



Opening Brazil's Lottery Market to Competition

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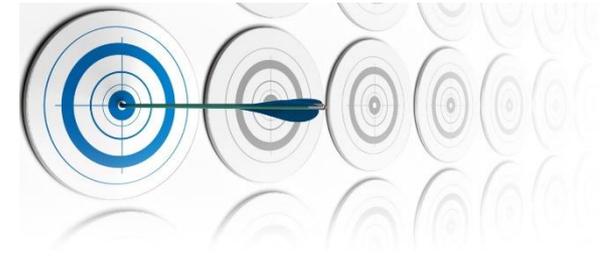
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Outline



- Regulation and Operation of Federal Lottery in Brazil
- Overview of Lottery Products
- The Process of Privatization of the Exclusive Instant Lottery (LOTEX):
Opening Markets While Promoting Competition
- Final Considerations

Regulation of Federal Lottery in Brazil

- Lottery is the only gambling activity allowed by law in Brazil.
- Lottery regulation is one of the many areas of responsibility of the Ministry of Finance, which is the regulator, while Caixa (state-owned bank) has been the only operator since 1962.
- Ministry of Finance is responsible for the authorization, supervision, enforcement and regulation of lottery activities in Brazil:
 - Constantly searching for efficiency on lottery operations.
- US\$ 4.31 billion of gross revenue from Federal Lottery (operated only by CAIXA) with US\$ 2.05 billion to social causes and government (2016)*



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*All values are using Brazilian Central Bank average exchange rate in 2016 (US\$ 1 = R\$ 3,48).

Overview of Lottery Products: Federal Lottery's sales

Categories	2012	2013	2014	2015	2016	Share (2016)
Draw-based games	3,436	3,769	4,455	4,979	4,276	99.05%
Sports games (pari-mutuel)	34	34	39	46	41	0.95%
Sports games (fixed odds)	-	-	-	-	-	-
Instant games	70	50	65	9	**	-
Total	3,543	3,853	4,559	5,034	4,317	100%
% of BR GDP	0.21%	0.21%	0.24%	0.25%	0.21%	

** This product was suspended in the end of March 2015

LOTEX – New Instant Game in Brazil

- National lottery has been a monopoly since 1962 and has been operated by CAIXA.
- Federal Government decided to privatize instant games in a competitive environment operation hoping to reach efficiency in the commercialization of instant tickets.
- Law 13,155 on August 4 2015 established a new legal base for Exclusive Instant Lottery (LOTEX) in Brazil.
- Sales authorized by physical retailers and virtual channels.
- Payout (65%) aligned with the main lottery markets around the world.



LOTEX – Privatization Process



- In the beginning, preliminary plans conceived a formal privatization using a subsidiary of CAIXA (CAIXA INSTANTANEA S.A.), which would operate new ‘instant games’ in Brazil.
- CAIXA Instantanea S.A. was created in January 2016 and the idea was to sell 51% of its equity to a private company with experience in instant lottery operations, by tender.
- However, under this framework lottery would still be a ‘de facto’ monopoly due to the presence of CAIXA in LOTEX and the influence of the federal government over its strategic decisions.

LOTEX – Privatization Process



- In the aftermath, after the impeachment of Brazil's former President in May 2016, a new team took office and designated a pro competitive regulatory framework.
- The new team considered four elements in its decision:
 - (i) lottery should be provided at the risk and expense of the private concessionaire;
 - (ii) the absence of any subsidy from the federal government, either directly or through its state-owned companies;
 - (iii) the federal government would be the main beneficiary of the success of LOTEX and earn 16.7% of the instant lottery's revenue and would collect taxes on the concessionaire's profits and income tax generated off LOTEX lottery winnings;
 - (iv) privatization of LOTEX should bring competition to lotteries as a whole.

LOTEX – Privatization Process



- Special attention has been given by Ministry of Finance to item (iv) - **privatization of LOTEX should bring competition to lotteries as a whole.**
- The statutory concentration of the lottery in the ultimate hands of the federal government has foreclosed the entry of competition and hampered innovation for more than half-a-century.
- Even though only ‘instant games’ had been statutorily declared open to private competition, the degree of economic substitutability among lottery categories show that opening the market for ‘instant games’ to private investors will bring contestability to the entire lottery market*.

* CLOTFELTER, Charles T.; COOK, Philip J.. **The demand for lottery products.** In: _____ Selling hope: State lotteries in America. Massachusetts: Harvard University Press, 1989. cap. 6, p. 91-116.

Final Considerations

- All actions planned for privatization of the LOTEX are being conducted with total transparency. We´re trying to improve efficiency in lottery exploration, based on international expertise and best practices.
 - The sale of LOTEX will take place by public auction, with the notice scheduled for the beginning of April 2018. The auction is expected to be held in the beginning of June 2018.
 - The Finance Ministry expects the auction to attract major global instant lottery operators, which could result in greater competition and innovation in the national lottery market.
 - Brazil´s government is committed to ensure a stable and sustainable macroeconomic environment for investors, introducing structural reforms to increase productivity, reduce the role of the state in the economy and improve the governance of regulatory agencies.
 - Brazil is paving the way for a new cycle of growth. There are many investment opportunities available. LOTEX is one of them.
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Thank you!



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