

PAHLE INDIA FOUNDATION
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Lottery

in India

A Study on
Regulatory
Framework and
Potential for
Social Funding

January 2024



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Executive Summary

Lottery in India

Lottery, a game of chance where winners are selected randomly through draws, allows participants to win significant sums of money (rewards) with relatively small levels of investment (risks). At the same time, there is considerable risk in placing financial wagers on lotteries, given that the results of lotteries are based purely on chance.

As a result, lotteries are often regarded as a regulatory challenge, from a legal and ethical-moral perspective. Yet, lotteries present a paradox. Lotteries have been widely used throughout history to raise money for charity and revenue for the state through state-run lotteries and/or a tax regime wherein lotteries are regulated. Thus, apart from amusement and recreation, lotteries have been sources of revenue for welfare activity around the world.

India's Law Commission Report of 2018 on Gambling and Sports Betting stated that while it is desirable to ban betting and gambling, it is difficult to prevent these activities altogether. Therefore, regulation of such activities is recommended, as opposed to banning them altogether. Bans, as we know, are near-impossible to enforce in

a digitally-enabled, connected world. Rapid digitalization thanks to the penetration of smartphones and access to cheap internet has exposed the Indian populace to a variety of gaming options which include those offered by offshore entities many of which are illegal.

Lotteries of a digital nature can – and are – played by participants via their phones or laptops even in States where lotteries are banned; Tamil Nadu and Karnataka are cases in point in this respect. Digitalization has effectively blurred geographical boundaries and poses a serious challenge to the regulations in place for activities like gaming (games of skill or chance) given their quarter-century vintage (Lottery Regulation Act, 1998, followed by the Lottery Regulation Rules, 2010).

Global and Indian Lottery Market: Revenue & Social Sector Funding Potential

Effective regulation of lotteries can ensure a healthy stream of revenue for the Government. Globally, while the total sales of lottery tickets amounted to \$ 339.9 billion in 2021, the total funds returned to society amounted to \$79.5 billion. In the Indian context, our estimate suggests that with relevant age restrictions preventing minors (below 18 years) from participating in lotteries, the Indian lottery market size is approximately \$ 33 billion, with potential non-tax revenue roughly of \$26 billion for the government.

Further, the state can generate approximately \$12 billion cumulatively through profits and taxes on State-run lotteries. To put this number into perspective, the outlay of India's key

development programs are as follows: MGNREGA (\$7.2 billion), Jal Jeevan Mission (\$ 8.4 billion), National Health Mission (\$4.5 billion), and National Education (\$4.5 billion). It is evident that the estimated revenue from India's lottery industry – provided it is robustly regulated and promotes tech-based innovations for transparency – has the potential to help fund India's development programs.

The industry could then generate employment, afford enhanced player protection, put monies to use to mitigate addiction, adopt global best-practices to Indian conditions to create credibility for a stigmatized sector, and serve as an engine of socio-economic growth.

Potential for Employment Generation through Lottery

Lottery is considered a societal taboo in India due to the risks of addiction and financial losses that cause familial and social tensions.

Apart from the revenue potential, which due to the underdevelopment of the sector is far below the revenue earned by government from other 'sin activities' such as the sale of alcohol and tobacco, the lottery industry also has the potential to generate employment opportunities to the tune of millions of jobs for both skilled and unskilled workers who can function as agents, vendors, lottery managers et. al. Lotteries also support allied industries like paper, printing press and other indirect beneficiaries.

Additionally, with the growth of online gaming, employment opportunities in fields of IT, software development, design and allied services - can also be potentially generated. Despite such huge potential for revenue and employment-generation, however, lottery – which is undeniably a form of wagering – is considered a societal taboo in India due to the risks of addiction and financial losses that cause familial and social tensions.



Review of Regulatory Frameworks in India

Presently, the sale of lottery tickets is legal in 10 states in India. Kerala was the first Indian state to operate a state-run lottery in 1967, with the aim of generating revenue and employment opportunities for marginalized sections of society. To regulate and standardize lottery operations across states and curb illegal activities of private lotteries, Parliament passed the Lottery Regulation Act of 1998 and subsequently the Lottery Regulation Rules 2010. These provisions provide

an overarching framework for lottery operations across India. The rules and regulations grant states the authority to either ban or conduct lotteries, and frame legislation to implement their respective decisions in line with the provisions of the central legislation. Privately-run lotteries are banned in India according to the regulations, making the lottery industry both operated and regulated by the same entity, which is the government.

Sectoral Gaps and Challenges

Thus, while India's lottery industry is regulated in terms of detailed Central and State legislations, regulatory gaps inhibit its modernization. Notably, both Central and State regulations offer a restrictive definition of online lottery which does not cover web/app-based lottery games that are available in the contemporary, digitized world. Further, there are lack of provisions relating to safe and responsible gambling, including the non-specification of a minimum age for lottery participation. In addition, there are inadequate disclosure and audit obligations that militate against transparency and result in a lack of accountability in lottery operations. India's lottery industry is impacted by operational gaps as well; it operates

at a much higher cost with low profit margins when benchmarked against world-best industry standards due to a complex operational structure (multiple operating bodies/regulations), reliance on paper-based lotteries (associated with greater financial mismanagement and losses), and inadequate utilization of digital platforms and technology.

The present lack of innovation and digitization places the Indian lottery industry behind its peers in other nations – particularly as the present operational model does not adequately leverage India's growing access to smartphones and cheap internet.



Recommendations

India's current regulatory framework and implementation model for lotteries has certain gaps which reduce its overall effectiveness in promoting a healthy lottery ecosystem. Going forward, India should pursue a range of regulatory reforms – such as expanding the definition of online lotteries within the regulations, developing stronger provisions for player protection (including prohibiting minors from participating and instituting grievance redress mechanisms), and ensuring adequate disclosures of lottery revenues and their planned utilization by government. Such reforms will help upgrade the efficacy and profitability of India's lottery system, aid responsible play, and enhance transparency about the potential for social sector funding through lotteries.

Operationally, there should be an expanded and clearly defined role for private entities in the operation of lotteries. An honest discussion about the possibility of privatization of the sector and whether FDI would then be allowed is also needed. At any rate, the role of government must be restricted to monitoring and supervising the transparent,

non-monopolistic, and responsible functioning of the sector, and to minimize any adverse societal fallouts, as in leading democracies the world over.

Further, to foster digitization of operations, State governments need to transition to account-based online lotteries on web and app-based platforms. Such a step would lead to greater transparency and efficiency as compared to paper lotteries bought and sold manually. Capacity-building of existing government personnel on new digital tools for effective monitoring of lottery operations, and of lottery distributors/sellers on compliance aspects, both need to be prioritized.

These reforms will be pivotal for ensuring the lottery sector's relevance in the wider context of digitization wherein bans are unimplementable unless one lives in an absolutist governance model. Free-market democracies with a social safety net should, by definition, regulate robustly and prioritize protecting the marginalized and susceptible. Bans don't serve that purpose.

A man with grey hair, wearing a white shirt with blue polka dots, is looking at a board of lottery tickets. The board is covered with many tickets, each with a number and a QR code. The tickets are held together by metal clips. The background shows a car and some greenery.

01

Introduction

1.1 Evolution of Lottery in India

The dictionary definition¹ of lottery is ‘a game, often organized by the state or a charity in order to make money, in which tickets with numbers are sold to people who then have a chance of winning a prize if their number is chosen.’

In a lottery, a person places a wager on an outcome that can win them money if the outcome does indeed transpire by chance. People purchase the ‘chance’, i.e. the lottery ticket, with the winner decided by a lucky draw from a pool of tickets. This makes the lottery a scheme where people participate in the draw hoping for personal gain in cash or kind. Lotteries offer pathways for participants to win huge amounts of funds (rewards) with relatively smaller levels of investment. At the same time, there is considerable risk

in placing financial wagers, given that the results of lotteries are purely based on chance, rather than skill. As a result, lotteries are often regarded as a regulatory challenge from a legal and moral perspective². Yet, lotteries present a paradox. Even while being variants of gambling, lotteries have been historically used to raise money for charity and even revenue for the state. Thus, apart from amusement and recreation, lotteries have been sources of revenue for welfare activity by the state globally.³

Lottery Systems in Colonial India

Betting and gambling have always been part of human civilization. India has a long history of playing ‘games of chance’, with perhaps the earliest instances of dice gambling being recorded

in the Ramayana and the Mahabharata.⁴ Instances of gambling also find mention in other ancient Indian texts such as Rig Veda, Atharva Veda, and Manusmriti.⁵

¹ English, C. A. (2017). Cambridge Dictionary. Retrieved from Dictionary. dictionary.cambridge.org/us/dictionary/english/teaching.

² Majumdar, B. (1975). Commentary on the Bombay Prevention of Gambling Act, 1887 (Bombay Act No. IV of 1887), as in Force in Maharashtra and Gujarat. Tripathi.

³ World Lottery Association. (2022). The WLA Global Lottery Data Compendium. Author.

⁴ Law Commission of India. (2018). Legal Framework: Gambling and Sports Betting including Cricket in India. Government of India.

⁵ Law Commission of India. (2018). Legal Framework: Gambling and Sports Betting including Cricket in India. Government of India.

In the colonial period, lottery systems were introduced in Goa by the Portuguese, and in Madras and Calcutta (present day Chennai and Kolkata respectively) by the British. In fact, the first instance of a State-run lottery being used to raise money for the treasury comes from Lord Macartney's government in Madras in the 18th century. In a similar vein, the Portuguese government in Goa used lotteries to raise funds for social welfare and in 1947, established the Provedaria da Assistancia Publica (Institute of

Public Assistance) to run lotteries on a monopoly basis and to coordinate various social welfare activities. Thus, lotteries were seen as mechanisms to raise public funds for socio-economic welfare in the colonial period.

This may have contributed to their exclusion from the provisions of the Public Gaming Act of 1867, which placed bans on other forms of public gambling and the keeping of gaming houses.

Lottery Systems in Independent India

After Independence, Kerala was the first State to introduce State-run lotteries in 1967, with two objectives – raising revenue for the State and providing employment opportunities to socio-economically weaker sections of society. Following Kerala's example, other States like Maharashtra and Tamil Nadu also

initiated State-run lotteries to raise funds for State-level socio-economic welfare, and to curb illegal gambling. At present, the sale of lottery tickets is legal in 10 States: Arunachal Pradesh, Goa, Kerala, Maharashtra, Meghalaya, Mizoram, Nagaland, Sikkim, Punjab, and West Bengal (as shown in Figure 1 below).

Figure 1: Indian States where sale of lottery tickets is legal.



Under online lottery systems, players can purchase computer generated tickets at lottery terminals where the information about the sale of a ticket and the player's choice of any particular number or combination of numbers is simultaneously registered with the central computer server.

Lotteries in India are governed by Central legislation – namely the Lotteries (Regulation) Act 1998⁶, and Lotteries (Regulation) Rules 2010.⁷ Section 2(b) of the Act governing Lottery defines it as ‘a scheme, in whatever form and by whatever name called, for distribution of prizes by lot or chance to those persons participating in the chances of (winning) a prize by purchasing tickets’.⁸ Further, ‘Lotteries’ fall under Entry 40 in List 1 (Union List) of the 7th Schedule of the Indian Constitution, while ‘Betting and Gambling’ fall under Entry 34 in List II (State List). Regulations prohibit private lotteries from operating in India. States can run their own lottery schemes as per the guidelines laid down in the Act and can also frame rules to carry out provisions of the Act, which leaves to the discretion of the State government to regulate, control, and promote lotteries or even ban them.

The Indian lottery market has traditionally been dominated by paper lotteries wherein tickets with pre-printed numbers are sold in kiosks at various locations, such as bus terminals, markets, and railway stations. The advent of the internet has taken lottery systems to online platforms – and has created a global market for lotteries. Online lottery is legal in some States like Sikkim, Nagaland, and Mizoram while it is banned in States like West Bengal and Kerala. Under online lottery systems, players can purchase computer generated tickets at lottery terminals where the information about the sale of a ticket and the player's choice of any

particular number or combination of numbers is simultaneously registered with the central computer server. But the manner in which online lotteries are conducted has undergone drastic changes in the last few decades – and has opened up possibilities for Indian players to sign up to online lotteries provided by global market players and online providers, even while residing in States where lotteries are banned⁹. Further, even though lotteries are tightly regulated by State governments - the entire operation is supervised and administered by directorates and agencies - in many cases licenses and contracts are given to private entities for distribution, marketing, and sale of tickets.

There is an urgent need to revisit the existing Lottery (Regulation) Act 1998 and the Lottery (Regulation) Rules 2010 in light of the changing sectoral landscape, with rapid digitization, increased internet usage and mobile phone penetration among Indians. Notably, the Lottery (Regulation) Rules 2010 was introduced when the number of smartphone users was barely 34 million (compared to over 1 billion in 2023)¹⁰. This calls for an in-depth examination of India's lottery regulatory frameworks – at the Central and State levels – to identify loopholes, to re-assess the effectiveness of blanket bans on lotteries, and to analyze the benefits of lotteries (such as being sources of State revenue) against their potential risks (such as financial loss, particularly for economically vulnerable households).

⁶ Lotteries (Regulation) Act. (1998). Government of India.

⁷ Lotteries (Regulation) Rules. (2010). Government of India.

⁸ Lotteries (Regulation) Act. (1998). Government of India.

⁹ Law Commission of India. (2018). Legal Framework: Gambling and Sports Betting including Cricket in India. Government of India.

¹⁰ Statista. (2023). Number of smartphone users in India in 2010 to 2023.

1.2 Objectives of the Research Project

This research project has the following objectives:

To assess the lottery market in India in the following aspects

- Potential market for lotteries in India in revenue terms.
- Potential revenue for government which can be used for social good.
- Potential for employment generation especially self-employment for marginalized section (unskilled, illiterate, physically disabled etc) with no requirement of formal education.

To review the existing regulatory framework for lotteries in India

and assess its effectiveness in the current age of digitalization and rapid increase in penetration of internet and cell phone users.

Through this scope, the research project seeks to interact with relevant stakeholders in the lottery eco-system to understand the effectiveness of existing regulations and their overall implications for the various players in the lottery industry. The evidence produced by this research project is expected to help ensure that regulations remain robust, relevant, and aligned with current sectoral requirements.

FOR YOUR SECURITY
This area is
under constant
CCTV
surveillance

മലയാളം
(C4464)
മണക്കാടി, തലശ്ശേരി-3
ഫോൺ: 9447686985
Manjodi, Thalassery



Two small blue and white notices or tickets are pinned to the board.



SOCIATES
Group of Companies

Stationery and office supplies on a blue metal stand:

- Clipboard with papers
- Stack of newspapers
- Small brown bag
- Pen and other writing tools



02

Approach and Methodology

2.1 Approach

The approach for conducting this research project is consultative and participatory – wherein key stakeholders (including expert groups, government officials and private enterprises) are consulted for their feedback and inputs on India's lottery regulatory frameworks and lottery market through semi-structured interviews.

An effort has been made to integrate diverse perspectives and opinions, thereby preparing a holistic and well-rounded evidence base on lottery regulations in India. Further, the approach (in figure 2) is utilization focused – and the final report shall be relevant for intended recipients i.e. key stakeholders in the lottery ecosystem, in addition to wider

networks and audiences. Lastly, the research project is based on mixed methods approaches, wherein both qualitative and quantitative data are collected from primary and secondary sources, analyzed, and synthesized to produce robust evidence on the effectiveness of lottery regulations, and on the wider socio-economic dimensions of the lottery market.

Figure 2: Approach

CONSULTATIVE AND PARTICIPATORY

Ensuring consultation with key stakeholders at every stage of the report, and consideration of the voices of diverse stakeholders (government officials at national and subnational levels, private enterprise etc.)



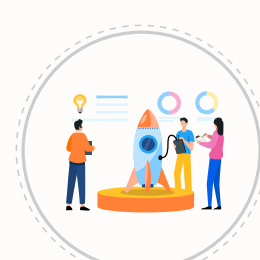
UTILISATION FOCUSED

The final report shall be relevant for intended recipients i.e. key stakeholders in the lottery ecosystem, in addition to wider networks and audiences.



MIXED METHODS

Triangulating both qualitative and quantitative evidence from primary and secondary sources. This will help to maximize the strengths of each data type, while offsetting the limitations of any one form of evidence.



APPROACH

2.2 Primary Research

The research project drew its evidence from both primary and secondary research. Primary research involved the following activities:

Stakeholder Mapping

Key stakeholders at the national and subnational levels were comprehensively mapped and purposively sampled. These key stakeholders included industry experts, representatives from private gaming enterprises, and officials from Lottery Directorates/agencies at the State-level.

Design of semi-structured interview tool:

A semi-structured interview tool was developed to gather information from the key stakeholders and was tailored to suit the requirements of different respondent types. For government stakeholders, the interview tool probed their experience of implementing the State-level lottery regulations, including the role of private players, online lotteries, technology, taxation, curbs on illegal lotteries and utilization of lottery funds for State-wide welfare. For other stakeholders – such as major private entities involved in organization and execution of State-run

lotteries, the tool probed the implications of State and Central regulations, information on the overall lottery market in India (revenue, employment etc.), the impact of digitalization and growth of online (web and app based) private lotteries on existing players, and the reforms required at policy level.

Conduct of semi-structured interviews

Semi-structured interviews were conducted using both online and in-person modes to gather primary data for this project. For the State-level government stakeholders, interviews were conducted in two States – Uttar Pradesh and West Bengal. Free, prior, and informed consent was obtained, and we have maintained the confidentiality of information and ensured the anonymity of participants to avoid harm. All staff and participants were aware of how and why personal data was collected, used, and stored.

2.3 Secondary Research

Secondary research involved systematically searching for and collecting a wide pool of secondary documents at three levels:

Government audit reports

Audit Report by CAG (Comptroller and Auditor General of India) on state lotteries of Sikkim, Nagaland, Mizoram, Kerala, West Bengal etc.

Parliamentary/Government reports

Parliamentary/Government reports: Lok Sabha debate on Lottery Regulation Bill of 1998, State and Centre regulation on Lotteries, Law Commission Report

(2018) on Gambling and Sport Betting, Standing Committee Report on Lotteries (Prohibition) Bill 1999, Assessment of Lottery Business (1991-92) Public Accounts Committee etc.

Other research reports

Published by leading industry associations; for example, FICCI report on Regulating Sports Betting in India) and reports by lottery associations, including the World Lottery Association (WLA).

Websites/Portals

State Lottery Directorate Websites, North American Association of State

and Provincial Lotteries, UK Gambling Commission, US State Lottery websites among others.

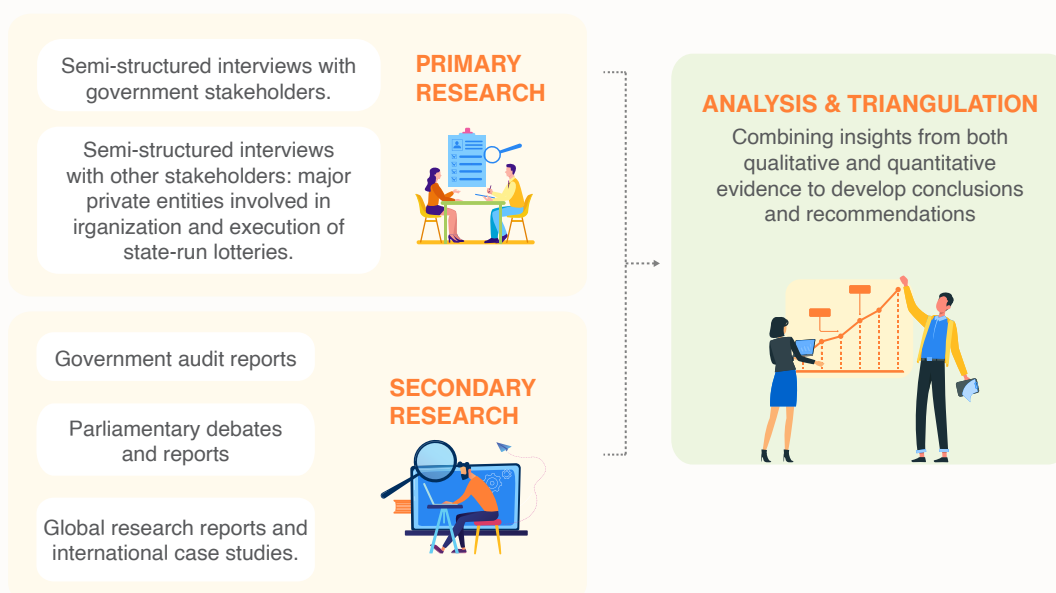
Secondary evidence was extracted from these sources in line with the research objectives and fed into the review of India's present regulatory framework (from the perspective of effectiveness and implications on various stakeholders), the review of international lottery regulations and best practices, and the estimation of India's overall lottery market.

2.4 Analysis and Triangulation

Evidence from primary and secondary research was analyzed and synthesized to develop preliminary findings and conclusions. The mixed-methods approach ensured that insights from primary and secondary sources were integrated into the analysis. Quantitative data helped estimate the Indian lottery market, its potential for revenue and employment generation, and the scope for social funding through lotteries. On

the other hand, qualitative evidence supported the analysis of the regulatory frameworks – including their legal, social, and economic implications. Sectoral gaps and challenges were identified through such evidence synthesis, which in turn, informed the development of future policy recommendations and reforms. Figure 3 describes the overall analysis and triangulation process for this report.

Figure 3: Methodology



A man with a beard and dark hair, wearing a brown and black plaid shirt, is looking down at a black smartphone held in his right hand. The background is a clear blue sky. A green rectangular overlay is in the top left corner, and a green triangular overlay is in the bottom left corner.

03

Results and Analysis

3.1 Global and Indian Lottery Market

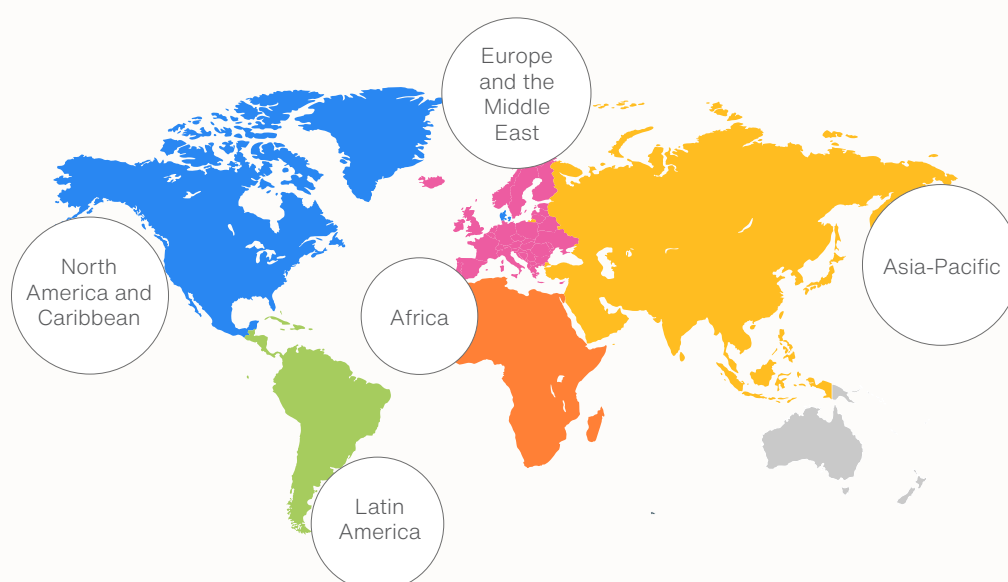
3.1.1 Global Lottery Market

The global lottery market was valued at \$300.6 billion in 2021 and is projected to reach \$430.4 billion in 2031, growing at a CAGR of 3.8 per cent from 2022 to 2031.¹¹

According to the 2022 edition of the WLA Global Lottery Data Compendium (GLDC), total sales for WLA member lotteries amounted to USD 339.9 billion in 2021, while in the same year, the total of funds returned to society came to USD 79.5 billion.¹²

Although overall sales in FY 2021 increased significantly from the 2020 figures, sales specifically over digital channels increased 44.6 per cent from FY 2020 to FY 2021; in FY 2021, the digital platforms accounted for 18.6 per cent of WLA Lottery Member sales world-wide.¹³

3.1.2 Regional Lottery Markets



Regionally, there are significant variations in lottery market size and trends, as captured in following Table 1

¹¹Allied Market Research. (2022). Global Opportunity Analysis and Industry Forecast, 2021-2031. Author.

¹²World Lottery Association. (2022). Global Lottery Data Compendium. Author.

¹³World Lottery Association. (2022). Global Lottery Data Compendium. Author.

Table 1: Lottery markets across major world regions.¹⁴

SI No.	Region	Key Trends
1.	Africa	<ul style="list-style-type: none"> Legal lotteries in African states are relatively new, and state-lotteries (which are WLA members) serve a population of 282 million people. In FY 2021, the lottery market in Africa had total sales of 3.5 billion USD and accounted for 0.9 percent of total global sales. Approximately, 700 million USD was routed to good causes from the lottery sales.
2.	Asia-Pacific	<ul style="list-style-type: none"> Comprising some of the most populous and fastest growing economies in the world, the Asia-Pacific is the largest regional market in the world. Total sales for 2021 amounted to USD 132.7 billion and increased by 13.9 per cent over the FY 2020 revenue period. This region accounts for over one-third of global lottery ticket sales. 29 billion USD was routed to good causes – and 63.9 per cent of this amount was directed towards state revenue/treasury.
3.	Europe and the Middle East	<ul style="list-style-type: none"> The lottery market of Europe and the Middle East is one of the most developed in the world. However, there is no harmonization of lottery rules across the EU's 27 countries – creating immense diversity in lottery organization and operation in the region.

¹⁴ World Lottery Association. (2022). Global Lottery Data Compendium. Author.

SI No.	Region	Key Trends
		<ul style="list-style-type: none"> Lottery sales in this region rose by 22.7 per cent between FY 2020 and FY 2021. The FY 2021 figures stood at 134.7 billion. Lottery funds amounting to USD 31.5 billion were routed to good causes.
4.	Latin America	<ul style="list-style-type: none"> Latin American lotteries are typically organized at the federal level, with Argentina, Colombia, and Venezuela being exceptions. Lottery sales in FY 2021 amounted to USD 5.7 billion and accounted for 1.5 per cent share of global sales. Funds routed for good causes amounted to USD 2 billion (for FY 2021).
5.	North America and Caribbean	<ul style="list-style-type: none"> Comprising the advanced industrial economies of USA and Canada, the North American lottery market is one of the most developed in the world. The US is the dominant stakeholder in this market. In FY 2021, year-on-year sales of North American lotteries increased by 20.1 per cent and amounted to USD 108.1 billion – thereby accounting for 28.1 per cent of all global sales. Approximately USD 30 billion has been routed to good causes from North American lottery systems – with education being the predominantly funded sector.

3.1.3 Lottery around Major Economies

United States of America

Within the US, there is presently no national lottery organization to regulate lotteries and establish common rules for their operation. Currently, government-operated lotteries are offered across 48 jurisdictions, 45 states, the District of Colombia, Puerto Rico, and the US Virgin Islands – and lotteries are subject to the specific laws of each state/ jurisdiction. States enact their own laws regulating lotteries, which are usually delegated to a special lottery board or commission to administer.¹⁵

Such lottery divisions are responsible for monitoring and supervising lottery operations like selection of license retailers, printing, and sale of tickets, redeeming winning tickets, assisting retailers in promoting lottery games, paying high-tier prizes to players, and ensuring that retailers and players comply with the lottery law and rules. During FY 2022, lottery sales in the US amounted to over \$107.9 billion.¹⁶

Lottery winning is taxed at both Federal and State level. Federal tax percentage ranges from 24 per cent to 37 per cent depending on the tax bracket while the State tax on the winning prize is in the range of 0-8 per cent (since in some states tax is not levied on winning prize). Revenue from lottery sales is spent on a range of socio-cultural causes including education, art, stadiums, and scholarships as per the State's laws and legislations. For instance, Pennsylvania uses its revenue from lotteries to support elderly citizens with rent rebates and property taxes. Some States have enacted provisions to help chronic gamblers who may suffer from a gambling addiction. For instance, Louisiana requires all lottery tickets to be printed with a toll-free gambler's assistance hotline phone number, and the State spends part of the revenue from lottery on addressing gambling issues. In a bid to promote responsible gambling, almost all States have banned the sale of lottery tickets to minors (below the age of 18 years).¹⁷



¹⁵ American Gaming Association. (2016). Responsible Gaming Regulations and Statutes. Author.

¹⁶ Public Gaming Research Institute. (2023). NASPL 2022 Sales Report. Author.

¹⁷ American Gaming Association. (2016). Responsible Gaming Regulations and Statutes. Author.

United Kingdom

In the United Kingdom (UK), the National Lottery began in 1994 and is presently regulated by the Gambling Commission. The Gambling Commission is responsible for ensuring that the interests of players are protected, that lotteries are operationalized as per law, and that returns to good causes are maximized.¹⁸ To ensure player protection, the minimum age for participating in a lottery has been set at 18 years, and there are controls placed on excessive play. The Commission grants licenses to the operators to run the National Lottery (and various games which are promoted under it). In FY 2021-22, National Lottery ticket sales totaled £8.1 billion, of which £1.7 billion was returned to good causes.¹⁹ The Gambling Commission allows 8 other

forms of lotteries (apart from the National Lottery) which have various purposes, including entertainment, private and commercial gain, and raising funds for good causes. These lotteries include private societies lottery, work lottery, customer lottery, incidental lottery, small society lottery, resident's lottery, and big society lottery. Money designated for good causes is passed on to the National Lottery Distribution Fund (NLDF), and funds within the NLDF are directed towards the arts (20 percent), sports (20 percent), national heritage (20 percent) and other charitable cause linked to health, education, and environment (40 percent)²⁰. Lottery winning is exempt from being taxed – however, taxes are charged on the interest accrued from prize money.

China

Gambling is banned in China. However, state-owned lottery companies are allowed to operate. Under China's lottery management rules, funds raised from ticket sales are used for administrative expenses and public welfare projects, and to fund prizes. The State Council is the highest lottery management department in China responsible for approving lotteries across the country. In addition, the Ministry of Finance is responsible for management and regulation of lotteries at the national level, and oversees the lottery sector by formulating regulatory, policy and legal frameworks. In China, welfare lotteries are regulated and administered by the Ministry of Civil

Affairs through Lottery Welfare Centers at the central, provincial and city level. Similarly, sports lotteries are run by the State General Administration of Sport. It is worth noting that China lacks a specialized body for regulating lotteries in the country. While the Ministry of Finance frames macro level policies for lotteries, the Ministry of Civil Affairs and State General Administration of Sport regulate, supervise, and manage funds of welfare and sports lotteries respectively. As in most nations, the sale of lottery tickets is prohibited for minors.²¹ In 2022, China recorded a 13.8 per cent increase in lottery sales, amounting to 63 billion USD.²²

¹⁸ National Lottery Act. (2006). British Parliament.

¹⁹ Gambling Commission. (2022). Industry Statistics. Government of the United Kingdom.

²⁰ National Lottery Act. (2006). British Parliament.

²¹ Wai Ming, Y. and Pan, C. (2020). Gaming in China: Overview. Thomas Reuters Practical Law.

²² State Council. (2023). People's Republic of China.

Box 1:

Problem gambling and pathological gambling.

Many major economies across the world have instituted mechanisms to eliminate lottery gambling addictions – such as through greater transparency, technological advances, and the creation of de-addiction centers. In these countries, problem gambling remains limited to only a small section of the population. Notably, lottery at-risk gambling rates in the UK are relatively low: The 2018 Household Survey of England (HSE) highlighted that 0.5 per cent of the population reached the threshold to be considered experiencing problem gambling, and that this proportion has remained relatively consistent since 2012. Further, 3.8 per cent of the population is classified as gambling at elevated risks, differentiated into low risk and moderate risk gambling. This means they might experience some level of negative consequences due to their gambling.²³ The UK evidence also highlights that gambling-related harm is influenced by cultural norms, so some gamblers and their close associates experience additional harm like shame and isolation for indulging in a ‘social evil’. Similarly, between 2 to 4 per cent of Americans struggle with problem gambling, wherein gambling causes harm to the gambler or someone else, despite a desire to stop playing. Problem gambling can progress to a recognized psychiatric diagnosis called pathological gambling, which currently affects between 0.4 to 2 per cent of Americans.²⁴ The relatively small proportions of the population affected by such gambling disorders suggest that the mechanisms instituted to tackle problem gambling across these two countries are effective in curbing this challenge, and in managing lotteries in a positive manner.

3.1.4 India’s Lottery Market

Estimates prepared by market experts shed some light on the size of India’s lottery market. According to Env Media, the overall market size of Government of India-run lotteries stood at INR 50,000 crore (USD 6.7 billion) pre-Goods and Services Tax (GST) i.e., in the late 2010s.²⁵ It is estimated that the introduction of the GST tax rate at 28% on full face value of tickets has led to massive

declines in the sales of lottery tickets affecting large numbers of small-scale distributors and retailers in the lottery industry. In addition, the COVID-19 pandemic-induced lockdowns also contributed to the industry’s decline. Globally, international lottery providers were able to transition to online platforms and retain industry profitability as more people stayed at home (during lockdowns) and

²³ Public Health England. (2018). Government of UK.

²⁴ National Institutes of Health. (2011). U.S. Department of Health and Human Services.

²⁵ Env Media Research. (2022). Dissecting the Indian Lottery Market. Author.

engaged in online lotteries. However, in India, this transition has not taken place – and the sale of lottery tickets were hampered by the closure of physical retail points managed

by State-run lotteries during the pandemic.²⁶ In addition, illegal competition is also seen as a factor contributing to the overall decline of India's State-managed lottery market.

Box 2:

Estimating current size of India's lottery market assuming lottery is operated at a pan-India level

Assessing the scope and size of India's lottery market assuming lottery is operated nationwide comes with certain challenges. For one, the scope and size of the Indian subcontinent makes the task complicated. While online lotteries have started to emerge, the bulk of Indian lotteries remain traditional paper-based ones. Indian State-level lotteries have still not completely digitized their operations; this, coupled with lack of publicly available data on sale of lottery tickets, revenues, and prize structures, complicates matters further. Against such a backdrop, it is challenging to accurately estimate and segment India's overall lottery market. While recognizing these challenges, we propose a methodology to estimate the current size of India's lottery market.

Source of data

Revenue and sales data from the State of Kerala is used as the benchmark to produce national estimates for India's lottery market, while making appropriate assumptions. Kerala, being the first State to operate a government-run lottery, generates significant revenue from the sector. Kerala earned Rs 9973 crores of non-tax revenue through lotteries in 2019-20 which is highest as per data available on official website of Kerala Lottery Directorate. Estimates suggest that tickets to the tune of 8 to 9 million are sold daily in a State with population of approximately 34 million. Around ten million tickets are printed daily by government. All these factors make Kerala a relevant benchmark to use for estimating the potential of the lottery market in India.

Ticket Sale

Annual per capita ticket sale is calculated for Kerala considering maximum non tax revenue generated in a FY, average ticket price at face value and population of the State. To calculate potential revenue from lottery at India level, per capita annual sale of lottery ticket from Kerala is taken as indicative value.

²⁶ Env Media Research. (2022). Dissecting the Indian Lottery Market. Author.

Ticket Price Calculation

The ticket price used for calculation considers ticket price of weekly draws (conducted in Kerala) at face value (retail price of ticket minus GST) and excludes ticket cost of bumper draws which are much higher but are conducted only few times during entire year on special occasions. Ticket price at face value for estimating Indian lottery market is set at 20 percent lower than in Kerala considering high per capita of the State and lottery already being very popular in Kerala.

Age Limit

Estimate of market size of lottery in India is provided for both conditions, one where there is no criterion for age limit when it comes to participation in lottery game and other where minors (age less than 18 years) are prohibited. At present roughly 69 per cent of India's population falls in the adult category (age 18 or more).

Taxes

Currently 28 per cent GST is levied on full face value of ticket. Total revenue is calculated based on retail price of ticket i.e total sales multiplied by retail price of ticket. Non-Tax revenue estimate excludes GST component and is calculated based on face value of ticket i.e total sales multiplied by face value of ticket. In other words, total revenue at retail price can be arrived at by adding 28% GST on non-tax revenue.

Kerala Lottery Market

Total non-tax revenue calculated on face value of ticket (in Rs crores, 2019-20)	9973
Average ticket cost at face value (in Rs)	32
Annual ticket sales (in crores)	311.7
Total lottery revenue in crores (calculated at retail price of lottery ticket Rs@40)	12468
Total population (in crores)	3.4
Annual per capita ticket sale	92

Estimates of Indian Lottery Market

Total population (in billion)	1.3
Estimated annual per capita ticket sale (as per calculation from Kerala figures)	92
Estimated total ticket sales (in billion)	119.60
Estimated cost per ticket at face value (in Rs)	26
Estimated Retail price of ticket in Rs (Face value + 28% GST on Face Value)	33.28
Total revenue potential calculated on retail price (in billion Rs)	3980
Total non-tax revenue potential for government calculated at face value of ticket (in billion Rs)	3109.4
Estimated revenue potential calculated at retail ticket price (in billion USD)	48
Estimated revenue potential at retail ticket price (in billion USD) if minors are prohibited	33.2
Estimated total non-tax revenue for government calculated at face value of ticket (in billion USD)	37.4
Estimated non-tax revenue for government calculated at face value of ticket (in billion USD) if minors are prohibited	25.9

Source of Kerala revenue data: <https://www.statelottery.kerala.gov.in/index.php/revenue-collection>

Limitations of the methodology

- The lack of reliable, publicly available lottery data on revenue, sales, prize structures etc from other States makes the estimate less sensitive.
- The estimation covers only paper-based lotteries since Kerala only operates paper lotteries. Paper lotteries are the most dominant form of lottery in India, due to factors including the digital divide, reliance on physical retail points for purchasing lottery tickets, and some key states banning online lotteries (Eg. West Bengal, Punjab, Maharashtra and Kerala).

3.2 Potential for Social Funding through Lottery

3.2.1 Potential for Employment and Revenue Generation

Globally, the lottery industry contributes to employment generation for a range of workers across diverse functions, including the overall management of lotteries, printing, and distribution of tickets, conducting draws, disbursing prize amounts, and monitoring operations. Within India, the lottery industry is associated with the creation of employment across multiple industries, including paper, ink, and printing industries.²⁷ In fact, when the Lottery Prohibition Bill 1999 (which sought to place bans on all forms of lottery) was tabled in the Rajya Sabha, it received significant opposition from a range of State-level representatives who highlighted the value of lottery schemes in generating employment within their States.²⁸ Notably, representatives of North-Eastern States - Meghalaya, Arunachal Pradesh, Mizoram, and Sikkim – highlighted their dependence on lotteries for generating State revenue, which was particularly heightened in a context wherein they were unable to raise funds from other sources. Similarly, representatives from other States like Goa, Maharashtra, Punjab, and Jammu and Kashmir iterated that a blanket ban would reduce

employment generation opportunities while leading to the proliferation of illegal gambling. Further, stakeholders from the All-India Security Printers' Association asserted that banning the lottery would lead to the loss of jobs for over 15,000 skilled, semi-skilled, and unskilled workers, and would cost State Governments INR 150 crore in the form of taxes lost.²⁹

In addition, the lottery is an important source of State revenue. As per the 2021-22 budget estimates, the top 5 states with highest revenue collection from state lotteries are – Kerala (INR 6974 crores), Punjab (INR 247 crores), Maharashtra (INR 49 crores), Goa (INR 43 crores) and Mizoram (INR 35 crores).³⁰ Kerala's case is particularly noteworthy. In Kerala, the lottery is a major industry within the State economy. It is estimated that the Kerala government's non-tax revenues from lottery ticket sales increased from 13.4 per cent in FY 1981 to 80.5 per cent in FY 2017.³¹ It is also expected that Kerala will be able to collect over INR 10,000 crore in revenue from lottery operations in the coming years. Similarly, the Lottery

²⁷ Env Media Research. (2022). Dissecting the Indian Lottery Market. Author.

²⁸ Law Commission of India. (2018). Legal Framework: Gambling and Sports Betting including Cricket in India. Government of India.

²⁹ https://prsindia.org/files/bills_acts/bills_parliament/1999/scr1190969122_The_Lotteries_Prohibition_Bill_1999.pdf

³⁰ <https://rbi.org.in/Scripts/AnnualPublications.aspx?head=State%20Finances%20:%20A%20Study%20of%20Budgets>

³¹ <https://www.livemint.com/money/personal-finance/lotteries-can-work-for-one-in-a-million-but-most-of-us-need-to-have-a-plan-11599756697813.html>

Directorate in West Bengal reports ticket sales of 60 million per draw.³² Key informant interviews conducted with State officials in West Bengal highlighted that the State government views lotteries as an important source of revenue for the State, with average profits from the sale of lottery tickets accruing at the rate of 8-10 per cent. Such instances highlight the strategic and financial importance of this industry for revenue generation across States.

It is estimated that Kerala State Lottery provides livelihood opportunity to close to 1.5 lakh people.³³ With potential revenue for lottery at national level at 26 billion USD, employment can be generated to the tune of millions directly or indirectly. The bulk of the employment will be generated in form of agents/vendors selling lottery

tickets on commission basis with additional income if the lottery ticket sold wins prize money.

There is no requirement of formal education to be a ticket vendor/agent, making it a viable economic opportunity for marginalized sections of society (women, physically disabled, illiterate, unskilled citizens et.al.). The lottery industry also supports allied industry like paper and printing presses, generating significant employment for skilled and semi-skilled personnel. India suffers from a high unemployment rate at 7.33%³⁴ (2022) and can find a viable solution in form of lottery generated self-employment opportunities for people at a large scale across India who otherwise may find it difficult to enter the job market due to lack of formal education and/or other disadvantages.



³² Env Media Research. (2022). Dissecting the Indian Lottery Market. Author.

³³ <https://theprint.in/feature/selling-dreams-to-small-people-keralas-lottery-system-powers-ambition-addiction/1483197/>

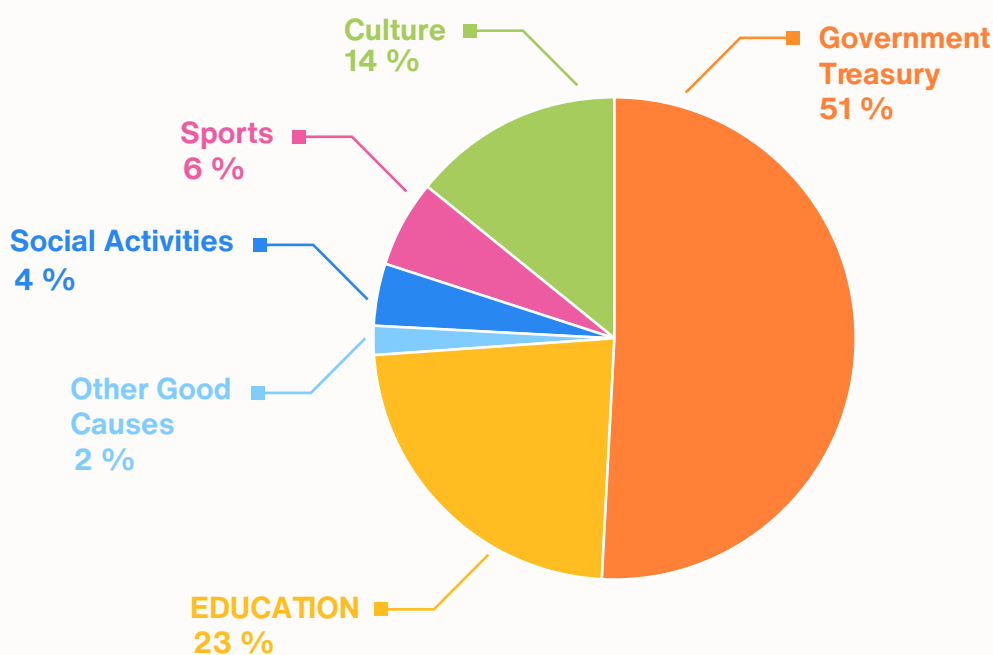
³⁴ <https://www.forbesindia.com/article/explainers/unemployment-rate-in-india/87441/1ent> Rate In India (2008 To 2023): Current Rate, Historical Trends And More - Forbes India

3.2.2 Potential for Funding Social Causes

Linked to the generation of State revenue, proceeds from the lottery industry have been used to fund social and cultural causes across the world. In FY 2021, USD 79.5 billion from the global lottery industry was earmarked for social causes – representing a 4.8 per cent increase over the previous year.³⁵ This implies a return of 23.4 cents to society, per dollar of lottery ticket sales.³⁶ Breaking down

these figures further, it is estimated that about half (51 per cent) of the funds for social causes from global lottery sales were directed to various government treasuries, while close to a quarter of the funds (23 per cent) were invested in education initiatives. The remaining funds were directed towards culture, sport, social activities, and other good causes (as shown in Figure 4).

Figure 4: Lottery funds for social causes



In addition, lottery operators across the world have also been able to promote social causes through their Corporate Social Responsibility (CSR) commitments. In 2020, the

WLA conducted a survey of WLA member lotteries and highlighted that 90 per cent of the respondents had CSR initiatives that went beyond the scope of responsible gaming. In

³⁵ World Lottery Association. (2022). Global Lottery Data Compendium. Author.

³⁶ World Lottery Association. (2022). Global Lottery Data Compendium. Author.

terms of program maturity, most of the respondents revealed that their CSR programs have been operational for three to ten years, and 30 per cent specified that their CSR program has been operating for ten or more years. This would indicate that a significant number of WLA members indeed have a CSR program that has reached a fairly high level of maturity and goes beyond responsible gaming. CSR initiatives were found to be aimed at a range of issues, including consumers' health and safety, employment creation, skilling, and environmental preservation.³⁷

Such estimates highlight the ways in which the lottery industry is able to positively influence socio-economic outcomes and provide funds for areas requiring investment (including education and health). In the Indian context, the funds generated from lottery sales have been used to fund various State-level development projects. For instance, in Kerala, several social welfare programs are funded through the revenue and contributions of the lottery industry. In Maharashtra, the funds from State-run lottery schemes have been used to finance various development projects – including health, infrastructure, agriculture, and education projects, and particularly to protect the interests of women and children. The Mizoram Lottery Regulation Rules 2019³⁸ allow reputable private organizations to conduct lotteries on the condition that the lottery is organized only for charitable purposes, and that the prizes are distributed in kind and not in cash. It also mandates that the

profits from the lottery are to be used for charitable purposes.

Estimates as per our calculation suggest that India's lottery market annually stands at USD 33 billion if minors (individuals below 18 years of age) are prohibited. A significant portion of the government's total pool of funds for social causes can come from the profits and taxes earned from operating lotteries. Potential non-tax revenue (total revenue excluding indirect tax in form of GST) that can be potentially earned by government stands at 26 billion USD if lotteries are operated at a pan-India level prohibiting minors from participation. Assuming profit at 16% on non-tax revenue (based on average of last 5-year profit generated by Kerala³⁹) and 28% GST received on full face value of ticket (retail price minus GST) estimated earnings for government are as follows –

Total earnings (USD billion) =
16% of USD 26 billion (through profits)
+ 28% of USD 26 billion (through GST)
= USD 11.4 billion

(* Apart from profit and indirect tax in form of GST, another possible source of earning for government is through income tax (direct tax) applicable at 30% flat on total lottery winning amount above threshold (Rs10,000) along with applicable cess which would amount to millions of dollars for government in a given FY)

³⁷ World Lottery Association. (2020). Taking CSR beyond responsible gaming. Author.

³⁸ Mizoram Lottery (Regulation) Rules. (2019). Government of Mizoram.

³⁹ <https://www.statelottery.kerala.gov.in/index.php/revenue-collection>

To put this number into perspective table below illustrates budget outlay for major government schemes for the FY 2023-24 (as per Budget estimates) -

Name of schemes	Outlay as per Budget Estimates 2023-24 (In Billion USD) ⁴⁰
MNREGA	7.2
Jal Jeevan Mission (JJM)/National Rural Drinking Water Mission	8.4
Ayushman Bharat - Pradhan Mantri Jan Arogya Yojna (PMJAY)	0.86
National Health Mission	4.5 (Approx)
National Education Mission	4.5 (Approx)

Multiple government schemes/ programs can be entirely funded through revenue generated from lotteries in form of profits and tax

collection if lottery is operated at pan-India level with adequate regulatory and operational reforms.

3.3 Review of Regulatory Frameworks in India

3.3.1 Overall Legislative Framework

Despite its apparent similarity, the lottery was excluded from the ambit of betting/gambling in the Indian legal system. The legislative field with respect to lotteries organized by the Government of India or the Government of a State falls under Entry 40 of the Union List, and 'Betting and Gambling' falls under Entry 34

of the State List. Under clause (1) of Article 246 of the Constitution, the Parliament is competent to make law qua lotteries organized by the Government of India or the Government of a State; and under clause (3) thereof a State Legislature is competent to make law qua betting and gambling within the State⁴¹.

⁴⁰ https://www.indiabudget.gov.in/doc/Budget_at_Glance/bag7.pdf

⁴¹ Law Commission of India. (2018). Legal Framework: Gambling and Sports Betting including Cricket in India. Government of India.

3.3.2 Central Regulatory Frameworks

The 1998 Act defines 'lottery' as scheme, in whatever form and by whatever name called, for distribution of prizes by lot or chance to those persons participating in the chances of (winning) a prize by purchasing tickets.'

Three decades after the introduction of first State-run lottery in India by Kerala, legislation was brought at the central level to regulate lotteries in the year 1998. Central legislations governing lotteries in India are the Lotteries (Regulation) Act 1998⁴² and Lotteries (Regulation) Rules 2010.⁴³ The 1998 Act defines 'lottery' as scheme, in whatever form and by whatever name called, for distribution of prizes by lot or chance to those persons participating in the chances of (winning) a prize by purchasing tickets.'

Under the central regulations, private lotteries are not allowed to operate in India. States can run their lottery schemes as per the guidelines laid down in the Act and can also frame rules to carry out provisions of the Act. It leaves the discretion upon the State Government to regulate, control, and promote lotteries, or ban them altogether. The Act empowers States to frame their legislations to regulate, control and promote paper and online lotteries (or ban them altogether), and includes provisions related to the following aspects:

Procedure to decide winner:

Prizes shall not be offered on any pre-announced number or based on a single digit, double- or triple-digit lottery.

Frequency of draws:

No lottery shall have more than one draw in a week or total draws from all schemes should not exceed 24 in a day.

Location of draws:

The place of draw shall be located within the State concerned, and the State Government itself should conduct draws for all lotteries.

Printing of lottery tickets:

The State Government shall print the lottery tickets bearing the imprint and logo of the State in such manner that the authenticity of the lottery ticket is ensured. Printing should be done at a Government Press, or any other high security Press included in the panel of the Reserve Bank of India or the Indian Banks' Association, Mumbai.

Distribution of lottery tickets:

The State Government shall sell the tickets either itself or through distributors or selling agents hired as per the regulations defined in their respective State legislation on lotteries. The rules specify the responsibilities of selling agents/agencies including maintenance of record of sold tickets, returning unsold tickets, providing challans of money deposited in Public Ledger Account or in the Consolidated Fund of the organizing State through the sale of tickets.

Audits:

The organizing State shall conduct an annual financial and systems audit of the various lottery schemes organized by it including online lottery. The Union government can conduct a special audit through CAG, or any other agency appointed by it.

⁴² Lotteries (Regulation) Act. (1998). Government of India.

⁴³ Lotteries (Regulation) Rules. (2010). Government of India.

Revenue:

The proceeds of the sale of lottery tickets shall be credited into the public account of the State or Consolidated Fund of the State.

Prohibition of sale of lottery ticket:

The Act requires the State to bring to the notice of the Union government any violation of lottery regulation rules by the organizing State. Centre after due consideration shall take action which can include a ban on the sale of lottery tickets by the organizing State.

In addition, there are other statutory provisions related to the lottery – as listed in Table 2.

Table 2: Statutory provisions related to lottery.⁴⁴

Indian Penal Code:	Section 294 A prohibits keeping an office or place for the purpose of drawing lotteries except state lottery or state authorized lottery.
The Indian Contract Act, 1872 (Contract Act):	Section 30 states that an agreement by way of wager is “void and unenforceable, but at the same time it is not forbidden by law and hence, cannot be termed illegal. In such a situation, no suit can be brought to enforce any winnings accruing out of winning a bet or gamble.
Foreign Exchange Management Act, 1999:	Remittances of Income from lottery winnings, racing/riding, sweepstakes etc. are prohibited under the Act. Foreign direct Investment and investment by a person resident outside India is prohibited in lottery.
Payment and Settlement Systems Act, 2007:	The Reserve Bank of India is the sole authority in India to regulate all forms of electronic payment under the Act, 2007. Any payment system or clearing house with majority of the equity held by a foreign bank requires prior authorization of the RBI to operate in India. Powers under this act can be used to curb illegal online lottery operators based within India or offshore.
The Young Person’s (Harmful Publications) Act, 1956:	Any literature related to gambling and betting activities, that may adversely influence “young persons”, would attract the relevant provisions of this Act.

⁴⁴ Law Commission of India. (2018). Legal Framework: Gambling and Sports Betting including Cricket in India. Government of India.

The Prevention of Money Laundering Act, 2002:	All entities offering games to be played for cash or its equivalent, whether online or offline, are required to adhere to the provisions of the Act and The Prevention of Money Laundering (Maintenance of Records) Rules, 2005. It requires “reporting entities”, as defined to include “a person carrying on activities for playing games of chance for cash or kind, and includes such activities associated with casino” to maintain records of transactions and documents showing the identity of their clients in accordance with the 2005 Rules. These rules prescribe the nature as well as value of the transactions for which such records are to be maintained.
Information Technology (Intermediaries Guidelines) Rules, 2011:	It require ‘intermediaries’ like internet service providers, network service providers, search engines, telecom operators etc. not to host or transmit any content which inter alia relates to or encourages gambling.
The Cable Television Network Rules, 1994:	The Cable Television Network Rules prohibit the advertisement of gambling activities. However, advertisement related to games of skills, such as horse racing, rummy, and bridge, is not prohibited.
Income Tax Act, 1961:	Provision for Tax Deduction at Source (TDS) (30 percent of winning amount plus applicable cess, and surcharge) in cases of winnings from lotteries, crossword puzzles, card games or any other games and horse races.
The Consumer Protection Act, 1986:	Organization of any contest, lottery, game of chance or skill, for the purpose of promoting, directly or indirectly, the sale, use or supply of any product or any business interest falls in the ambit of unfair trade practices.
CGST Act 2017:	State legislatures have the power to tax lotteries under Entry 62 of the State List thus before passing of CGST sale of lottery tickets attracted sales tax as applicable in each state. Currently under CGST, lottery tickets attract 28 percent rate on entire face value of ticket. This high taxation of lottery ticket is owing to lottery falling under category of game of chance thus making it a form of gambling and betting.



3.3.3 State-level Regulatory Frameworks

While the Lottery (Regulation) Act 1998⁴⁵ and the Lottery (Regulation) Rules 2010⁴⁶ provide an overarching framework for implementing lotteries across the nation, Section 12 of the 1998 Act allows State Governments to frame specific legislations to conduct and organize state lotteries as per the provisions laid down under the Act and Rules. In addition, while private lotteries are banned in India, the State Government can appoint private players to run their lottery which involves distribution, marketing, and sale of tickets. Dedicated government directorates under finance department are established at the State level to monitor the overall lottery operations and execute key operational responsibilities directly like printing of tickets, running of draws, management

of sales proceeds, disbursal of prize money etc.

Across the States where lottery is legal, there are broadly two categories of draws namely regular and bumper. While regular draws take place daily and sometimes more than once in a day, bumper draws are rarer taking place only few times in a year on special occasions. Both ticket price and prize are modest in case of regular draws while bumper draws carry huge cash award.

North-Eastern States running online lotteries offer more innovative game formats like Keno and Lotto which are popular forms of lottery games played internationally. Any form of single/double/triple digit lotteries

⁴⁵ Lotteries (Regulation) Act. (1998). Government of India.

⁴⁶ Lotteries (Regulation) Rules. (2010). Government of India.

are prohibited to operate in India. Meghalaya, Nagaland, Mizoram, Goa,
Presently, lottery is legal in 10 States Kerala, Maharashtra, Punjab, and
- Arunachal Pradesh, West Bengal, Sikkim.

After reviewing the State-level regulations, we have identified some key features/ dimensions that are common to the lottery regulations across these 10 States (shown in Table 3).

Table 3: Key features of State-level regulatory frameworks⁴⁷

S. No.	Key Area of Operation	Description
1.	Scope of Lottery	<ul style="list-style-type: none"> Publishing of lottery scheme with relevant information as prescribed in Lottery Regulation Rules 2010 (Sec3.3) in the official gazette. The frequency of draw as per central legislations. Type of lotteries allowed/ prohibited (for ex single/ double/ triple digit lottery, private lottery). Authority to hire private distributor/ marketing agent for distribution and marketing of state lottery. Distributors/ Marketing Agents should conform to provisions of central and state legislations.
2.	Infrastructure	<ul style="list-style-type: none"> The State Government is responsible for providing adequate infrastructure and its supervision to conduct lotteries through Directorate or any other appointee. The procurement of draw machines to be based on mechanical methods or random technology which is transparent.
3.	Appointment / Termination of Distributors	<ul style="list-style-type: none"> Formation of tendering/screening committee for floating RFPs/EOIs and its screening of bids.

⁴⁷ Collated through a review of State-level lottery regulatory frameworks for Arunachal Pradesh, West Bengal, Meghalaya, Nagaland, Mizoram, Goa, Kerala, Maharashtra, Punjab, and Sikkim.

- The State Government is authorized to specify eligibility criteria for distributors, procedure of tendering, document/security requirement for successful bidders, terms of engagement (commission rate, penalty in case of no- compliance or damages because of it etc.) which is transparent.

4. Printing/Sale of Ticket

- Printing of paper lottery or stationery on which online lottery is issued as per the provisions of Central legislations (printing in government or high security press, state logo on ticket along with the signature of the Director of the State Lottery, MRP, Lottery No., date and time).
- Procedure of sale of tickets to distributors/ marketing agents (sale of ticket against security deposit, place of delivery to distributors from government etc.)
- Steps to be taken in case of loss of tickets during transit (ex-intimation to director, publication in newspapers etc.)
- Ensuring sale of ticket is not made in States which have banned lottery.

5. Draw/ Publication of Results

- Formation of draw committees to conduct draw under supervision of the Directorate within geographical boundaries of the State.
- Directorates to keep a record of tickets printed, issued for sale, sold, unsold and prize-winning tickets.
- No prize to be decided based on single/ double/triple digit lottery.
- Publication of result in newspaper (national and state).

6. Payment of Prizes

- Submission of prize-winning tickets by distributors.

		<ul style="list-style-type: none"> • Specification of timelines for claiming prize from date of days. • Payment of claims above a certain threshold (generally above INR 10,000) to be made after furnishing required documents to director lotteries after TDS deduction. • Payments of claims below a certain threshold (generally INR 10000 or less for which no TDS is done) can be made by distributors directly for which reimbursement will be made by the government after authentication of the prize-winning tickets. • In case a minor becomes the winner of lottery then in that case prize money will be given to his/her natural guardian after due verification by the Director of the State Lottery.
7.	Payment of Proceeds and Minimum Guarantee Revenue	<ul style="list-style-type: none"> • Distributor to deposit sale proceed to the Government calculated based on face value of ticket and quantity of tickets sold within prescribed period from the date of draw. • Deposit of unclaimed prize money by distributor to government after verification of prize-winning tickets. • Distributor to deposit Minimum Guarantee Revenue (as per Lottery (Regulations) Rules 2010, Sec 3.11) as set by government within specified time. • Printing charges are to be borne by the Government.
8.	Disposal of Lottery	<ul style="list-style-type: none"> • The distributor shall submit unsold tickets to the Directorate after each draw within a specified period which then shall be disposed of in the manner as specified by the Director/State Government.
9.	Audit	<ul style="list-style-type: none"> • State Government to undertake annual system and financial audits of the lottery operation by hiring chartered accountants.

a system created to permit players to purchase lottery tickets generated by the computer or online machine at the lottery terminals where the information about the sale of a ticket and the player's choice of any particular number or combination of numbers is simultaneously registered with the central computer server.

Coming to online lotteries, they are defined in the Lottery (Regulation) Rules 2010⁴⁸ as '*a system created to permit players to purchase lottery tickets generated by the computer or online machine at the lottery terminals where the information about the sale of a ticket and the player's choice of any particular number or combination of numbers is simultaneously registered with the central computer server.*'

This definition of online lottery only covers cases wherein the buyer visits an authorized lottery terminal (which is managed and supervised by the Lottery Directorate) for purchasing lottery tickets. However, this definition does not account for web-based and app-based lottery schemes where an e-ticket can be generated.

There is considerable divergence in paper and online lotteries across various States. While States like Kerala and West Bengal solely run paper lotteries, others like Goa, Mizoram, Nagaland, Sikkim, and Arunachal Pradesh run online lotteries. In fact, States like Goa and Sikkim have special legislations catering to online lotteries, namely Goa Online Lottery Rules 2023⁴⁹ and The Sikkim Online Network Lottery Rules 2001⁵⁰. According to the Goa Online Lottery Regulation 2023,⁵¹ a ticket is defined both in electronic form (an e-ticket) and in printed form (via a Lottery Point of Sale Terminal). Through such a definition, Goa became the first State to expand definition of online lottery to include e-tickets, which is a much-needed step keeping in mind the current age of digitalization and penetration of smartphones. Such

provisions empower the government of Goa to regulate all forms of online lottery, considering that much of the offshore illegal lottery is operated through app or web-based platforms.

In other states, the absence of a comprehensive definition, or the presence of a restrictive definition of online lottery and ticket is a regulatory gap. Such a gap renders State governments incapable of regulating new forms of lottery emerging in the current age. It also prevents State governments from modernizing and revamping current modes of lottery operation in favor of greater transparency, player protection etc. Key informant interviews with State-level officials in West Bengal offered alternate perspectives on online lotteries. These officials confirmed that West Bengal had banned online lotteries on two counts: First, the technology and equipment used in online lotteries was prone to fraud and manipulation and was therefore not trustworthy. Secondly, a significant section of West Bengal's population resides in rural areas, is not educated, and lacks digital literacy. These factors would potentially make this population group vulnerable to fraudulent practices. To avoid vulnerable sections of the populace from getting exploited through online lotteries, the decision to ban them was taken, officials said, claiming that there was minimal prevalence of illegal offshore lotteries within the State.

In November 2019 a report by Internet & Mobile Association of India (IAMAI) reported that rural India has 227 million active internet users, which is

⁴⁸ Lotteries (Regulation) Rules. (2010). Government of India.

⁴⁹ Goa Online Lottery Rules. (2023). Government of Goa.

⁵⁰ Sikkim Online Network Lottery Rules. (2001). Government of Sikkim.

⁵¹ Goa Online Lottery Rules. (2023). Government of Goa.

10 per cent higher than those in urban India, which is around 205 million.⁵² This rapid penetration of internet due to cheap smartphone and data packs has fueled online gaming in India including in rural areas with an estimated 500 million gamers in India at present according to Lumikai's State of India Gaming report FY22. Estimates are that there has been 650% increase in UPI (Unified Payment Interface) transactions in rural and semi-urban areas for the year 2022⁵³.

Digitally active rural India is expected to contribute the lion's share in online gaming in the coming years. If State governments running lotteries fail to leverage digitalization of rural India and offer safe gaming options in the lottery space, they may potentially cede this ground to illegal offshore entities. This will not only lead to loss of potential revenue for the State but may expose players to financial frauds and unsafe gaming options offered by unregulated entities.

Box 3:

Ban versus Regulation

There have been several debates relating to the moral and socio-economic implications of lottery systems within the Indian context. Certain stakeholders/groups have advocated placing a blanket ban on the lottery in India, by terming it a **social evil**. For instance, a five-judge constitutional bench of the Supreme Court in *R.M.D. Chamarbaugwalla v. Union of India* observed that lottery encourages the spirit of recklessness and the propensity to make quick gains by chance - at the cost of hard-earned money especially by the poorer sections of society. This in turn leads to **indebtedness and financial bankruptcy**, ultimately resulting in destruction of households and families. Further, the Parliamentary Debate on the Lottery (Regulation) Act 1998 revealed that many legislators viewed lotteries as a social evil capable of destroying households, especially poor families which are more prone to being lured to quick riches in the hope of improving the quality of their lives. This view was echoed in the key informant interviews conducted with State officials in Uttar Pradesh, who confirmed that State-level lotteries had been banned after gambling-induced bankruptcy and suicides increased across poor households, and particularly at the request of the female members of families. These officials also confirmed that at present, there are no proposals or discussions to revive the State-run lottery in Uttar Pradesh. Addiction to wagering in form of lottery is often accompanied by other vices – such as addiction to alcohol and/or drugs, and greater propensity to violence – thus exacerbating the negative perceptions around lottery. Proponents of

⁵² In India, rural gaming base could soon surpass urban cities – ThePrint – ValueAd Initiative

⁵³ https://www.business-standard.com/article/companies/upi-transactions-see-650-rise-at-semi-urban-rural-stores-report-122120600386_1.html

banning the lottery also argue that in the present landscape of increasing digitization and proliferation of online lotteries, the risks of gambling addiction and financial loss are even higher.

Proponents of legalizing lotteries nationwide argue that it is a **social equalizer**- wherein both the rich and the poor have equal chances of winning. Further, the comparatively low barrier to entry (low price of lottery ticket) enables people from even the lowest rungs of the socio-economic ladder to participate in and win from lotteries. In addition, lottery advocates also highlight that lotteries help to **generate revenue for State Governments** in India (to be invested in various socio-economic causes such as education and health (as highlighted in Section 3.2). The Lottery Prohibition Bill 1999 – which sought to ban all forms of lottery – ran into opposition from various State governments who argued that the funds from the State-run lotteries were being used to **provide employment** across various industries and was helping to fund State initiatives in a range of socio-economic domains. These States highlighted that banning lotteries would negatively affect the employment potential (across skilled, semi-skilled, and unskilled workers) within their States, and also affect their ability to raise funds for public reforms/initiatives.

Given the mixed nature of evidence surrounding lotteries, Indian lawmakers have taken a **pragmatic approach** – by placing ‘Betting and Gambling’ within the State List, and empowering State Governments to regulate lotteries as per their socio-economic needs and context. Such an approach engages with the socio-economic risks associated with the lottery and prevents it from being unregulated or being run by the black market. This in turn offers players protection, transparency, and fair play – and empowers victims of fraud to seek help from law enforcement agencies.

In examining the trade-offs between bans and regulations, it is, however, critical to **assess the feasibility of bans**. In the current age of digitalization and online gambling, a blanket ban has become even more difficult to enforce. Offshore online lotteries operating outside the jurisdiction of the Indian regulatory apparatus pose significant challenges. Indian lottery legislations are clear when it comes to online/offline lottery but unclear on issues related to participation in online lotteries offered by offshore entities through web or app-based platforms. The experience of certain States banning the lottery also highlights **gaps in the effectiveness of bans**. For instance, Tamil Nadu banned the lottery in 2003 citing the immense socio-economic costs associated with the lottery. However, some reports suggests that lottery trade with a daily turnover of INR 10 crore is currently taking place illegally in Tamil Nadu ([Link to article](#)). Further, illegal single, double- and triple-digit lotteries are rampant in the State. Illegal lottery trade is conducted by smuggling in lottery tickets from Kerala – the serial number of Kerala State lottery

tickets is received through email or SMS which is then passed on to distributors in Tamil Nadu who print and distribute tickets. This highlights the loopholes in placing bans and the potential loss of lottery revenue for Tamil Nadu. Similarly, Karnataka banned the lottery in 2007, but in 2015 the State Government entrusted the Central Bureau of Investigation to investigate the flourishing illegal lottery trade in the State. In essence, banning any activity or trade puts additional administrative burden on the State and requires allocation of additional resources by it for enforcement, all the while earning no additional revenue. On the other hand, effective regulation of lottery protects players' interests, provides a framework for grievance redressal, ensures fair play, and provides the State Government an opportunity to earn much-needed revenue.

(Link to article -. Illegal lottery thriving in Tamil Nadu despite 2-decade old ban | G2G News)

Box 4:

Law Commission Report on Gambling and Betting (2018)

The Law Commission of India (Chair: Justice B.S. Chauhan) submitted its report on July 5, 2018, examining whether betting may be legalized in India. The commission stated that while banning betting and gambling is the ideal solution but it's difficult to prevent these activities. Therefore, it is advisable to regulate these activities. The Commission also issued an appeal to various stakeholders to share their opinion on the issue. The overall response from various stakeholders was as follows –

Advocates were in favor of legalizing betting and gambling with adequate regulation.

The State Government of Uttar Pradesh was against legalization of betting and gambling while the **State Government of Odisha** opined that betting and gambling is a social menace but can be allowed with stricter regulations.

General Public believed that betting and gambling should be legalized with stricter regulation in place because it will generate revenue and employment while curbing illegal gambling activities.

3.4 Sectoral Gaps and Challenges

This section summarizes the key challenges in India's lottery sector – and highlights gaps in Central and State-level regulations which needs to be addressed-

Negative social perception around lottery:

Indian society has been culturally opposed to gambling even though it has been prevalent since ancient times. The lottery - being a game of chance - attracts greater regulatory burden in the form of extreme government control, high taxation, prohibition on foreign investments etc. due to the socio-economic and moral issues associated with gambling. In fact, various Supreme Court judgements have called for banning the lottery, highlighting negative impacts on society in the form of gambling addiction, gambling-induced bankruptcy, and physical-mental health. (State of Bombay v. RMD Chamarbaghwal, M/s. B.R. Enterprises v. State of U.P. & Ors., K.R. Lakshmanan (Dr.) v. State of Tamil Nadu etc.). The lack of societal acceptance of lottery as a valid trade makes it harder to undertake robust policy reforms in the sector in a way that would help maximize profits while mitigating harms.

Complex regulatory and operational structure:

Presently, the legislative and regulatory frameworks pertaining to lottery are layered and complicated. For instance, while Betting and Gambling is a state subject, the lottery run by the Government (State or Central) falls under Union List. Further, while the Central regulations lay down key provisions, State legislatures are empowered to create

their own rules – which can potentially create divergence in regulatory implementation. The complexity of lottery regulations in India creates possibilities for duplication of responsibility at multiple levels of government (Central and State). Further, private entities currently have a very small (and often optional role) in India's lottery landscape. The bulk of operational and regulatory functions are performed by the State/Central Governments, and private entities are licensed to only market, distribute and assist the government in conducting draws and disbursing prizes (of prize amount less than Rs 10,000 in most cases). However, the government is involved in day-to-day activities of framing schemes, printing tickets, hiring marketing agents, conducting draws, and disbursing prize money along with entire monitoring of lottery operations. This complex model creates an additional burden on the State government and leads to lapses in compliance. It also poses barriers to streamlining regulatory action, including the monitoring of activities, the provision of approvals, and the prevention of illegal practices.

Restrictive definition of online lottery:

Both the Central and State regulations provide a narrow definition of online lottery – which does not include lottery games offered through web or app-based platforms generating digital tickets/eTickets. Present regulations define online lottery as a system

wherein players can buy physical tickets generated online at designated and authorized lottery terminals with relevant transaction data stored simultaneously in a central server controlled by the Lottery Directorate. This definition may have been apt in 2010 when these rules were framed but with the rapid penetration of smart phones, and widely affordable internet connections, there is a need for a more expansive definition for online lotteries. Presently, online lottery games are offered through various apps and websites even in States where lottery is banned leading to revenue loss for the exchequer. The current regulatory structure is not effective in tackling these web and app-based lotteries offered through overseas providers – and going forward, a more comprehensive definition of online lotteries is required to ensure that regulations are robust and effective.

Inadequate use of technology:

At present, India's lottery industry is marked not only by lack of societal acceptance and an outdated regulatory structure, but also by lack of adoption of new age technology in a bid to make it more transparent and safer for players. One reason for this is the regulatory barriers placed on foreign investment in this sector – foreign players and global investors are not permitted for Foreign Direct Investment (FDI) in the lottery industry. This poses hindrances to investment in new technology and adoption of digital platforms/ tools within the industry. For instance, Section 2.1 (d) of the Lottery (Regulation) Rules 2010⁵⁴ state that the draw to select prize winning number should be conducted using mechanical draw machine based

on a random technology number instead of more sophisticated forms of technology. Further, with the bulk of India's lotteries being paper-based, irregularities have been observed in cases of record keeping of tickets (printed, sold, unsold, prize-winning tickets), validation of prize-winning ticket and winner, and disbursement of prize money. Against this backdrop, significant technological upgrades are needed to improve transparency, compliance, player protection, efficiency, and revenue generation. Development of digital lotteries offered through web and app-based platforms and digitalization of marketing/ supply chain activity is critical for the growth of the Indian lottery industry in revenue and sales terms with greater transparency and efficiency

Lack of provisions for responsible and safe gambling:

Central and State legislations do not specify the minimum age of participation in State lotteries and do not mandate adequate KYC checks for players to prevent the participation of minors (under the age of 18 years) in lotteries. Further, Central and State regulations presently lack adequate provisions for mitigating the harmful effects of gambling and addressing the issue of chronic gambling. At present, the regulations do not mention any infrastructure/processes to manage the addictions associated with gambling, such as de-addiction centers, self-exclusion mechanisms, and identification of chronic gamblers. Going forward, it will be important for the regulations to also collect data periodically on gambling and addiction trends in India, and to apportion resources for spreading awareness on responsible play, the

⁵⁴ Lotteries (Regulation) Rules. (2010). Government of India.

odds of winning, and the addictive dangers associated with chronic gambling. Finally, both the Central and State legislations lack provisions relating to the institutionalization of grievance redress mechanisms to ensure that the interests of players are protected. There are currently no provisions to establish a fully functional grievance redressal cell, which is vital for player protection.

Inadequate disclosure and audit obligation:

The current regulatory structure lacks adequate mechanisms for transparency and accountability. While Section 3.19 of the Lottery (Regulation) Rules 2010⁵⁵ mandates the organizing State to conduct annual financial and systems audit of various lottery schemes run by the State, it does not specify the time within which the State Government should publish the annual audit report. Further, while Section 3.3 of Lottery (Regulation) Rules 2010⁵⁶ mandates the organizing state to publish full details of lottery schemes run by the State government in the official gazette through notification, there are no mandates on the State government to provide information on utilization of revenue generated from a particular lottery scheme. Thus, the areas in which the funds from a lottery scheme may have potentially been invested (such as health, education etc.) remain unclear. This poses challenges to overall accountability in public finance management. Finally, lottery regulations currently do not mandate the organizing State to conduct periodic research to examine gambling addiction, awareness on responsible gambling, financial and social implications of lottery et.al. An examination of such issues would

help State governments rewire their lottery regulations in an evidence-based manner, while ensuring player protection and curbing gambling addiction.

Lack of data-driven approach:

At present, the lottery industry in India lacks a data driven approach. There is very little evidence of the use of powerful data analytics tools to monitor lottery operations with respect to sales, revenue, prize disbursement, and to design appropriate action plans for enhancing and optimizing lottery operations. Digitization of the entire lottery operation and online games offered on digital platforms (web or app based) integrated with powerful data tools will help generate critical insights on user behavior. Analysis of the user data will be crucial for designing player centric games focusing on player safety and greater user experience. Further, user data like average time spent on games, average spending, and gaming frequency (per day/week/month) can help in assessing extent of problem gambling and identify user accounts vulnerable to gambling addiction (i.e., high risk consumers). This will help in designing harm detection algorithms and evidence-based countermeasures to address the issue of gambling addiction. Measures such as putting time limits and financial limits (maximum amount that can be spend on games) on the gaming accounts of vulnerable users can be undertaken. Online lottery also provides players with the option of self- exclusion – by requesting temporary freezing of their account/transaction if they feel they are exposed to fraud or the risk of addiction.

⁵⁵ Lotteries (Regulation) Rules. (2010). Government of India.

⁵⁶ Lotteries (Regulation) Rules. (2010). Government of India.

Taxation at the full price of the ticket:

Lottery tickets are presently taxed at 28 per cent GST at full face value, making the lottery sector increasingly unprofitable. Sales generated from lottery tickets are fundamentally distributed under two heads: revenue for lottery operators (State and private entities) which forms their profit and operational expense and prize payout which goes to the lottery winners. Typically, 50-60% of the total revenue generated is distributed as the prize amounts, and this prize money (when above a minimum threshold) is taxed at a flat 30 per cent rate as per the Income Tax rule. The remaining 40-50% of the revenue forms both operational expenses and profit for lottery operators. Taxing GST on the full-face value of the lottery ticket implies that tax is not only levied on the revenue accrued by lottery operators (State and licensed private entities) but also on that part of the revenue which is distributed as prize money. The prize component of total revenue is effectively taxed twice – an indirect tax at 28 per cent (GST) and a direct tax at 30 per cent (Income Tax). Taxing the full face-value of the ticket

effectively reduces the prize money available for distribution. To ensure profitability, lottery operators either reduce the number of prizes and prize amount for the same ticket price, or increase the ticket price to keep prize money and number of prizes same. Both scenarios ultimately hurt the lottery industry driving down sale of lottery tickets and revenue for the State. This also opens up possibilities of illegal and offshore lottery emerging as stronger substitutes to State-run lotteries, since the former can offer the same prize money and winning chances at a lower ticket price. Industry experts suggest that the current GST regime has had a greater impact on online lotteries. Online lotteries have inherently higher infrastructure costs when compared to paper-based lotteries – including costs of installing servers, setting up of online lottery point-of-sale (POS) systems, costs of hiring semi-skilled and skilled workers etc. The GST regime has lowered the profitability of online lotteries – as a result, many online lottery operators have ceased their operations thereby impacting the revenue generated by the North Eastern States in particular.





04

POLICIES

**Policy
Recommendations
and Reforms**

Policy Recommendations and Reforms

In sum, India's current regulatory framework for lotteries has certain gaps which reduce its overall effectiveness in promoting a healthy lottery eco-system. Further, the regulatory framework needs to be updated to become more relevant to the present age of digitalization, affordable internet connections, access to smartphones, and proliferation of online lotteries/gambling. Policy recommendations for reforms in lottery are categorized into two aspects, regulatory and operational. While regulatory reforms cover changes needed in the legislations regulating lottery, operational reforms relate to the changes required in the implementation and running of lottery schemes at the State level.

4.1 Recommendations for Regulatory Reforms

Revision in definition of relevant terms within the regulations

- The definition of online lottery - as stated in 2(e) of the Lottery (Regulation) Rules 2010 - should be changed to include lottery ticket generated digitally through personal phone or computer accessing a web or app-based platform - thus widening the scope of this definition and making it more relevant to current age of increasing internet penetration.
- Section 2 (d) of the Lottery (Regulation) Rules 2010 allows for the use of machines or other mechanical devices to select winning numbers. The Rules should be modified to include the

use of a transparent digital tools to generate the winning number – thereby encouraging greater efficiencies within the lottery operation.

Player protection and safe gambling

- State and Central legislations on lottery must specify the minimum age for participation with proper KYC mechanisms in place to enforce the same at the point-of-sale. This will help prevent minors from participating in lotteries and aid in understanding the demographic and socio-economic profile of lottery buyers.

- State and Central regulations should mandate the development of Grievance Redressal Mechanisms with appropriate guidelines and standard operating procedures (SOPs), specifying the steps to resolve complaints in a timebound manner. The helpline number for the grievance redressal cell and information regarding the mechanism to register complaints should be displayed in a manner which is easily accessible to any person accessing the State Lottery Directorate website/portal.
- A pool of mental health practitioners and social scientists with expertise in gambling addiction should be onboarded to guide the State Lottery Directorate(s) and develop online content on how to mitigate the impacts of gambling addiction. The State Lottery Directorates(s) should host a list of organizations providing support related to gambling addiction, and should share content on safe gambling, identifying symptoms of gambling addiction, and ways of overcoming the problem.
- All lottery tickets should include statutory warnings against lottery participation, the helpline number for the grievance redressal cell, and information on gambling-addiction counselling centers.
- A certain percentage of total sale proceeds from State-run lotteries should be utilized for funding infrastructure to mitigate the negative implications of gambling. Such infrastructure can include de-addiction centers and, counselling institutions.

Taxation on Gross Gaming Revenue (GGR)

- GST should be charged on Gross Gaming Revenue which is the total revenue minus prize money instead on full face value. This is the practice adopted internationally in the lottery and gaming industry. It would help prevent double taxation on prize money.

Relevant revisions to other statutory provisions related to lottery

- FEMA regulations should be revised to allow FDI in state lotteries (which are currently government-run and organized). This will promote the modernization of the Indian lottery industry, and help make it more transparent, efficient, responsible, and safe, all the while generating significant revenue for the respective States.
- Information Technology (Intermediary Guidelines and Digital Media Ethics Code) Rules, 2021 should be amended to allow content related to state organized lottery to be hosted on platforms.
- Section 30 of Indian Contract Act of 1872 declares 'wagering agreements' to be null and void but not illegal. However, this is detrimental for the player participating in legal gambling (like State-run lottery) who cannot obtain/enforce any contract related to lottery in a court of law. Section 30 of this Act should be amended to exclude legal gambling such as state-organized lotteries from the ambit of the 'wagering agreement.'

Adequate disclosures and audit obligations

- Section 3.19 of Lottery (Regulation) Rules 2010 should mandate the State Government to publish annual audit reports on their website/portal within a specified period in a financial year. Such audit reports should detail the total revenue generated, profit accrued to the State government, operational costs, utilization of revenue from lotteries in percentage terms across sectors and government schemes, compliance standards, et.al.
- Section 3.3 of Lottery (Regulation) Rules 2010 should be amended to mandate State governments to publish additional information such as odds of winning and planned utilization of revenue generated across different social welfare schemes.

4.2 Recommendations for Operational Reforms

Government's role should be restricted to supervisory and monitoring functions

- Elements of the UK model of lottery⁵⁷ can be explored to reduce the government's involvement in the lottery sector to a supervisory and auditing role, creating more space for licensed private players with expertise in technology and operation. In the UK, the license to run the national lottery is granted to a private entity (for a given period of 7-10 years). While this private entity is responsible for managing all the lottery operations, the UK government ensures compliance of the national lottery as per regulations, timely payments to accounts etc.
- Drawing from the UK case study, Indian State governments should be able to grant licenses to private entities for running the entire lottery operation within the State, for a fixed period. This would help create separation of roles between the Government (responsible for overall supervision and monitoring) and the private entity (responsible for day-to-day management and implementation of the lottery) and create opportunities for greater cost savings and efficiencies.

⁵⁷ Gambling Commission. (2022). Industry Statistics. Government of United Kingdom

Evidence-based approach for lottery operation

- Prior to framing any lottery scheme, market research should be undertaken periodically to estimate the potential revenue from lottery, and the type of games popular among participants.
- Research studies should be undertaken to examine the socio-economic impact of lottery operations. This would help create an evidence base, through which appropriate solutions for tackling gambling addiction and raising awareness on responsible play can be developed.

Fostering a technology and data-driven approach

- State governments should transition to online (computer generated ticket at terminals) and digital (web or app based) lotteries which have greater transparency and efficiency with greater player protection features as compared to paper lotteries.
- Regulations should mandate the operationalization of proper MIS systems for real-time monitoring and reporting of key metrics of lottery operation – including data on ticket printed, sold and unsold, status of draws, verification of prize and prize disbursement status. This will promote greater transparency and accountability across the Government's actions. (Kerala for example, has digitized its lottery supply chain using

LOTIS (Lottery Information & Management System), a web enabled Cloud Based open solution for supply chain management activities.)

- Lottery should have provisions like self-exclusion, placing caps on maximum transaction amounts, and robust KYC mechanisms

Capacity building of relevant stakeholders

- Training sessions should be planned to improve the skills/capacities of existing government staff – particularly in relation to digital tools required for effective monitoring of lottery operations and evaluation of data generated. Developing necessary expertise at the Department level is important for monitoring online lotteries effectively.
- The capacity building of lottery distributors/sellers on compliance aspects should also be prioritized. Training can include elements such as adherence to minimum-age restriction, not selling lottery tickets near schools/colleges, proper maintenance of records pertaining to the lottery tickets sold, unsold and prize-winning status.

