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## **A draft EGDF approach on COVID19 support measures for start-up ecosystems**

### **About EGDF**

The European Games Developer Federation e.f. (EGDF) unites national trade associations representing game developer studios based in Austria (PGDA), Belgium (FLEGA), Czechia (GDACZ), Denmark (Producentforeningen), Finland (Suomen pelinkehittäjät), France (SNJV), Germany (GAME), Malta (MVGSA), Netherlands (DGA), Norway (Produsentforeningen), Poland (PGA), Romania (RGDA), Spain (DEV), Sweden (Spelplan-ASGD), Slovakia (SGDA), Turkey (TOGED) and the United Kingdom (TIGA). All together, through its members, EGDF represents more than 2000 game developer studios, most of them SMEs, employing more than 25 000 people.

### **In general**

The COVID19 outbreak has had a significant impact on the everyday life of Europeans. EGDF expresses their sincere condolences on everyone who has lost their loved ones during the outbreak.

In addition to terrible human losses, many Europeans are currently rightfully worried about their future. EGDF is highly concerned about the economic and political impact of COVID19 outbreak. EGDF expresses their sympathy to all people and companies struggling for their future and calls for support measures to limit the economic impact during the outbreak and kickstart the economy immediately after it ends. In particular, EGDF hopes that the Union and its member states will introduce targeted support measures for the hospitality and music sectors that have been hit particularly badly by the outbreak, especially in Southern Europe<sup>1</sup>.

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Especially Southern European EU member states that were relying on tourism will face significant economic challenges unless the European Union succeeds in stabilizing the economy. Before the COVID19 outbreak according to different estimates roughly 19% of Portuguese, 17% of Croatian, 15% of Spanish and 13% of Italian, 12 of Slovenian, 11% of British, 10% of France, 9% of Norwegian, 9% of German, 9% of Austrian, 8% of Danish and only 5% in Polish, 5% in Belgium, 4% of Dutch, 3% of Swedish, 3 of Finnish, 2% of Slovakian or 1% of Romanian GDP come from tourism.

## The impact of COVID19 outbreak on the European games industry

- **In the short run, COVID19 outbreak is going to have only a limited impact on the games industry:**
  - It is rather easy for game developer studios to continue their activities over distance working. Furthermore, game developer studios have well-established routines for adopting new tools and work practices.
  - Due to the large scale quarantines, people are spending more time at home and are likely to increase the time and money spent to play games. This might even boost the revenues of the biggest and most established game developer studios and publishers during 2020.
- **On the long run,**
  - **the outbreak will have a particularly grim impact on microentrepreneurs early-stage start-ups that are currently looking for investors or publishing partners.**
    - In an optimal case, a typical game industry early stage start-ups have a runway from half-a-year to one year. The trade missions and events cancelled during the first half of 2020 were crucial to these companies. Many of them will go bankrupt during the next twelve months without public intervention.
  - **If the outbreak continues for month, it will have a major impact on the bigger studios as well,**
    - The leading European game developer studios rely on access to global top industry talent. Due to the COVID19 outbreak, international recruitment has halted. Already now the talent shortage significantly hinders the growth of the European games industry. The outbreak is only going to make the situation worse.
    - Often, these leading studios rely on a relatively small number of key persons to run their services. If some of them are incapacitated, it can easily significantly hinder their ability to run their services normally during a potential high-on-demand situation.

## What the EU and governments of EU member states should do

- **Introduce more flexible administrative procedures**
  - **Remote shareholder meetings:** All companies should be able to organise their annual shareholder meetings remotely.
  - **More flexibility:**
    - **Statutory payments:** EU member states should introduce temporary reductions on some statutory payments (e.g. insurances, pensions etc.) and allow more flexibility on asking extensions for payment deadlines.
    - **Layoffs:** EU member states should introduce new, more flexible, rules for temporary layoffs.
- **Help the SMEs to survive:** The COVID19 outbreak led to the cancellation of several key trade missions and industry events during the first half of 2020. Consequently, it is crucial that:
  - **Companies and associations should not be forced return public funding targeted for participating in events cancelled or postponed due to COVID19:** The EU and its Member States should relax their financial guidance on publicly funded trade missions and accept all the money spend on cancelled trade missions as eligible costs.
  - **Helping SMEs to access funding**
    - **Speeding up payments:** EU and its member states should introduce shorter the project cost reporting frequencies in existing funding instruments.

- **Investing in companies and Increasing de minimis threshold:** EGDF welcomes all emergency SME support instruments currently introduced around Europe. However, most of the COVID19 emergency aid for SMEs is going to be de minimis aid. In order to ensure that all companies who need help have access to public aid, the European Commission should immediately increase the de minimis aid threshold from 200 000 in three years to 400 000 euro.
  - **Investing in novel remote ways to meet investors and publishers:** As it looks likely that the outbreak is going to last months and is likely to return at some point, the member states should help trade associations, cluster organisations and event organisers to develop new and innovative remote ways to match local game developers with the most potential international investors and publishers.
  - **Investing in trade missions:** the Member States should immediately invest extra funding on trade missions during the second half of 2020 and 2021. This would help at least those studios that have survived through the worst to find highly needed private investment or partnerships before their runway ends.
- **Build safety nets for bankruptcies:** It is clear that, also in the games industry, the COVID19 outbreak will lead to many bankruptcies. Therefore it is crucial that:
- **Extensions and short term repayment-free periods for loans repayment:** Both public and private corporate loan funding agencies should introduce a possibility to extend the loan period and grant repayment-free periods in order to limit the amount of bankruptcies.
  - **All public emergency loans should be soft-loans:** currently, many EU member states are considering offering public loans for companies struggling due to the outbreak. It is clear that, despite the extra funding, all companies will not be able to make it. The people running these companies are also the ones with significant accumulated industry expertise. Thus one of the easiest ways for kickstarting the economy, is to enable them to start their second-round start-ups immediately after their first bankruptcy. Therefore, all public emergency loans should be soft-loans that can be transformed into a grant in a case a company goes bankrupt. This would minimize the personal liability of company founders and help them to recover from bankruptcy as quickly as possible.
  - **Incubators as a safety net enabling a controlled bankruptcy:** Over the years, a number of EU member states have invested in incubators helping companies to start and grow. Now we also need “incubators” helping them to managed discontinuation of a business with minimal personal damage.
  - **Allowing personal bankruptcies:** All EU countries should allow personal bankruptcies to secure that personal over-indebtedness after bankruptcy does not block experienced entrepreneurs from starting a, most likely more successful, second round start-up.
- **Kickstart the start-up boom through public seed funding:** After the COVID19 outbreak ends, there will be far more start-ups looking for funding than there is private investment. Therefore, it is highly important that:
- **A quick agreement on the new EU budget:** the EU member states agree on the new EU budget as quickly and possible. If the Croatian EU presidency fails to find an agreement the budget, new ERDF and ESF instruments will be easily delayed until the second half of 2021, which is far too late for a timely response on the current crisis.
  - **New state aid events allowing 100% public seed funding for SMEs:** In order to kick-start the economy, the Commission has to quickly review its state aid rules and allow 100% public seed funding for SME as an emergency response on the current crisis.

- **New seed funding instruments for SMEs:** The EU and its member states have to introduce new seed funding instruments that allow national and regional innovation agencies to launch public emergency venture capital funds together with EIF\EIB.

#### **What trade associations or local cluster organisations can do**

- **Share the knowledge on online events:** EGDF is currently mapping online game industry events to be organized during the outbreak. Do not hesitate to share this information with your members and encourage them to join online activities.
- **Boost the local investment:** Due to the outbreak, a number of investors have temporarily stopped making cross-border investments. Some EGDF member associations are currently organizing online events, where companies can pitch their games for local investors through online meetings.
- **Mentoring entrepreneurs on closing down their game developer studio:** As aforementioned, we will see many bankruptcies during the next twelve months. Luckily bankruptcies are nothing new in the games industry and local industry ecosystems have number of people who have necessary experience on mentoring people
- **Helping people to find new jobs:** Helping people to find new jobs: Now that international recruitment is becoming more complicated, there is even more demand for innovative new ways for matching local talent with local studios.

#### **For more information on national approaches, see for example:**

- **Belgium:** <https://www.flega.be/coronavirus-and-the-belgiangamesindustry/>
- **Denmark:** <https://pro-f.dk/nyheder/hjælpepakke-til-erhvervslivet-i-forbindelse-med-covid19> and <https://pro-f.dk/nyheder/anbefaling-i-forbindelse-med-coronavirus>
- **Germany:** <https://www.game.de/covid19/>
- **Finland:** <http://www.neogames.fi/the-finnish-government-launches-a-5-billion-euro-emergency-support-package-for-finnish-companies-struggling-with-covid19-outbreak/>
- **Spain:** <http://dev.org.es/en/noticias-a-eventos/notas-de-prensa-dev/504-el-impacto-de-la-crisis-de-covid-19-en-el-negocio-de-la-industria-de-desarrollo-de-videojuegos>
- **The UK:** <https://tiga.org/news/the-chancellor-of-the-exchequer-has-announced-a-330-billion-range-of-economic-support-measures-in-response-to-coronavirus>