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YEARS

Financing solutions for sustainable development

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Lotteries

Governments and civil society groups use lotteries as a means of raising funds for benevolent purposes such as education, health, preservation of historic sites and nature conservation.

Key words: Innovative finance

How does it work?

Governments and [NGOs](#) use lotteries to mobilize funding for a variety of causes, the earliest examples dating back to the Roman Empire and Renaissance Europe. They are a form of gambling that involves the drawing of lots for a prize, and include [instant games](#), [lotto](#), and [electronic terminals](#). This note covers only lotteries whose proceeds are allocated to good causes—as defined by (national or local) authorities—or to the national Treasury and NGOs.

Lotteries have traditionally provided supplementary revenues to the Treasury for promoting social and environmental outcomes. The [World Lottery Association](#) reports over US\$ 51 billion were collected for good causes in 2013 from their reporting members, who constitute roughly half of the total number of worldwide lotteries. Revenues from lotteries are generally separated from the national budget and recorded off-budget. Their allocation is thus not subject to the same legal restrictions due as taxes and other income-generating activities, making lotteries an easier and faster mechanism for allocating resources. While proceeds from lotteries are often spent in the country of origin, some are also allocated to projects abroad. For example, [Belgium](#) and the United Kingdom have provided aid through their lotteries, with the former having mobilized over €330 million for food security in Sub-Saharan Africa. Nevertheless, the idea of creating a world lottery to fund development work has never materialized.

National lotteries are administered by public authorities or licensed to private operators through bidding processes. The outsourcing can be limited to specific management processes, for example the sale of the tickets. Retained profits are usually transferred to special purpose vehicles such as the [National Lottery Distribution Fund](#) in the UK. Decisions on how and where funding is invested are made by public authorities: 12 organizations were chosen by the UK Parliament as beneficiaries, including the [Community Fund](#) and the [Heritage Lottery Fund](#). While there are no official statistics available, national lotteries tend to use similar allocation formulae where about 70 per cent of the proceedings go to pay prizes. With operating costs in the range of 3-7 per cent, about 25 per cent of the proceedings from national lotteries can be taken by the state. With 28 per cent of lottery revenues channeled to good causes, the UK system has supported over 450,000 projects with £33 billion since 1993. Europe and the US federal and state authorities follow a similar model, some with specific legal provisions: for example the [Constitution of Colorado](#) stipulates that 40 per cent of the income from its lottery is to be allocated to the state's Conservation Trust Fund.

National lotteries can also be found in emerging economies. Managed by the national bank Caixa Econômica Federal, [MEGA-SENA](#) is the biggest lottery in Brazil, the profits of which are used to fund sport, education and poverty reduction projects, including the [Bolsa Família](#). The [Philippine Charity Sweepstakes Office](#) has funded health and social projects since the early 20th century. In its first decade the [South African National Lottery](#) has allocated more than R11 billion to NGOs (about 27 per cent of proceeds).

National oversight bodies for gambling—e.g. the [UK Gambling Commission](#) or the [Nigerian National Lottery Regulatory Commission](#)—regulate private lotteries either for-profit or not-for-profit ones. Similarly to Government entities, [NGOs](#) have used lotteries to mobilize resources, in a few instances on a large scale. [Novamedia](#) (a charity) has franchised The People's Postcode Lottery in the Netherlands, the UK and Sweden. In the UK, 55p out of every £2 lottery ticket (i.e. about 25 per cent) goes to good causes. Like lotteries but smaller in scale, price competitions and free prize draws are used by community-based organizations and [NGOs](#) to mobilize funds. Charity lotteries often benefit from reduced taxation on profits.

Stakeholders

- **The regulatory entity/ies:** Government authority/ies in charge of developing and overseeing the legislation on lotteries. National commissions can be established to monitor the sector.
- **The buyer:** private individuals purchasing the lottery tickets.
- **The seller:** private and public distributors can intermediate between the entity issuing the lottery tickets and the buyers. Several retail channels can be used, including the Internet, to sell lottery tickets.
- **The owner:** the state fund, licensed operator or NGO that receives the proceedings of the lottery.
- **The end beneficiary:** the Government department, project or NGO receiving a grant from the proceedings of the lottery.

Summary

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- [When is it feasible?](#)
- [What are the main risks challenges?](#)
- [How can the design be ameliorated to improve impact?](#)
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Financial Result



[Generate Revenue](#)

Instruments Used



[Grant](#)



[Market Solution](#)

Sources of Finance

PRIVATE

NATIONAL

INTERNATIONAL

Related SDG



Potential in monetary terms (revenues, realignment, savings and cost-reductions)

The potential of lotteries to fund social and environmental objectives is high and growing steadily. The [World Lottery Association](#) estimates national lotteries generated US\$189 billion in 2013. Out of the latter, US\$52 billion were allocated to the Treasury (41.4 per cent), education (28 per cent), sport (5.4 per cent), culture (3 per cent), social activities (1.4 per cent) and other good causes (20.8 per cent). This is only a small share of the global gambling market, sport betting being worth more than US\$1.3 trillion inclusive of illegal gambling. Two examples: the [UK National Lottery](#) allocates annually about £1.8 billion to projects and [Veikkaus](#) in Finland (Finland's National Betting Agency) € 0.5 billion (2013).

The value of resources collected by charities from the organization of lotteries is lower but still significant: in the European Union lotteries provide €560 million a year to hundreds of projects in the areas of disaster relief, green-tech innovation, cancer research, and disability to name a few. If charity lotteries were allowed in all European countries, more than €12 billion could be raised every year. Since the start of the [Dutch Postcode Lottery](#) in 1989, [Novamedia's](#) lotteries in the Netherlands, the UK and Sweden have donated over €6.6 billion. For example, the WWF-Netherlands received US\$128 million to fund network activities and biodiversity conservation projects, including for marine activities in Mexico.

When is it feasible?

The legal requirements for national and charity lotteries are comparatively few. The regulatory framework governing the gambling sector or the law establishing the national lottery forms the legal environment in most states. In a few cases, the law or even the constitution provides that the state (e.g. in Oregon and Colorado) can earmark a percentage of resources to be allocated for a specific sector or cause. For example the [State of Oregon](#) (USA) approved a constitutional amendment earmarking a percentage of the proceeds to the protection of wildlife and watersheds.

In developing countries, there is often no legislation covering gambling and no authority in charge of oversight, with the result that informal gambling practices may prevail. In the absence of gambling legislation, a legal review might be required. The establishment of a national lottery also entails the establishment of a transparent financial and audit system for the authority delegated to manage the proceeds, usually an independent trust fund.

Minimum investment required and running costs

The investment requirement to establish a national lottery is comparatively low. The initial investment can be minimized or nullified if the process is outsourced to a private operator in exchange for a commission on sales. Even when national funds are established, running costs are a relatively low percentage of the turnover generated. Only 4 per cent of the turnover of the UK national lottery covers operating costs, including the commissions charged by retailers.

What are the main risks and challenges?

Pros

- National lotteries do not require high initial investments.
- Operational and running costs are comparatively low.
- National lotteries have the potential to generate a relatively high volume of revenues.
- The establishment of special trust funds for national lotteries can reduce the risk of corruption and misallocation of proceeds.
- It is easier to ring-fence the allocation of the proceeds from lotteries for social and environmental expenditure, compared with the general budget.
- It is politically more feasible to introduce national lotteries than direct/indirect taxation for increasing social and environmental expenditure.

Cons

- The introduction of new lotteries can increase a country's gambling turnover, especially among low-income households, with the risk that it will substitute for more welfare-enhancing expenditures. Gambling is [regressive](#) and its promotion by public authorities raises ethical issues. On average, state lottery products are found to be disproportionately consumed by the poor.
- Gambling is for the most a recreational activity people can enjoy without losing control. However, for some, gambling can turn into a disorder (e.g. compulsive gambling).
- The financing mechanism itself, a lottery, does not incentivize good spending or planning.

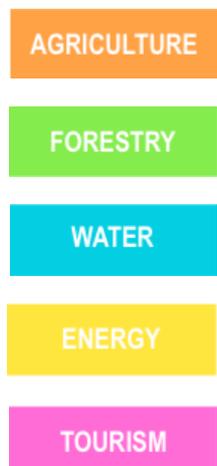
Risks

- Mismanagement and misallocation of funds (reputational risks). When there is no regulatory framework for gambling, the legitimacy and independence of the national lottery authority can be questioned.
- Competition from other forms of gambling can reduce the revenue potential of national lotteries.
- Lack of cost-effective distribution channels for sales can increase operating costs.
- Difficulty in identifying good bankable projects or beneficiary organizations in which to invest the proceeds of lotteries.
- Monitoring of grants from lottery proceeds. The monitoring of the projects funded can be difficult in contexts where capacities are limited.
- Lotteries and gambling are regulated nationally. The legal requirements for international charity lotteries-particularly for Internet-based lotteries-can be challenging and subject to change.

How can the design be ameliorated to improve the impact?



Related Sectors



The contribution of lotteries to environmental conservation and social inclusion can be critical in certain contexts, especially at times of budget cuts in the public sector. Since it made its first grant in 1995, the [Heritage Lottery Fund](#) (UK) has produced remarkable [results](#): “ A programme of capital works on 1,250 nature reserves in the UK has seen the infrastructure put in place to ensure the sustainable management of these sites. The investment in access, education and community projects has been no less spectacular. Thanks to the Heritage Lottery Fund, hope for the future of wildlife on so many sites and in so many communities across the UK has been restored.”

The law or legislative bodies (e.g. Parliament) usually identify the priority sectors for investing the proceeds. They are usually invested in health, environmental and cultural endeavours, but proceeds can also be used to foster entrepreneurship or innovation and to help the unemployed. For example, in 2014 the [Arizona lottery](#) invested US\$14.5 million in small businesses and other competition-enhancing measures.

The social and environmental impact of proceeds from lotteries does not depend on the design of the financial mechanism per se-the lottery-but on the results achieved by the allocation of the proceeds. The establishment of independent, transparent and effective vehicles to assign resources to the most valuable and cost-effective projects and to monitor implementation is a precondition for achieving impact.

To manage and reduce the human and income related negative impact of gambling, the Government, [NGOs](#) and private operators should take steps to prevent irresponsible behaviour and advance responsible gambling principles (e.g. [WLA Responsible Gaming Principles and Framework](#), [Gamble Aware-UK](#), [Code of Conduct for Responsible Gaming-USA](#)), awareness raising and education campaigns, and proper game design. Since low-income lottery players are more likely than other lottery players to bet on [instant games](#), for example, the Government could mitigate the regressive nature of its lottery products by moving away from [instant games](#).

The buyer of lottery tickets should be informed in a proper and timely manner about the use of the proceeds and of the risks of gambling. Lotteries should not target vulnerable groups with marketing campaigns, should always refer to responsible gambling principles and should adopt all possible measures to prevent compulsive gambling behaviour (e.g. by limiting the number of tickets sold to individuals and/or the avoidance of most-addictive instruments such as scratch cards).

This note does not cover the introduction of taxes on gambling enterprises, which might provide additional fiscal revenues for social and environmental programmes.



Guidelines and Case Studies

Case studies

[Oregon Lottery \(USA\)](#)

[The Heritage Lottery Fund \(UK\)](#)

[Mega-Sena \(Brazil\)](#)

[Novamedia \(The Netherlands, the UK, Sweden\)](#)

Our work

[International Guidebook of Environmental Finance Tools](#)



Sustainable Development Goals



Environmental finance

Our Perspective

09 Jul 2015
We should reach a consensus on the fact that macroeconomic policies in low-income economies need to also jettison the conventional wisdom of undue restrictiveness.

