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ROLE OF GAMBLING BUSINESS IN THE FORMATION OF CITY AND HOTEL REVENUES ACCORDING TO THE CASE OF BATUMI

The tourism sector is a great contributor to the economy of Adjara region. The share of tourism is 14% in the gross domestic product (GDP) of the region, including accommodation, food, art, entertainment and recreation. After Covid-19 pandemic, the tourism started recovering since 2022, when more than 2 million foreign visits were recorded in the region. 58% of Adjara hotels are located in Batumi. Tourists, who are attracted by gambling business, namely by casinos, hold the quite large niche at the tourist market of Batumi. It is the gambling business that enables to load the international brand hotels during the off-season period. The given survey was aimed at analyzing of the gambling business role in the formation of revenues of Batumi city municipality and international brand hotels. Revenues received from fees paid for gambling business and income tax paid by casinos is important for the city budget. The casino has a special place in the additional income of the hotel. Hotel rooms, provided to casinos at a discount, become the guarantee for the stable occupancy. On average, casinos provide more than 50% of the annual occupancy index of hotels, which often gives the possibility to cover the hotel off-season operation charges. Regulation of the gambling business by the government enables to reduce its disadvantages. With a responsible approach to the gambling business, the role of casinos is huge in generating revenues for tourist destinations and businesses.

Key words: gambling business, tourism, revenues, hotel, budget.

JEL classification: Z33, Z38

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სათამაშო ბიზნესის როლი ქალაქის და სასტუმროების შემოსავლების ფორმირებაში, ბათუმის მაგალითზე

აჭარის რეგიონის ეკონომიკაში მნიშვნელოვანი ადგილი უკავია ტურიზმის სექტორს. რეგიონში შექმნილ მთლიან შიდა პროდუქტში ტურიზმის წილი 14 %-ია, რომელიც მოიცავს განთავსებას, კვებას, ხელოვნებას, გართობას და დასვენებას. კოვიდ 19-ით გამოწვეული პანდემიის შემდეგ ტურიზმმა აღდგენა 2022 წლიდან დაიწყო, ამ წელს რეგიონში 2 მილიონზე მეტი უცხოური ვიზიტი დაფიქსირდა. აჭარის სასტუმროებიდან 58% ქალაქ ბათუმშია თავმოყრილი. ბათუმის ტურისტულ ბაზარზე საკმაოდ დიდი ნიშა უკავია იმ ტურისტებს, რომლებსაც სათამაშო ბიზნესი, კერძოდ კი სამორინეები იზიდავთ. საერთაშორისო ბრენდული სასტუმროების დატვირთვის შესაძლებლობას არასეზონზე სწორედ სათამაშო ბიზნესი იძლევა. კვლევის მიზანს წარმოადგენდა გაგვეანალიზებინა სათამაშო ბიზნესის როლი ქ. ბათუმის მუნიციპალიტეტის და ბათუმში მოქმედი საერთაშორისო ბრენდული სასტუმროების შემოსავლების ფორმირებაში. მნიშვნელოვანია ქალაქის ბიუჯეტში სათამაშო ბიზნესის მოსაკრებლებიდან და სამორინეების მიერ გადახდილი საშემოსავლო გადასახადიდან მიღებული შემოსავალი. სასტუმროს დამატებით შემოსავლებში განსაკუთრებული ადგილი უკავია სამორინეს. სამორინეებისთვის განკუთვნილი სასტუმრო ნომრები, რომლებიც მათ ფასდაკლებით ეძლევათ სტაბილური დატვირთვის გარანტი ხდება. საშუალოდ სამორინეები უზრუნველყოფენ სასტუმროს წლიური დატვირთვის მაჩვენებლის 50%-ზე მეტს, რაც ხშირად არატურისტული სეზონის დროს სასტუმროს ოპერირების ხარჯების დაფარვის შესაძლებლობას იძლევა. სახელმწიფოს მხრიდან სათამაშო ბიზნესის რეგლამენტაციით შესაძლებელია მისი

უარყოფითი გავლენების შემცირება. სათამაშო ბიზნესისადმი პასუხისმგებლიანი მიდგომის პირობებში სამორნიეების როლი ტურისტული დანიშნულების ადგილის და ბიზნესის შემოსავლების გენერირებაში დიდია.

საკვანძო სიტყვები: სათამაშო ბიზნესი, ტურიზმი, შემოსავლები, სასტუმრო, ბიუჯეტი

JEL კლასიფიკაცია: Z33, Z38

Introduction

Autonomous Republic of Adjara is one of the leading regions of Georgia regarding to economic development, proven by economic characteristics such as implemented foreign investments, GDP created in the region, main business sector features, etc. Tourism sector holds an important place in the economy of Adjara region. The share of tourism is 14% in the gross domestic product (GDP) of the region, including accommodation, food, art, entertainment and recreation [8]. According to the regions of Georgia, visited by foreign visitors, Adjara is on the second place after the capital. As of 2021, 424 hotels operated in the Autonomous Republic of Adjara; compared to 2010, their number has increased by 289%. In 2019, before Covid-19 pandemic, the number of visitors to Adjara, who were officially recorded in accommodation facilities, was more than a million. Besides, number of foreign tourists was much higher than local tourists. In 2019, number of visits made by the foreign visitors amounted to 2,3 million. However, the situation changed dramatically by Covid pandemic. Since 2022 tourism began to recover; more than 2 million of foreign visits were recorded in this year; compared to 2019, decline was only 9% [8]. Tourism has been recovered by 75%, however, according to the existing forecast, 90% tourism restoration is expected for 2023 [6. p. 4]. Foreign visits are distributed by countries as following: Turkey (41%), Russia (17%), Azerbaijan (9%), EU countries (7%), Armenia (5%), Ukraine (5%), Israel (4%) and others.

Entry of the international brand hotels such as Sheraton, Radisson Blue, Hilton, Marriot, facilitated to Batumi city to position itself at the international tourist market. 58% of Adjara hotels are located in Batumi. Hotel revenues are directly connected to their occupancy. In 2022, the total occupancy value was 65%, and the average hotel price– 95USD [6. Pp 4-5]

Batumi allowed and allows diversification of tourist products. It attracts foreign tourists with sea tourism, cultural attractions and events, old historical and new modern architectural buildings, recreational zones, especially old and new boulevard of Batumi and the botanical garden are distinguished. However, tourists, who are attracted by gambling business, namely by casinos, hold the quite large niche at the tourist market of Batumi. It is the gambling business that enables to load the international brand hotels during the off-season period.

The aim of our survey is to analyze the role of the gambling business in the formation of revenues of Batumi municipality and international brand hotels operating in Batumi, to assess socio-economic impacts, characterizing to the mentioned field of the tourism business.

The survey methodology is based on desk surveys, the source of which is the published literature about the gambling business, scientific works, National Statistics Office of Georgia, official data issued by Batumi Municipality City Council. In addition, hotel representatives were interviewed using the in-depth interview method.

The gambling business is a complex system, containing the legal, economic, political, psychological, social, ethic and other aspects. Some countries prohibit gambling while others consider it legal and even profitable. For the last decades globally the gambling has been characterized with growing trends. According to Global Gambling Business 2023 report of Business Research Company, the global gambling market value has increased from \$449.04 billion to \$702 billion in 2022-2023. Asia Pacific

remains the largest region in the global gambling market as of 2022 data. According to the current forecast, the East European region is considered as the growing region. (<https://www.thebusinessresearchcompany.com/report/gambling-market>)

Operation of the gambling business is accompanied by the social, economic, cultural, political and behavioral outcomes in any country. The impact of the gambling business is reflected on the country's economy with fiscal, employment, investment, sectorial indices. Banning or strict restriction of the gambling business often stipulates creation of illegal segment and promotes functioning of the "shadow economy", especially in conditions of the development of modern internet technologies.

Various structures and models of the organizational and functional arrangement of the gambling business have been tested in world practice. There are common and zone approaches. The zone arrangement principle considers concentration of the gambling business (mainly casinos and club games) within the borders of pre-defined areas. The aim of this principle is to avoid population groups from gambling. As for the common model of the gambling business arrangement, the business is established in any part of the country. It happens when the gambling is promoted in certain cities and regions, which is mainly reflected on tax incentives. Similar practice is observed in Georgia too.

In order to identify the role and significance of the gambling business in socio-economic development of the country, it is necessary to analyze and understand all positive and negative factors of the gambling business on the economic system of various countries. Two main impact groups are singled out: economic benefits and social losses. Economic benefits include paid taxes, implemented investments, purchased products and services, money spent by employees in local economy. However, the gambling entails growing social and economic loss. The gambling business uses the time and money resources that could be spent on creation of the new products and services [1. pp. 57-58]. Investment effects are primary among other gambling business effects, plus taxes and fees paid by business entities, which supplement the local budget. The fiscal ground is the basis for legalization of the gambling business. Social effect is expressed by creation of new job places, which becomes especially significant for countries with the transition economy, considering unemployment level and average monthly wages.

In many countries gambling and the gambling business is often associated with the social activities such as recreation, entertainment, tourism and sport. Therefore, in many countries including Georgia, statistical recording of the gambling business is carried out according to the methodology, compliant to European standards and "gambling activities" belong to the field of art, entertainment and recreation.

In general, the gambling business is the significant driver of the tourism industry. Moreover, it is considered that the tourism industry and gambling industry are complementary segments. In particular, the contribution of the casinos to the occupancy of hotels increases, while the tourism is distinguished with the strict seasonality. Casinos, in order to promote gamers, propose free hotel rooms, provide them with food and drinks, facilitate purchasing various hotel services by them. Attracting visitors by gambling business entities contributes to the tourism and associated service development in a chain reaction. However, as the practice shows, the tourist-visitor, who is interested with the gambling, has less interest in other tourism activities [2. pp145-155]

Following factors became promoting for gambling business development in Adjara, namely in Batumi:

- ✓ Supportive gambling business legislation
- ✓ Attractive investment climate
- ✓ Liberal visa policy
- ✓ Ban on gambling businesses in neighbouring countries
- ✓ Development of transport infrastructure and accessibility of Batumi;
- ✓ High safety level.

Gambling business is legally regulated by the following regulations in Georgia: Law on “Holding Lottery, Gambling and other Profitable Games “; Law on “License and Permits”; Law on “License and Permit Taxes”; Law on “Gambling Business Tax”, etc.

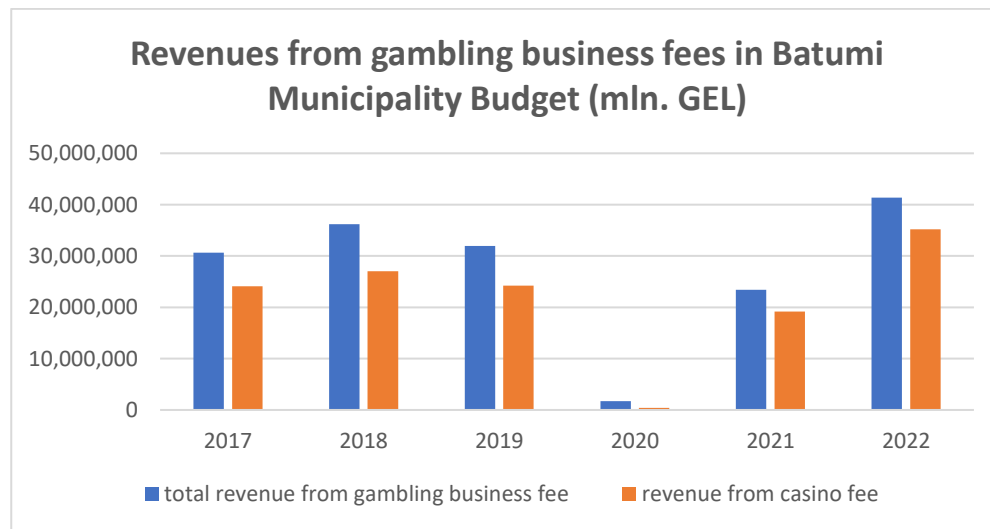
Licenses for casinos and other profitable games shall be issued for the period of one year. Following factor became promotional for attraction of investments to the hotel industry and gambling business: In case of construction of a hotel with at least 100 rooms, the owner is exempted from paying for casino (located on the hotel premises) license fee for 10 years (applicable only to Batumi, Kobuleti and Khelvachauri areas). Gambling business is exempted from VAT payment. This benefit resulted in presence of casinos in the international brand hotels and besides, their contribution is essential to off-season occupancy and revenue generation.

Fees paid by gambling businesses in Georgia account for 1/3 of total contributions on average, and the predominant share includes contributions made in the form of fees, which can be partially explained by the exemptions from taxation that are imposed on individual activities or operations of gambling businesses. [1. p. 237]

Main revenue sources of Batumi Municipality budget consists of tax revenues, grants and other revenues including administrative fees. In 2022 other revenues is amounted of 87.3 million GEL and 60% (41,3 mln. GEL) of it belongs to revenues from gambling business fees (Diagram 1).

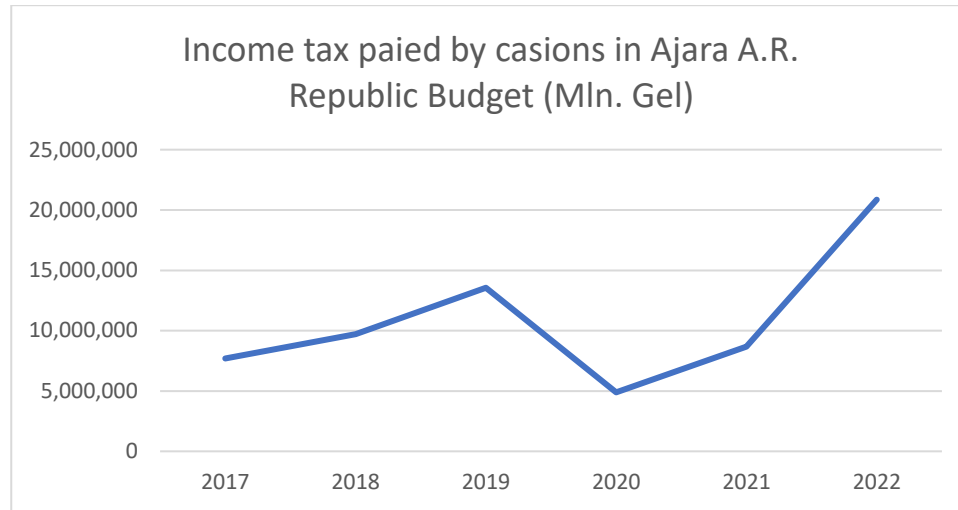
In 2022, 11 casinos operated in Adjara, namely in Batumi. The total amount paid as the gambling business by these casinos to Batumi budget was 35,2 million GEL that exceeds the analogous value of 2021 by 83,4%. Revenues accumulated in Batumi budget from the gambling business include paid fees from casino tables, slot machines, and other gambling business. The main part (85%) of taxes paid to Batumi budget are received from casinos, tax share is only 15% from other gambling business entities. [7]

Diagram 1



Source: Ministry of Finance and Economy of Ajara Autonomous Republic

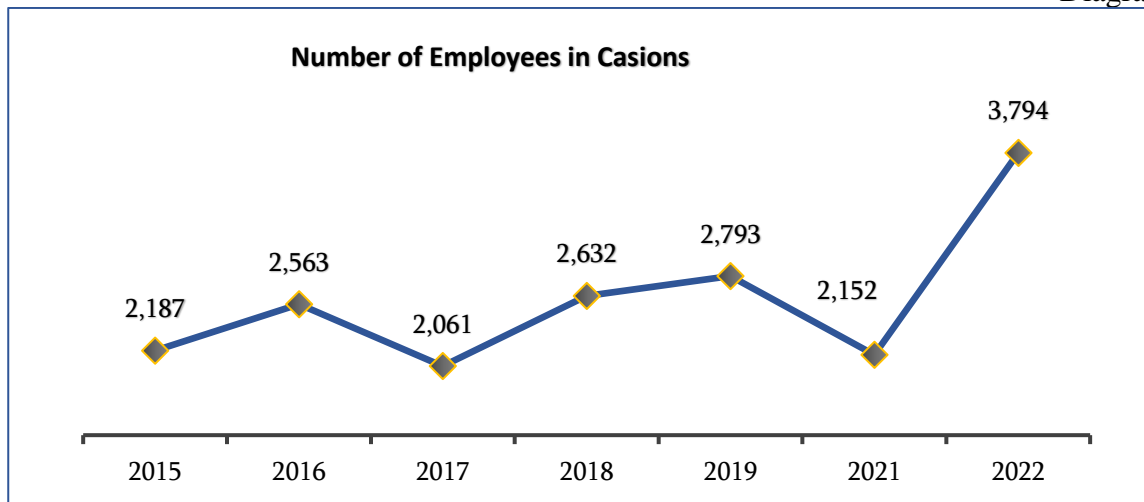
Diagram 2



Source: Ministry of Finance and Economy of Ajara Autonomous Republic

For 2022, number of gambling tables was 196, and slot machines - 1273. Income tax paid to the budget of Autonomous republic of Adjara by casinos operating in the region amounted to 20.9 million GEL that exceeds the analogous value of 2021 by 140% and compared to the value of 2019, the growth is 54% (Diagram 2). As of 2022 data, the number of employed people is 3 794 (Diagram 3). After Covid-19 pandemic, the gambling business managed to recover rapidly, namely, compared to 2019, in 2022 employment in casinos has increased by 36%.

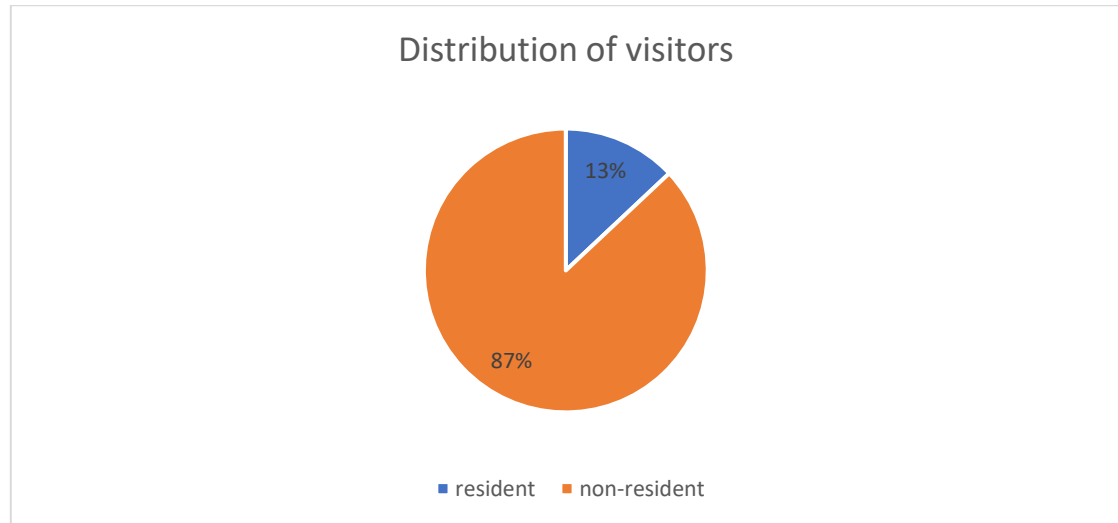
Diagram 3



Source: Ministry of Finance and Economy of Ajara Autonomous Republic

In 2022 the total number of visitors to casinos operating in Adjara was 951 thousand. 87% of visitors were non-resident visitors (Diagram 4). . [7] Non-residents mainly arrive from Israel, Turkey, Iran and countries, where the gambling business is banned and illegal.

Diagram 4



Source: Ministry of Finance and Economy of Ajara Autonomous Republic

For some hotels additional incomes become more important than the income received from the hotel rooms. Main additional income sources are: F&B, spa, internet, parking, sport infrastructure, etc. [5. pp.15-16] Casino has an important place in additional revenues. Additional revenue generating capacities in a hotel are called hotel revenue centers [4. Pp.73-79]. The revenue center gives the hotel the opportunity to generate high incomes by selling as many additional services as possible. In this case, hotel revenue is not depended only on hotel rooms, which often create problems such as price discrimination and overloaded rooms. Additional revenue-generating capacities are often an integral part of the hotel strategy, and their contribution is great to formulation of the strategic, tactical goals of the hotel. In most cases, the additional revenue centers will generate income only if the guests are already accommodated in the hotel, although some guests might use only the additional hotel services without room accommodation (e.g. use of spa center, F&B, conference facilities). In this regard, the goal of maximizing guest room revenues might not be consistent with the total revenue maximization objective.

In Batumi, the contribution of the gambling business is great to the hotel revenues. This is proved by the fact that the number of hotel rooms occupied by casino gamers is very high in the total occupancy of the hotels in Batumi. The survey conducted by us, aimed at identification and analysis of the 2022 monthly data of occupancy and profit ratio of the international brand hotels, showed that the average annual occupancy of the hotels amounts for 67% of the hotel room fund. During the survey, three leading hotels were selected from international brand hotels. Studied hotels do not operate casinos. They generate incomes by renting the areas for casino in addition to the revenues from the hotel rooms. They offer special benefits for lease holders of casinos. Similar to travel agencies and other corporate clients, the minimum occupancy rate of hotel rooms at the beginning of the period is determined also for casinos at a discount, and as a result, it becomes a guarantee of a stable load at a certain level. On average, casinos provide more than 50% of the annual load of the hotel. The survey showed that during the off-season, the operation costs of one of the hotels are covered by the revenues obtained from the rooms occupied by casino gamblers.

Thus, the gambling business has advantages and disadvantages. In conditions of the legalization of the gambling business, the scales of the “shadow economy” are reduced. The gambling business as one of the tourism directions may become the significant source of tourist destination revenues and ensure the stable load of hotels, especially during off-season. Batumi city is a good example of it. State regulation of the gambling business allows reduction of its disadvantages. A responsible approach to the

gambling business requires the introduction of a proper supervision system over the gambling business, namely setting the age limit for the player, zoning the gambling business, limiting the location of the facility, staff training, etc.

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