67,4

Source: Socio-Economic Impact of Legalised Gambling in South Africa, 2009.

It can be seen that more Africans participate in illegal and legal forms of lottery, such as lotto (31.7%), Fafi (3.3%), and gaming competitions (3.8%). Thereafter, participation by the other racial groups in the different lottery activities is the same: Asians, Coloureds and Whites participate in the lotto and gaming competitions, but not in Fafi.

Lastly, Table 0-36 below includes statistics on participation in different gambling activities by annual income.

Table 0-36: Participation in gambling by gambling mode Income group, 2009

Gambling Mode	Less than R6,000 pa	R6,001-R12,000 pa	R12,001-R24,000 pa	R24,001-R60,000 pa	R60,001-R120,000 pa	More than R120,000 pa
Lotto	23,6	26,5	33,8	34,9	36	28,6
Casino gambling	3,3	2,4	6,8	7,1	15,4	11,3
LPMs	0,7	0	0,8	1,1	2,3	1,9
Wagering	0,7	0,6	0,8	2,5	2,3	0,4
Sports betting	1,9	0,8	1	2,1	3,5	1,5
Bingo	0,3	0,2	0,5	0,2	0,3	0
Scratch cards	4,9	6,7	8,8	8,4	9	0,8
Interactive gambling	0,3	0,4	0,5	0	0,6	0,4
Fafi	1,1	4,3	3,5	1,6	1,3	0,8
Dice	1,3	1	1	2,3	1,6	0
Gaming competitions e.g. per SMS	3,5	3,2	2,5	3	5,5	3
Other	1,5	0	0,5	0,2	0,3	0
No gambling participation	70,5	69,4	60,8	59,4	57,6	64,5

Source: Socio-Economic Impact of Legalised Gambling in South Africa, 2009.

Participation in the lotto seems to increase with income up to a certain point, and is concentrated among income earners in the R24,001-R120,000 categories. Fafi, on the other hand, is concentrated among income earners in the R6,001-R24,000 per annum range, while gaming competitions is split between the higher income groups (R24,001-R120,000) and lower income groups (less than R12,000 per annum).

Notes

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