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Casino Industry in the Transition Economy of Georgia

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Abstract

One of the most specific segments among the social-economic problems in the transition period of the market economy of Georgia is created by regulation of gambling (gambling business) and evaluation of its effect on a various part of society. Subsequently, the peculiar “triangle” is formed – “business – society – state” in which each of them has its interests, benefits and losses. One of the leading gambling businesses in the country is formed by the casino industry. The work deals with analysis and discussion of the role of casino industry and its importance in gambling business, objective and subjective factors of increase and development of the segment, effects of its positive and negative influence on stakeholders, fiscal determinants, financial-economic and social-economic problems of the sub-sector, proper recommendations have been developed on the basis of the theoretical and empirical analysis and conclusions.

Keywords: casino industry; gambling business; gambling regulation; effects and risks

Introduction

The volume of the market of casino industry is increasing globally within the modern gambling business, the Gross Gambling Yield (GGY) of which reached 125 billion US dollars in 2018 while it consisted of only 50 billion dollars in 2001 (Statista, 2019). In general, casino business is considered one of the most dynamic growing segments of gambling throughout the world.

Gambling was strictly prohibited by the legislation in soviet years of Georgian economy (the only exception was the lottery). From the beginning of the 90-ies of the 20th century, along with transition to market economy, the phenomenon of gambling

games appeared and consequently, the first operative casinos, the activity of which was mainly spontaneous. As a result of the creation of relevant system regulatory legislation and grow of economic activity, their number, circulation, fiscal contribution, etc. is increasing, however, a number of problems related to social-public losses cause resulted from their activities have been highlighted, which activates the necessity of development and implementation of a rational, balanced and governmentally acceptable policy. In general, gambling represents a specific segment of the business sector of the country and of the economy as well, with an ambivalent attitude towards it. Casinos, as the business entities, create a certain value in the economy and at the same time, their activity is related to certain social losses. Also, the attitude of different stakeholders towards this business is quite nonhomogeneous. Namely, the government and business circles are more likely to be in favor of it, than the wide layers of population; however, the mentioned approach is considered as general and varies in different countries (Williams, Rehm, Stevens, 2011, p. 7). For example, according to one of the public opinion researches conducted in Georgia (2014), which aimed to measure the engagement of population in gambling, the absolute majority of the population (92%) expressed negative opinion about gambling business, 63% of which considers it appropriate to prohibit it and 29% – restriction by certain regulations (TI, 2015). It should be mentioned that the gambling business in society of any country, including the functioning of casino industry is considered as one the problematic issues. Georgia is no exception in this regard. One group of countries has solved this problem with a relatively rigid approach – banned the gambling business by legislation of the country, however in a number of countries, the flexible regulations have led to more or less development of this segment of the business.

Casino Industry's Place in Gambling Business of the Country

It is noteworthy that the different models (principles) are approved in organizational-functional arrangement of the gambling business (including the casino industry) in world practice. Namely, there are the general and zonal approaches (Meyer, Hayer, Griffiths, 2009, p. 252). The principle of zonal arrangement implies concentration of the gambling entities in pre-defined territorial limits, which was based on development of peripheral and pre-selected areas. As to the general approach of arrangement of gambling business, in this case, gambling business entities can be established on any territory of the country, however, according to common practice, they are created in the regions and municipalities where there is a high demand for relevant services, the tourism-logistic infrastructure is developed or certain preferential terms are set. It should be noted that gambling business of the modern stage in Georgia operates in accordance with the latter approach.

Gambling is represented in several types by Georgian legislation. Namely, the state regulation of gambling business in the country is carried out by the structural subdivision of the Ministry of Finance – Gambling Business Policy Division, while the second largest structural unit – the Revenue Service issues the following permits in

the following directions: 1. Arrangement of casino, 2. Arrangement of the salon of slot machines, 3. Arrangement of the gambling club, 4. Arrangement of bookmakers, 5. Arrangement of lottery, 6. Arrangement of bingo, 7. Arrangement of the promotional draw. It should be mentioned that among the types of gambling, the casino games are considered the most common and popular type together with the salon of slot machines (so-called the slot-club) and bookmakers. According to the official state data, namely according to the registry of gambling business permits, there are 20 casinos operating in the country, half of which operates in one of the most economically developed and infrastructurally growing region – Adjara (namely, in Batumi), 5 casinos – in the capital (Tbilisi), the rest of the casinos – in other self-governing units (MOF, 2019). It is noteworthy that legislation allows to arrange the casino in a system-electronic form (internet platform) only if the organizer owns a permit for a casino (the standard permit is issued for a term of five years) for which no separate permit will be issued. Furthermore, the casino must have at least seven gaming tables, including one gambling wheel (so-called roulette).

It should be emphasized that the development of the casino industry in Georgia is supported by the number of fundamental factors and comparative advantages, including: 1. Casino business promoting legislation (the relevant legislation of the country clearly defines the arrangement of the casino entities, issues related to issuing permits and operation); 2. Minimal restrictive and hindering regulations (related to zonal arrangement, advertising, online games, etc.); 3. Prohibitions and/or restrictions in neighboring countries regarding the gambling business (casino business in those countries is prohibited by law, such as Turkey and Azerbaijan, or is characterized by strict administration and imposed restrictions, for example, Russian Federation). It should be noted that the casino business is fully or partially prohibited in not neighboring but surrounding countries, such as Israel, Iran, Saudi Arabia, Kazakhstan, Tajikistan and other countries (WCD, 2019); 4. Increasing trends in tourism development (the casino business generates so-called "extra" tourism, attracting additional tourism flows and ensures chain generation of revenues in tourism industry, especially in high-class hotel segment); 5. Liberal visa policy (the visa-free regime with a number of countries and visa liberalization significantly facilitates access to gambling of relevant streams); 6. Attractive investment environment (which generates additional stimulus for development of gambling business infrastructure and making the investors of relevant profile interested in the issue).

Positive and Negative Effects of the Casino Industry

In order to be able to identify the role and importance of casino business as a specific segment of business sector, it is necessary to make systematic analysis of all positive and negative impacts on the mentioned business (Zheng, Wan, 2014, pp. 11-12). In this regard, positive effects can be attributed to the following: general economic, investment, fiscal, social, tourism supporting and chain (multiplication) effect. Thus, the positive effect generated from the casino business can be both – short-term and

long-term. Establishment of the business entity can be considered as the short-term effect, or the results related to initial investment, while the long-term one implies multiple economic effects related to its subsequent operation (for example, payment of taxes, employment growth, re-investment, stimulation of other sectors, etc.).

The general economic effect implies that the casino, as one of the major and at the same time, specific segment of gambling business, creates specific value in the economy of the country, region or municipality and supports increase of the economic activity of the adjacent sectors and sub-sectors (we mean the total tourism industry).

The investment effect is the primary among the casino business effects, since the casino industry is one of the most important investment niches for investors. For example, the casino is one of the most profitable components of the hotel business and it is considered as the motive power of attracting investments in mentioned segment, however the casino investment can be carried out apart from the hotel complex as well. Thus, any type of such investment creates the favorable conditions for the growth of value of property assets in the respective area.

The fiscal effect of the casino business can be explained by its contribution to budget revenues. Namely, the mentioned entities are paying different taxes, which carry out formation of the budget of all three levels by different proportions. More specifically, different fees of casino business and property taxes are generating the local budgets, the income tax paid by them – the budgets of the autonomous republics, while the profit/income tax – state budget.

The social effect is manifested by the fact, that the casino business entities create the new jobs, while in case of expansion – increase the created jobs. The mentioned segment is one of the leading fields against the background of the transition economy of low activity according to the number of long-term jobs and amount of average monthly salary.

The casino business is an important stimulus in the tourism industry. For example, in most cases, the casinos are providing their permanent clients with free accommodation in the hotels, which is very important for the accommodation facilities (we mean the high-class hotels with casino components), especially for overcoming the problem of seasonality. Research of the market of visitors on all four seasons of the year, held in the border region of high tourism potential – Adjara, is an indirect proof of above said, according to which the aim of 12-13% of the interrogated tourists during the “non-seasonal” period (I and IV quarters / autumn – winter) was gambling, unlike the period, overloaded by the foreign tourists – 7-9% (I and II quarters / spring-summer) (DTRA, 2016), which emphasizes the fact that the contribution of the attracted tourists by the service of casinos operating in hotels is significant in loading hotels, especially during the non-seasonal (autumn-winter) period from the touristic point of view. The contribution of the visitors attracted by the service of casinos operating in the hotels is also very important, which in turn, create preconditions for formation of gambling tourism.

Alongside with the abovementioned effects, the multiplication role of casino business is of no less importance. For example, casinos are mainly providing their permanent and main clients with food and beverages free of charge, by which they are stimulating the local economy by spending considerable sums in local trading centers. Thus, the attraction of visitors by casino business facilitates development of transport, restaurant, communication, financial and other services, as well as upgrading of relevant standards.

Despite the positive impact of the casino business on development of the economy, it is important to identify and systematize the negative effects caused by it in order to avoid the various disproportions and public-social losses. One can underline the following from the negative effects: social losses, effect of substitution, effect of leakage and other concomitant risks. According to the researches carried out abroad in this direction, the public-social losses caused by the gambling business is of non-homogenous nature, namely: addiction to gambling (problem gambling), alienation of the person, growth in health expenditure, accumulation of debt, promotion of criminal background, engagement of vulnerable groups, etc. (Reith, 2006, pp. 42-63). Furthermore, problem gambling is included in the list of American Psychiatric Association as an independent nosological unit (APA, 2018). The effect of substitution implies the potential losses, which occur from losing money by person in gambling, as he could use the mentioned sum for personal consumer expenditures or invest in a relatively stable activity or assets. As for the so-called effect of leakage, it is related to the probability that a person may not spend the sum won in gambling in local economy and carry out its repatriation or take abroad. This case may be characterized within the terms of high activity of non-resident visitors. The possibility of risks associated with money laundering can also be considered as a negative effect of the casino business (especially of its arrangement in system-electronic form), etc.

Quantitative Indicators of the Casino Industry

Assessment and analysis of the gambling business segment may be carried out by quantitative indicators along with qualitative ones. The system of quantitative criteria must include all potential indicators, the calculation is carried out by measurable indicators used at different levels of state governance.

As it is known, the role and significance of any sector of the economy of the country can be assessed by specific weight of the additional value in total additional value created by the mentioned sector. Use of this approach in relation to the gambling business did not allow for statistical obviousness due to the fact that, by statistical approach, namely according to the national classifier of the types of economic activities, the gambling business was not considered at the separate sub-sector of the economy (it was included in the sub-section of "other utility, social and personal service rendering"), which unlike the other sectors, complicated the direct measurement of the quantitative contribution of this segment of the business. According to the new version of classification, which is close to the methodological approaches of Eurostat and UNSTAT, gambling business was separated as

classification unit (section R – art, entertainment and relax, department 92 – gambling activities), which allows us to measure the individual indicators of gambling business in relation to the overall volume of business sector, for example, the annual turnover of R-section of 2017, 95% of which comes on gambling (gambling business), amounted to 6 176,6 million GEL, which is 8,6% of the overall turnover of the business sector (GEOSTAT, 2018, p. 133). If we take into account the dominant role of gambling in given sector (6 050,1 million GEL), it turns out that at about 8% of the overall turnover of business sector comes on the very gambling, the leading direction of which is the casino business.

Along with the statistical approach, analysis and assessment of the financial determinants of casino business is of no less importance. Namely, according to the applicable legislation of the country, the gambling companies, in particular, the casinos are paying charges, taxes and fines in favor of the state (central, autonomous republics and local budgets). For example, the sums received in the form of charge for gambling business in 7 major self-governing units amounted 24% of budget revenues in 2014 (TI, p. 8-9). It should be mentioned that the casino business is represented by the highest specific weight in budget revenues generated from casino business. This can be illustrated by the example of self-governing Batumi city, the gambling business charges received from the casinos in the budget of amounted 17 736.7 million GEL in 2016, which is 80% more than overall charges of the gambling business, while the fiscal contribution of the gambling business filled the municipal budget with 17.5% in the same year (BM, 2016, p. 3, 17).

Casino charges are of two types: one-time (annual) and multiple (quarterly). The one-time permit charge is paid by a casino permit seeker company and its amount is differentiated according to territorial signs (basic – 5 million GEL, lowered – 250 thousand and 100 thousand GEL and zero rate – in individual municipalities). The multiple permit charge is paid by the casino according to the gambling tables (from 20 to 40 thousand GEL per table / the local council is determining the amount of charge within the mentioned scope). In case of the salon of slot machines, the slot-club arrangement and slot machine charge is added to the above mentioned charges. As for the tax obligations of casino, as the subject to taxation, it is regulated by the general tax legislation, according to which the casinos are taxed with almost all taxes, except for exceptions. Namely, the tax and permit legislation of Georgia for casino business provides the following benefits: from the obligation of withholding of the income tax at source – in the part of the profit tax received from casino gambling; from value added tax – service providing by means of lottery, gambling and lucrative games, including casino gambling service. From the permit and privileges, release of casinos from casino arrangement permit charge on the territories of hotels of 80 and 100 rooms in separate municipalities during ten years from issuing casino arrangement permits is really worth mentioning. As well as the person, holding the permit for arranging the casino in the capital is exempted from obligation to pay the relevant permit charges for arranging no more than three gambling clubs on any

territory of the country. As for the financial sanction, it is paid by casinos in the form of fine in case of unauthorized activity or non-compliance with permit conditions.

It should be also specified: the fact that 75% of casinos are territorially comprised in two major and economically developed cities of the country (Tbilisi and Batumi), underlines that the “geographical” distribution and loading of casinos are mainly conditioned by the following factors rather than the permit-tax privileges or other types of privileges: 1. Location of the gambling business entity; 2. Level of economic activity; 3. Tourism potential adoption level; 4. Well organized logistic infrastructure; 5. Urbanization level; 6. The number of population.

One of the most important quantitative indicators for functioning of casino business is to divide the gamblers into local (resident) and foreign (non-resident) gamblers, which on the one hand, underlines addiction of the local population to similar type of gambling and the peculiar (gambling) interest of the foreign gamblers in given country on the other hand. From this point of view, it should be mentioned that Batumi, the city rich in casinos (in which 50% of casinos are operating), 81% of casino visitors come on the foreign gamblers, while 19% are the local gamblers (MOFEA, 2019). As for the age limit of the person (gambler) allowed to gamble in casino, which is considered as one of the indicators for regulation of casino activities – it is 21 years (in case of the salon of slot machines – 18 years). In this regard, the experience of the world “flag-officer”, such as Macau is quite interesting, where the age limit of gamblers is differentiated and is much higher for local subjects (for their protection) than for non-residents (WCN, 2018).

Conclusion

Thus, according to all above mentioned, the state must have the long-term stable vision towards the given segment of business sector, rather than the short-term one, which should be based on creation of the predictable environment for casinos on the one hand and on the other hand, what is more important for its citizens, development of mechanisms for maximal protection of its citizens – the social capital of the country, as well as diversion from gambling. For this purpose, we consider it appropriate to carry out the following measures:

1. Close and crystalline cooperation between the state and the casino sector;
2. The in-depth study of the effects of the casino business (benefits) and anti-effects (risks) by the state;
3. Analysis of the best foreign experiences and practices of casino business operation;
4. Differentiation of age limits of local and foreign players;
5. Introduction of a permit card system based on periodic payments;
6. Study of the expediency of so-called zonal arrangement-layout of casinos;
7. Targeted and reasonable limitation of casino advertising;
8. Strict regulation of online casino games;
9. Formation and management of unified base of casino players (registry);

10. Deepening and improving statistical analysis of casino business.

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