A Digital Strategy for Malta

MALTA ENTERPRISE

Ministry of Finance, Economy & Investment

CREATIVITY WORKS

The Malta Council for Science & Technology
Xjenza

University of Malta
L-Università ta' Malta

Goals

In May 2011, the Digital Games Initiative Group comprising Malta Enterprise, Malta Council for Science and Technology, University of Malta and the Creative Economy Working Group, contracted the UK company Games Audit Ltd to undertake research, interviews and analysis to deliver a report required to guide a national policy in the setting up of a Digital Games Industry in Malta in accordance with a range of references.

The aim of the report was to work at two levels, firstly to attract foreign direct investment (FDI) and secondly to identify ways of stimulating, supporting and expanding the local games industry in Malta.

Exciting Opportunities

The worldwide games industry (valued at $49bn in 2010 more than doubling in size since 2005 due to substantial growth in both retail and network gaming) is expanding rapidly and is expected to experience a Compound Annual Growth Rate (CAGR) between 2010 and 2014 of 9% but is fragmenting at the same time with many emerging new platforms and technologies - varying from console to tablet, mobile to online and social and associated new business models. "Gamification" is even extending game play elements into other software applications and apps. The expanding games market and its central role in the Creative Industries presents many opportunities for Malta but also challenges.

Methodology

The methodology used to produce this report included Games Audit using its own expert in house staff combined with a number of industry experts from the UK and USA. Standard research methods such as comparative analysis, gap analysis, and modelling were used to build on conclusions from important face to face interviews. Director William Latham and Gordon Calleja spent considerable time in Malta in July and August 2011 carrying out local audits and interviews. The help of Maltese companies interviewed was much appreciated and local audit work was supported by Jeanine Rizzo from Fenech and Fenech Advocates.

The International consultations included interviews with leading games industry figures at the E3 Games Conference in Los Angeles (the largest global annual games conference) in May and the Develop Games Conference (the leading European Games Conference on casual and mobile games) in Brighton, UK in July. Other interviews, such as with major game publishers, were secured through the teams extensive personal contact network. Work by Rick and Nick Gibson, in addition to looking at games industry trends, included analysis of existing fiscal incentives such as tax incentives offered by other territories to attract games companies. A range of countries were analysed and evaluated including Canada (Quebec), Singapore and France with the purpose of identifying specific fiscal incentives offered that Malta could choose to adopt or adapt.

Overall Findings

The overall findings of the report showed that Malta has a very early stage games industry, with small and energetic companies who are highly motivated to do well, often aided by Government incentives and occasionally EU Grants. A small number of related companies in advertising, localisation, editing, audio, legal, and finance give indications of an early stage industry framework for outsourcing and collaborative work that could expand. The strong IT industry with over 200 operations in Malta provides a sound technical context for games development work, experienced technical staff available with specialist skills relevant to the growth areas of the games industry including analytics and data mining expertise. Where additional support is needed to cover any small games specific skills gaps, short training courses are provided by educational establishments. The recently started and commendable annual "indie games" competitions are also assisting in developing skills, enthusiasm and team work around games at a local level in Malta.

The industry consultations revealed that international games companies view the low games industry headcount in Malta as a major concern, it also revealed that the existing "refund on dividends scheme" offered by Malta which offers tax refunds on the dividends that are paid to company shareholders was viewed as a strong benefit by small / medium privately owned games companies subject to knowing what other incentives are on offer.

The recent successful establishment of TRC Family Entertainment Ltd in Malta lead by Chris Deering (previously CEO of Sony Computer Entertainment Europe) with generation of 100 jobs is an early indication of success in attracting international companies and will help in time attract further companies due to the international games press coverage the announcement received.

Malta Enterprise's strong history of, and ability to, rapidly engage with companies interested in locating to Malta and where appropriate construction of large scale bilateral investment deals to the benefit of Malta and the relocating company will be an important element of growing the Digital Games industry moving forward.

The industry consultations revealed that currently games companies knew little of what Malta offers in terms of incentives and opportunities and that significant marketing is necessary in the games industry press and at games industry conferences. The report goes into depth on other feedback from the international consultations.

Transferable Skills from Film

Malta is an exciting location for the film industry, with potential for shared resources with games such as motion capture. There is currently a minimal post production industry in Malta, which shares many similarities with games development, however this does not provide a significant enough foundation for a games industry to grow out of the film industry in Malta. There is strong potential for sharing resources across games and films in Malta, in particular around shared technical facilities such as motion capture and sound studios and there are indications that plans developing to enable that synergy. It is noted that the film work does help Malta's creative image, and should be capitalised on in any advertising / press around games in Malta.

Transferable Skills from Gambling

The local audit spent time trying to identify skills and technologies in Malta that could be translated from gambling to games to give a competitive advantage. Interviews with leading recruitment agencies and IT companies identified a strong potential for the transfer of skilled individuals with high value statistical analysis and player analytics skills from the i-Gaming industry which could be directly applied to online casual games. There is a shortage of experts with these analytical skills worldwide, so this existing skill set should be capitalised upon and enhanced with additional courses hosted by Malta academic institutions. The legal / monitoring / regulatory skills may be transferable including into niche areas such as skills gaming.

Business Culture

One significant concern, which extends beyond games, was the lack of Angel / early stage investment to encourage start-up companies, and the reliance only on bank finance with associated guarantees or similar. The other was the lack of business networking / hot desk meeting places where games people and other people from creative industries (including film and advertising) and investors can work and meet, of the type seen at TechHub in London. The Kordin Business Incubation Centre (KBIC) business centre though suitable for engineering based companies does not provide a environment suitable for the computer games industry's early stage companies and does not include hot desk arrangements. It is important that these two issues are addressed and in the report we cover this but do not present a full solution given their scope beyond games.

It was clear that Malta needs to take a number of key steps to establish a strong games industry.
These are:-

1. Attract global games companies: By offering a new range of fiscal and other support measures to drive FDI into Malta. The suite of incentives currently on offer by Malta Enterprise is suitable for a wide range of companies, particularly those with private shareholders. However the existing incentives are largely not tailored to the specific needs of games companies and they will need enhancing to make it as attractive and competitive a package as existing incentives offered by some Canadian provinces and other territories such as Singapore.

Today, Maltese companies have one of the most tax-advantageous corporate structures within the European Union because Malta operates a full imputation system on tax. This allows for no further tax to be due by non-resident shareholders on receipt of dividends distributed out of profits of a company. These distributions may also trigger refunds of Malta tax paid by the company. The standard refund is 6/7ths of a 35 per cent corporate tax rate. The effective tax rate will generally range from 0% to -5%. The recently approved 15% tax capping extension to digital gaming directors and games designers' salaries assists with this.

It is worth noting that the Malta incentives are of a different character, and will be less familiar to established games publishers and companies who have been preoccupied with the Canadian incentive offerings over many years which are primarily focussed on Production tax credits.

It is recommended to start planning early the following scheme ("Conversion Scheme"): In view of the fact that the process of digital games production often takes considerable time from idea development to take to market, the issue of cash flow is often crucial. Financial incentives to contribute towards such costs can determine location decisions. It is therefore recommended that Government in some cases considers the conversion all or some of the tax credits accrued from investment aid or R&D aid into cash. The quantum of cash conversion may depend on generation of new job opportunities, enhancement of skills, training and HR development and the credibility and importance of the operation. Setting a specific budget/fund beforehand may be a further attraction to Companies to invest in Malta.

Moving forward it is key that the Malta incentives are explained carefully to selected interested parties and it is recommend that a specialist brochure with flow diagrams showing how the mechanics work with sample user case scenarios be developed.

Attending trade shows such as GDC Game Developer Conference in San Francisco and E3 in Los Angeles will provide ideal opportunities to find and meet interested companies.

Moving forward it is important to track incentives being offered by other territories and be alert to new opportunities around emerging online technology and production focussed funding / investment, including completion bonding for computer games.

2. Encourage local games start-ups: Trigger a new generation of games start-ups in Malta by appropriate grants, aiding Angel Investment and specialist training courses.

3. Enhance education: Enhance Maltese education provision by adding new targeted courses, to deliver raw recruits for overseas and start-up games companies across technology, art and production. Additionally, establishing strong research activity, including PhDs, and research bids (including FP7 bids) around games to help position Malta for new opportunities in future given the fragmenting and expanding nature of games.

4. Nurture a games eco-system: As Malta's games industry expands the expectation is that the local games business ecosystem will become self-sufficient reducing the need for strong local incentives from ME and other organisations, however it is worth noting the fiscal incentives to attract foreign companies to join and fuel that ecosystem will need to be generous for over 5 years as can be seen from the experience of Canada (Quebec) and other territories.

5. Games Areas for Malta to Specialise in: Based on research performed under this report, the best areas to focus on are Mobile, Tablet, PC, Console-Downloadable (e.g. Xbox-Live / Playstation Network), Casual, Flash and other browser games which require smaller teams. This sector of games includes the growing areas of Freemium and Microtransaction games. Development of these games can also be aided by distributed working by team members across different territories. The existing expertise in player behaviour analytics, data mining and statistical analysis in Malta, gained from the iGaming industry, are skills directly needed for games development and support in these areas. For reference there is a worldwide demand for these player analytics skills so this would be viewed as a positive and could help attract foreign companies to locate in Malta.

Given that console development teams for full console boxed games need to be very big, often 100 people plus, this will be a hard area to secure business unless a company is prepared to relocate an entire team to Malta. The issue of the current small man power pool in Malta with games expertise would be viewed as a risk by a large publisher for the development of boxed product console games in Malta. In addition there are indications, with the exception of major releases from established brands of boxed products such as Call of Duty and Assassins Creed, that this may be a gradually declining sector in comparison to the increase in sales of smaller Mobile, PC, Console-Downloadable (e.g. Xbox-Live / Playstation Network), Casual, Flash and other browser games, exemplified by titles such as Rovio's Angry Birds and Zynga's Farmville.

In the short / medium term Malta has the potential to be a European games sales / support centre but for most large publishers such as EA (Electronic Arts) Malta tends to be grouped as a smaller sales territory under Italy / Southern Europe so corporate re-organisation would be required at the publisher to get the maximum leverage on opportunities with publisher executives at a senior level. In the short term encouraging localisation, Q&A, and service companies to locate in Malta would be sensible given Malta's language breadth as would providing outsourcing of coding to European games companies. This strategy also creates the service rich foundations which will help attract companies later. Over the next three to five years, Malta's position near the emerging North African and Middle Eastern markets, particularly for mobile games, could be make it an attractive management, localisation and marketing / sales support centre location for games publishers for those territories.

Though Malta has good internet connectivity, the specific nature of two categories of gaming: video stream-based games-on-demand (provided by such companies as OnLive and Playcast) and synchronous multi-player gaming (such as the large scale MMOGs such as World of Warcraft) including limited multiplayer online games, (such as Battlefield 2) where games hosting servers need to be very close to centres of high population density makes these less attractive options for Malta to focus on as hosting centres for servicing Europe.

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