



Gambling in Georgia

Second Report

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თბილისი / Tbilisi

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I. Summary

Gambling is a well-developed industry in Georgia and a significant contributor to the country's economy. The total turnover of the gambling business in 2014 was equal to GEL 658 million, while taxes (VAT, taxes on income and profit) as well as duties collected by the state from companies involved in gambling amounted to over GEL 177.5 million, or 2.3% of state revenues in 2014.

Income from gambling duties also represents an important part of the revenues of many cities and municipalities. In 2014, for example, income from gambling duties amounted to an average of 24% of the revenues of 6 large cities and of Kazbegi Municipality.

In order to measure public involvement in gambling, Transparency International Georgia conducted a public opinion survey with the help of Caucasus Research Resource Centers (CRRC). According to the survey:

- 94% of respondents are not engaged in gambling. The majority of the remaining 6% give priority to online tote betting.
- Most people involved in gambling for money do it for fun, and lose more often than not.
- Only 2% of respondents reported that they or their family members have encountered significant financial problems due to gambling. Most of the problems reported arose over the last year.
- Even though public involvement in gambling is low and only 2% have encountered significant financial problems because of it, a large part of the population (92%) has a negative attitude towards the industry and believes that it should be either banned (63%) or restricted (29%).

The prevalence of a negative public attitude towards gambling is common to many countries. Even though gambling is an important sector of the economies of many countries, including Georgia, it is often accompanied by negative externalities, such as: (1) problem gambling and the resulting financial / social problems; and (2) underage gambling. There is also a high risk of money laundering.

Problem gambling

- Statistics on the number of gamblers and the amount of money lost by them in Georgia is not available. Therefore, it is impossible to say whether these rates are high or low. The government has not conducted any major studies into the gambling market that would evaluate risks and reveal the gravity of the problem.

Underage gambling

- Even though Georgian legislation prohibits minors from gambling on money, and Georgian websites are obligated to require IDs for registration, serious shortcomings still exist. Specifically, the mechanism for verifying the validity of ID information used when registering for online gambling is very weak. It is possible to register by providing any 11 digit number in the personal identification number field. Users do not have to upload scanned copies of their IDs during registration, and the information provided is not verified.
- Despite this shortcoming, the Revenue Service has not found any cases of underage gambling during the inspection of permit conditions, which likely points to the weakness of the control mechanism.

Money laundering

- According to the 2012 report by Moneyval, the lack of information about suspicious deals in Georgia's growing gambling market indicates that gambling companies do not conduct proper monitoring of financial transactions.
- This suspicion is further strengthened by information provided by the Ministry of Finance, according to which no money laundering cases have been investigated since 2010.

Control of permit conditions

- According to the Revenue Service, all gambling establishments must be inspected at least once a year. The inspection of gambling establishments was launched in 2013 and a total of 1,104 inspections have been performed to date. Violations of permit conditions have been revealed in 716 establishments (65%). Violations have most often been found at tote and slot clubs.
- The total amount of fines and penalties paid by gambling companies to the state budget for violating permit conditions amounted to GEL 537,000 in 2013, GEL 375,000 in 2014, and GEL 243,000 in January-May of 2015.

Recommendations

Georgia should keep its liberal approach to gambling, since this industry is closely linked to the development of tourism - one of the most important sectors of the Georgian economy. However, the government needs to do more in order to study and eliminate potential social risks related to gambling. It is difficult to say whether gambling in Georgia is accompanied by serious negative externalities, since the sector has not been studied well enough by the government and there is no clear state policy relating to it. Therefore, introducing serious restrictions on gambling would be unwise, even if the idea is supported by the majority of the population. We consider the following recommendations to be appropriate:

- **Develop a better understanding of the sector and a clear state policy** – Relevant government bodies need to monitor and study the gambling sector regularly as well as evaluating and analyzing risks in order to correctly inform the public and develop a state policy. When considering the necessity to introduce new regulations, the government should use the experience of European countries with a more liberal approach to gambling.
- **Improve online registration processes**– In order to prevent underage gambling, a better method of identification needs to be introduced to the registration process on gambling websites. One possible solution would be to cancel instant registrations and obligate gambling organizers to take some time to verify the identities of new users before informing them of the success or failure of their registration. The personal information provided by new users should be verified with the Public Registry database, while their identities should be confirmed directly via live video or personal contact.
- **Improve controls on suspicious financial transactions** – The government needs to introduce more effective controls on financial transactions between parties involved in gambling. The information provided by the Ministry of Finance, according to which no money laundering cases have been identified to date, raises many questions. To this end, recommendations provided by Moneyval should be taken into account.

II. Introduction

Gambling is a popular industry worldwide, as is clearly demonstrated by statistics relating to this market. According to one study, 51% of the world population participates in such activities at least once a year.¹

The chief characteristic of the gambling business is that it allows people to make money through luck and chance.

In December 2014, Transparency International Georgia published the first ever report on the gambling business in Georgia. The report reviewed the Georgian legislation regulating this industry and presented its key characteristics: statistics, major players and their owners.

The first report noted that gambling is a well-developed industry in Georgia and a significant contributor to the country's economy (see Figures 1 and 2).² The total turnover of the gambling business in 2014 was GEL 658 million, while taxes (VAT, taxes on income and profit) as well as duties collected by the state from companies involved in gambling amounted to over GEL 177.5 million, or 2.3% of the 2014 state revenues.

Income from gambling duties also represents an important part of the revenues of many cities and municipalities (see Figure 3). In 2014, for example, income from gambling duties amounted to an average of 24% of the revenues of six large cities and of Kazbegi Municipality. Of particular note were border settlements: Kazbegi (38.7%), Batumi (33.9%), and Zugdidi (32.4%).

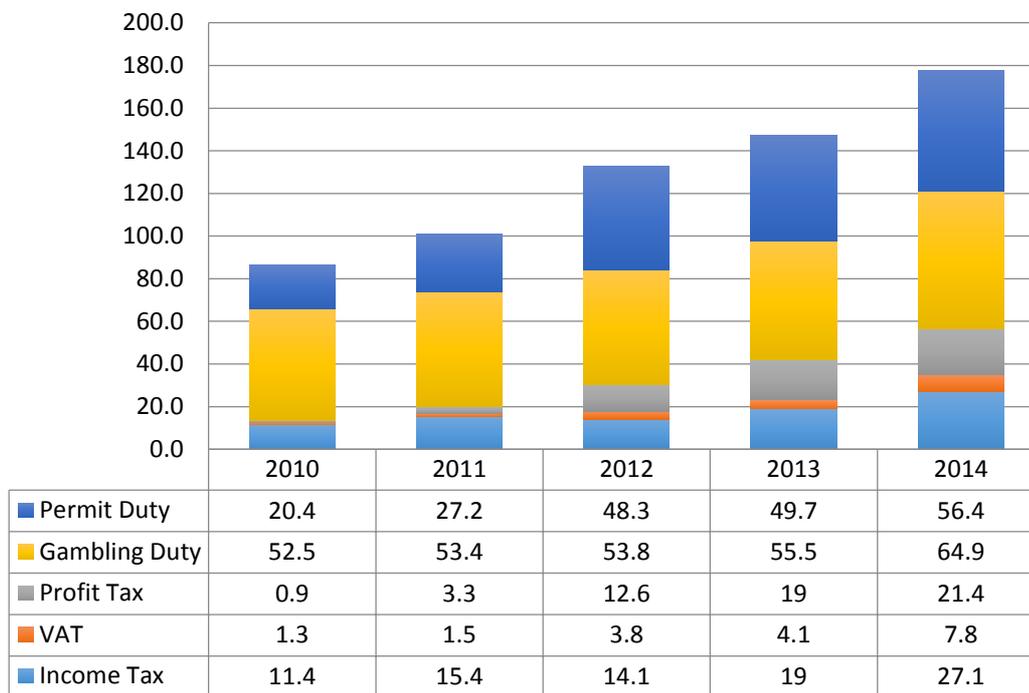


Source: Revenue Service

¹ Data by software company Viaden: <http://www.viaden.com/products/gambling-industry-facts.html>

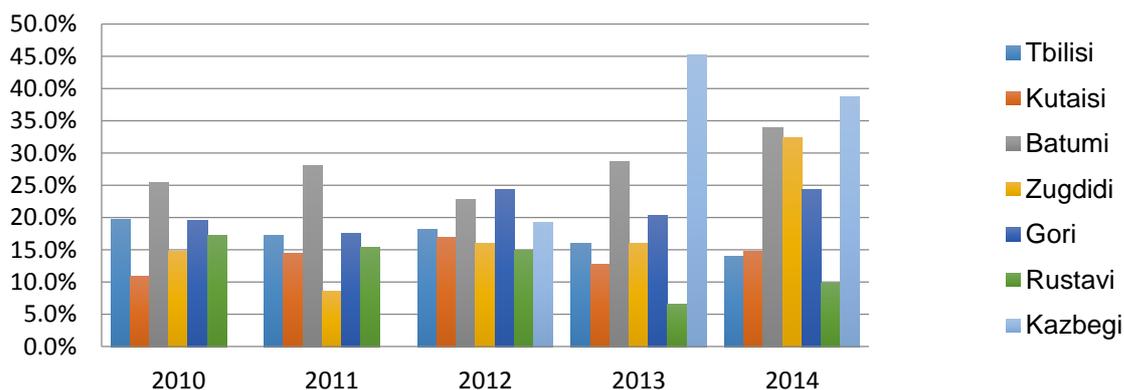
² Transparency International Georgia, Georgia's Gambling Market (First Report), December 2014: <http://www.transparency.ge/en/post/report/ti-georgia-s-first-research-gambling-market>

Figure 2. Taxes and duties paid to the state by gambling establishments (Million GEL) (2010 - 2014)



Source: Revenue Service and State Treasury

Figure 3. Share of gambling duties in local government revenues (excluding grants) (%) (2010 - 2014)

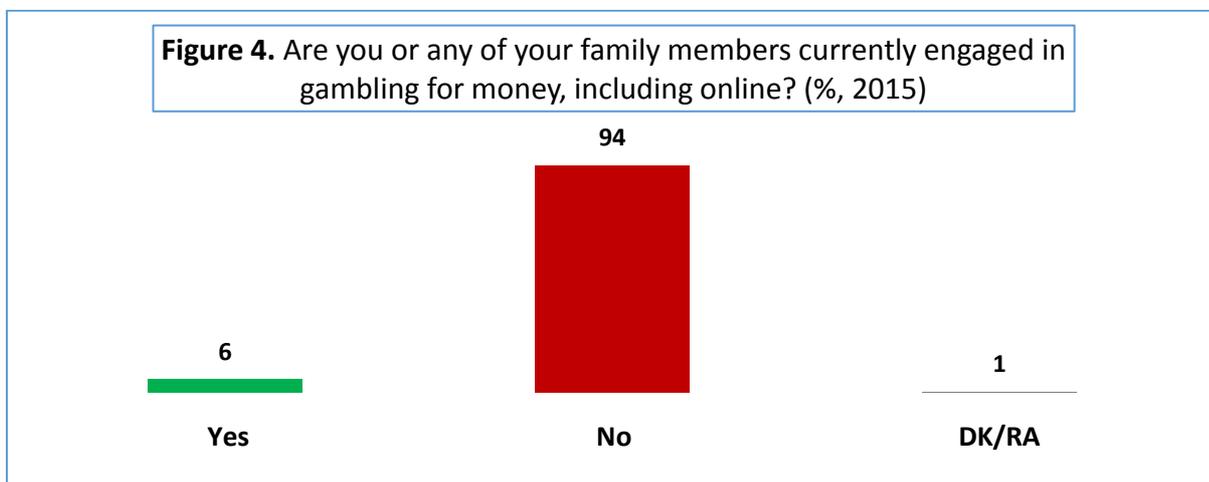


The second report prepared by Transparency International Georgia presents the results of a public opinion survey on **involvement** in and attitudes towards gambling. The report also

discusses problems and potential negative externalities associated with gambling.³ Finally, the report presents recommendations for solving the identified problems. **III. Survey Results**

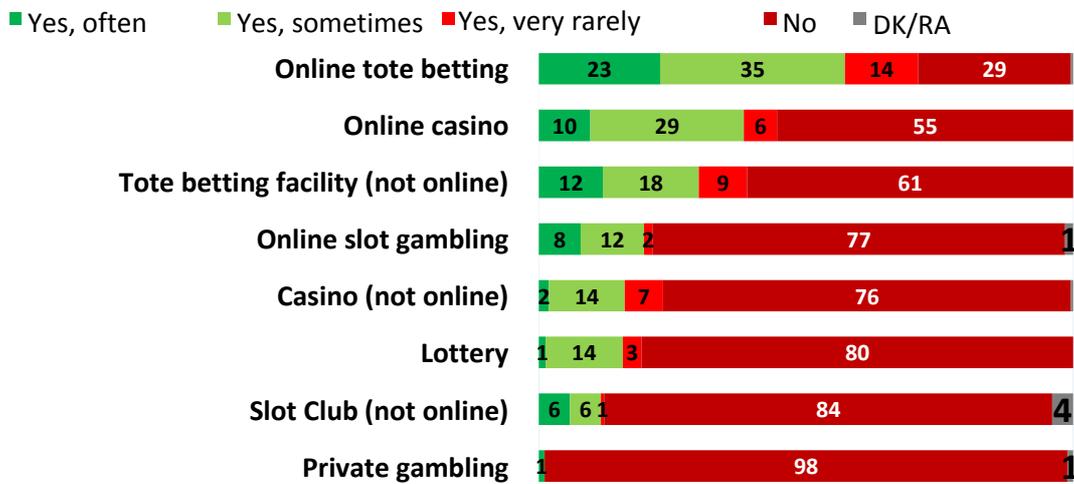
In December 2014, Caucasus Research Resource Centers (CRRC) conducted a public opinion survey on behalf of Transparency International Georgia. The survey was carried out across the country, except in the regions heavily populated by ethnic minorities and the breakaway regions of Abkhazia and Tskhinvali. A random sample of 1,867 adult citizens was interviewed in person. The survey is representative on a national level, and has a margin of error of 3.7%.

One of the goals of the survey was to measure the degree of public involvement in gambling. According to the survey, 94% of respondents were not engaged in gambling (see Figure 4). The majority of the remaining 6% prioritized online tote betting (see Figure 5).



³ Negative externalities occur when the consumption or production of a good causes a harmful effect to a third party: <http://www.economicshelp.org/micro-economic-essays/marketfailure/negative-externality/>

Figure 5. Are you or any of your family members currently engaged in gambling through... ? (% , 2015) (out of the 6% of respondents who reported being engaged in gambling for money)



Most people involved in gambling for money do it for fun (see Figure 6), and lose more often than not (see Figure 7).

Figure 6. Why do you or your family members gamble for money? (% , 2015) (out of the 6% of respondents who reported being engaged in gambling for money)

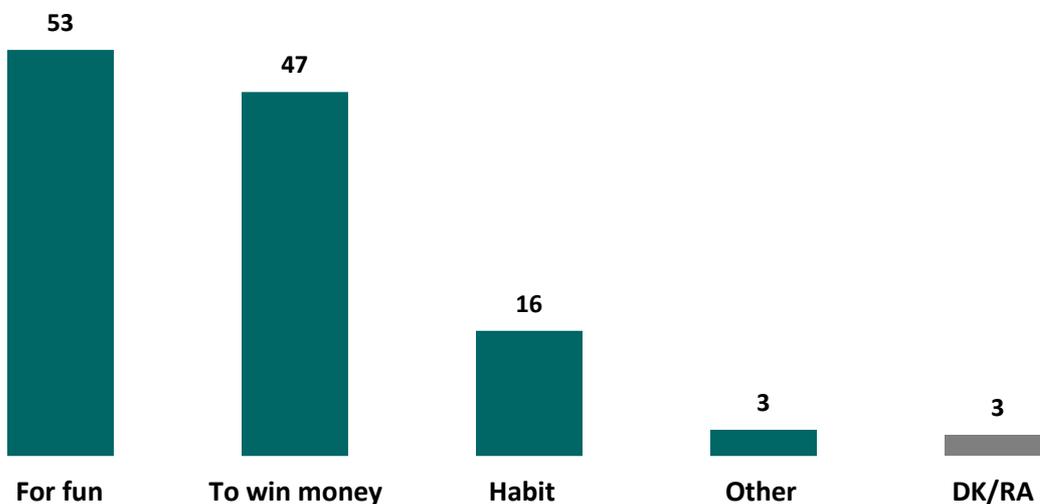
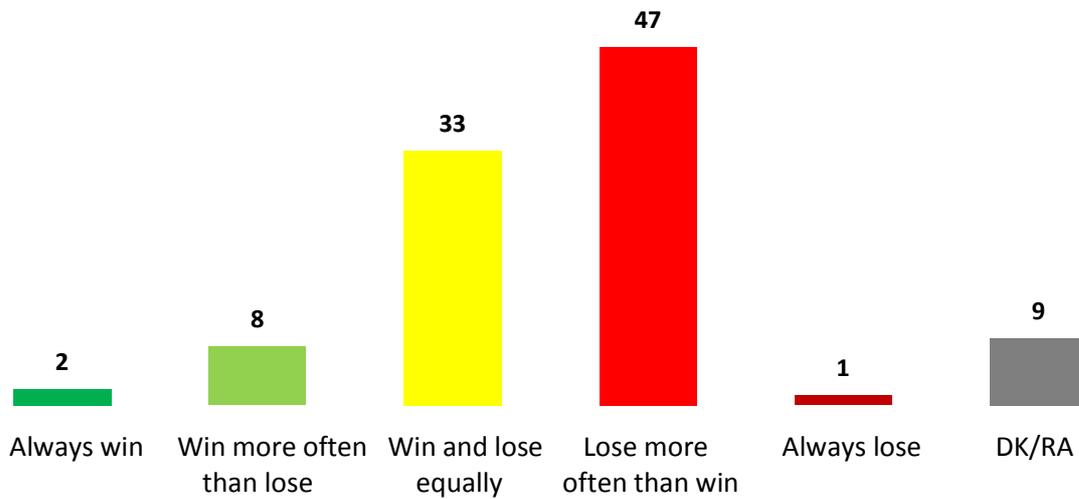


Figure 7. Overall, do you or your family members win or lose more often when gambling on money (% , 2015) (out of the 6% of respondents who reported being engaged in gambling for money)



Only 2% of respondents reported that they or their family members have encountered significant financial problems due to gambling (see Figure 8). Most of the problems reported arose over the last year (see Figure 9).

Figure 8. Has there ever been a time when a gambling loss resulted in significant financial problems for you or your family members? (% , 2015)

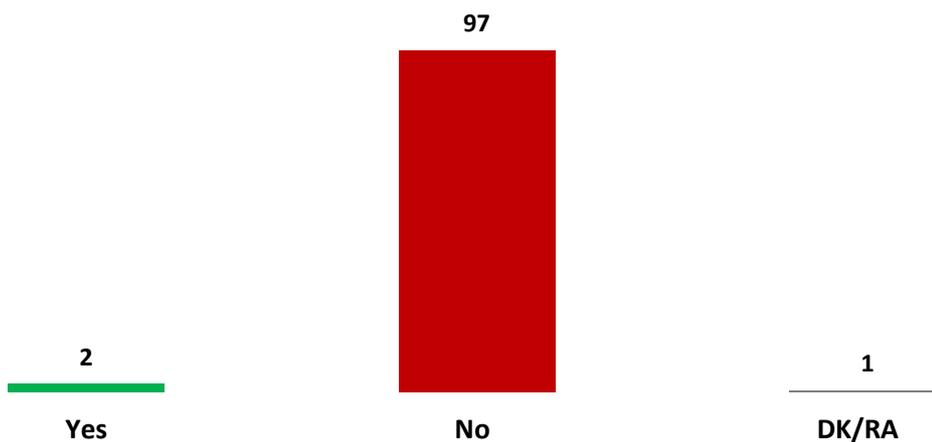
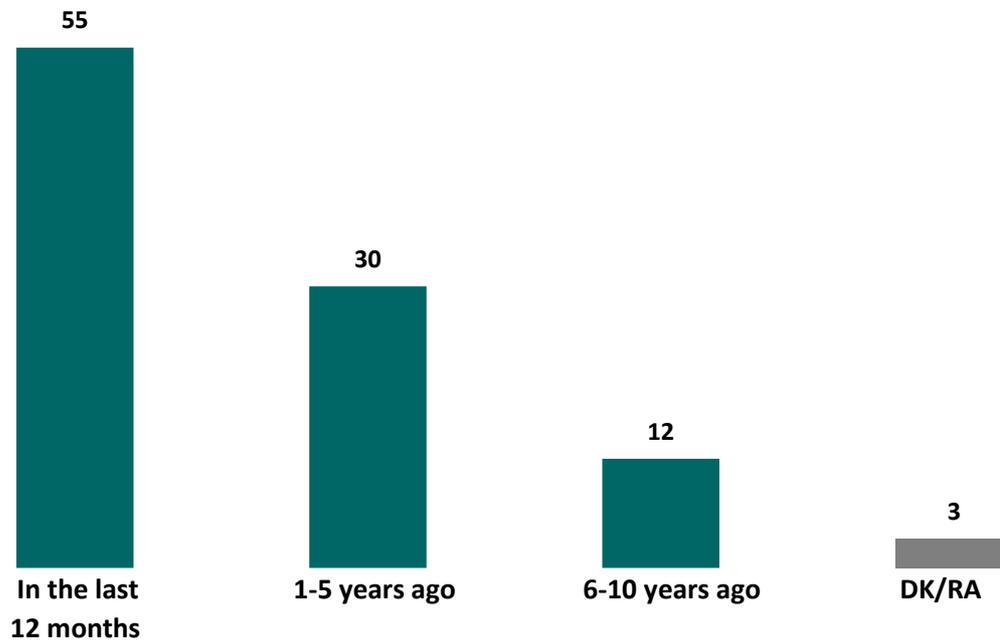
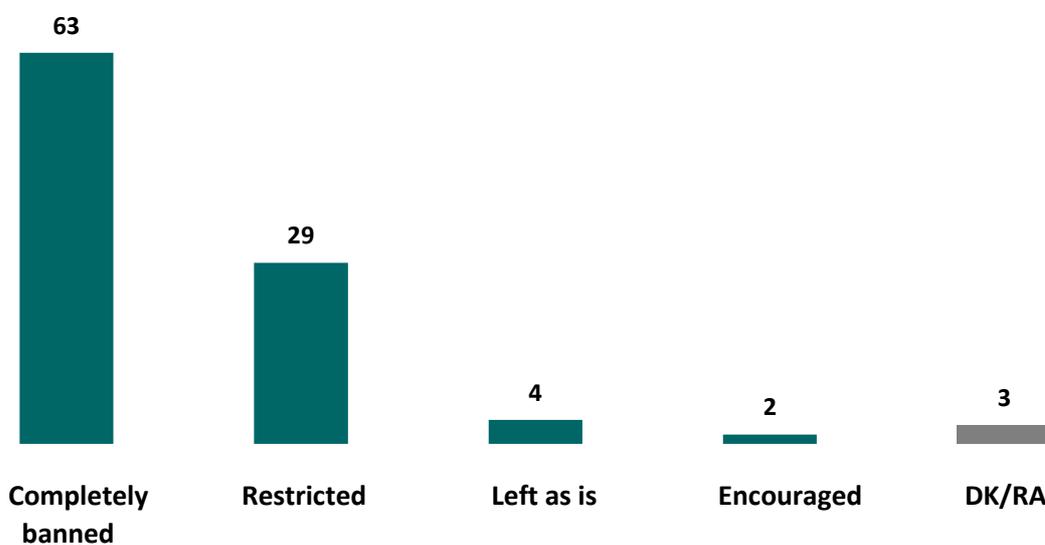


Figure 9. When was the last time this happened? (% , 2015) (out of the 2% of respondents who reported having serious financial problems)



Even though public involvement in gambling is low and only 2% have encountered significant financial problems because of it, a large part of the population (92%) has a negative attitude towards gambling and believes that it should be either banned (63%) or restricted (29%) (see Figure 10).

Figure 10. In your opinion, the gambling business in Georgia should be ... (% , 2015)



IV. Gambling-Related Problems

The prevalence of a negative public attitude towards gambling is common to many countries. Even though gambling is an important sector of the economy in many countries, including Georgia, it is often accompanied by negative externalities. There is a considerable amount of literature on the costs of gambling.

The prominent gambling-related social costs are: (1) problem gambling and the resulting financial / social problems; and (2) underage gambling. There is also a high risk of money laundering.⁴

1. Problem and underage gambling

Persons with an unhealthy addiction to gambling usually represent only a small portion of gambling consumers. The amount of money lost by them is, however, usually very high. Income received from these problem gamblers varies based on country and gambling type. According to one study, income from problem gamblers ranges from 20% to 50% of total gambling profits.⁵

Statistics on the number of gamblers and the amount of money lost by them in Georgia are not available. Therefore, it is impossible to say whether these rates are high or low in this country. The government has not conducted any major studies of the gambling market that would evaluate risks and reveal the severity of the problem.

According to our public opinion survey, 2% of respondents reported having encountered significant financial problems due to gambling (either by themselves or their family members).

Another social risk connected to gambling is the involvement of minors. According to one study, the age group 16-24 is twice as likely to develop gambling addiction as other age groups.⁶ Therefore, restricting access to gambling for minors is a priority of many European countries. The spread of online gambling has further simplified access to gambling for minors. This problem exists in Georgia as well and is occasionally reported on by the media.⁷

Online gambling carries a higher risk of involvement of minors. Even though Georgian legislation prohibits minors from gambling on money, and Georgian websites are obligated to require IDs for registration, serious shortcomings still exist. Specifically, the mechanism for verifying the validity of ID information used when registering for online gambling is very weak. Testing some online gambling websites, we found that it is possible to register by entering any 11 digit number in the

⁴ G. Reith, Social Impacts of Gambling, 2006, Scottish Centre for Social Research: http://www.gla.ac.uk/media/media_34552_en.pdf

⁵ Rebecca Cassidy, Charles Livingstone, The report with gambling research, October 30, 2014: <http://goo.gl/jieLNx>

⁶ G. Meyer, Problem Gambling in Europe: challenges, prevention and interventions, 2009

⁷ TV company Imedi program Day Show, January 21, 2015: <http://imedi.ge/index.php?pg=nws&id=43672>

personal identification number field. Users do not have to upload scanned copies of their IDs during registration, and the information provided by users is not being verified.

Despite this shortcoming, the Revenue Service, a Legal Entity of Public Law (LEPL) under the Ministry of Finance, has not found any cases of underage gambling during the inspection of permit conditions, which likely points to the weakness of the control mechanism.

2. Money laundering

Typically, gambling is also associated with money laundering risks. According to the 2012 report on Georgia prepared by the Committee of Experts on the Evaluation of Anti-Money Laundering Measures, shortcomings related to identity verification during registration on online gambling websites create problems for financial monitoring. Fictitious accounts created through online gambling websites enable users to make transfers to bank accounts without identification, making it difficult to monitor financial transactions carried out in this way.⁸

The Moneyval report also states that the lack of information about suspicious deals on Georgia's growing gambling market indicates that gambling companies do not conduct proper monitoring of financial transactions.⁹

The suspicion is further strengthened by information provided by the Ministry of Finance, according to which no money laundering cases have been investigated since 2010.

3. Control over permit conditions

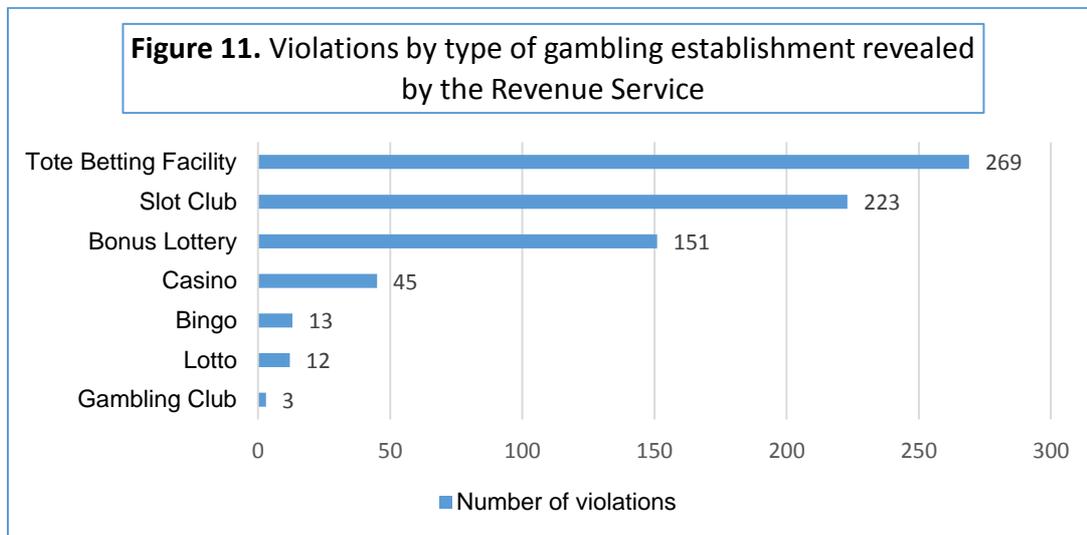
The Revenue Service is the government body responsible for monitoring and controlling the adherence of gambling establishments to permit conditions. The rules for inspecting company compliance with permit conditions are defined by the joint order №611-1013 of the Minister of Finance and the Minister of Internal Affairs signed on December 14, 2011.

According to the Revenue Service, all gambling establishments must be inspected at least once a year. The inspection of gambling establishments has been launched in 2013 and a total of 1,104 inspections have been performed to date. Violations of permit conditions have been revealed 716 establishments (65%). Gambling establishments often did not register their profits, lacked video surveillance systems or had discontinuous video recording, and sometimes operated without a confirmation of payment of the relevant gambling duty. Cases of organizing gambling activities without informing the Revenue Service were also identified.

⁸ MONEYVAL, Report on Fourth Assessment Visit, Anti-Money Laundering and Combating the Financing of Terrorism, Georgia, July 3, 2012: <http://goo.gl/IWhAiS>

⁹ Ibid

Violations have most often been found at tote and slot clubs (see Figure 12). The total amount paid in fines and penalties by gambling companies to the state for violations of permit conditions was GEL 537,000 in 2013, GEL 375,000 in 2014, and GEL 243,000 in January-May of 2015.



Source: Revenue Service

Online gambling is a weak point in monitoring of gambling permit conditions. There are serious shortcomings in the process of preventing underage gambling, which is linked to the problem of verifying identifying information provided by users during registration on online gambling websites. The Georgian legislation obligates the permit holder / gambling organizer to verify the identities of its users. These entities, however, do not have the necessary means.

V. Recommendations

Georgia should keep its liberal approach to gambling, since this industry is closely linked to the development of tourism - one of the most important sectors of the Georgian economy. However, the government needs to do more in order to study and eliminate potential social risks related to gambling. It is difficult to say whether gambling in Georgia is accompanied by serious negative externalities, since the sector has not been studied well enough by the government and there is no clear state policy relating to it. Therefore, introducing serious restrictions to gambling would be unwise, even if the idea is supported by the majority of the population. We consider the following recommendations to be appropriate:

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