Chapter 4

The Key Role of Entrepreneurship and Financial Inclusion as a Driver for Growth

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Chapter 4

The Key Role of Entrepreneurship and Financial Inclusion as a Driver for Growth

Providing banking services to musicians and game developers is not so risky after all. They earn and make money from their art.

Earning money and making money are different things. Earning money is the result of exchanging time for payment. You earn money by performing work for someone else: a business owner, employer, or client. Making money is different from earning money because it is an alternative to earning a pay cheque. Making money is using your time to create a product or a service that continues to make money for you (Hester, 2019). Musicians earn money as performers or music producers, for example, and they make money by creating music and receiving royalties from its distribution. Similarly, game developers earn money providing B2B or outsourced services, or working on paid projects, and they make money when they release a successful game.

Digital economy and creative freedom give rise to entrepreneurship in the music and gaming sectors. Recent developments offer financial institutions new client segment opportunities. The interviews showed how banks could grow their business serving musicians and game developers. Not only would they have clients with income but they could also help them earn more money than they do now.

Financial products and services are central to enable artists to earn and to make money. Firstly, they enable artists to apply basic financial education to manage their living expenses and to save and build wealth. In the process, the artist builds a relationship with the banker. Secondly, access to loans can help the artist make more money and build financial independence.

Figure 4.1 provides an overview of the importance of financial inclusion for the music and gaming sectors based on examples of revenue of successful games.

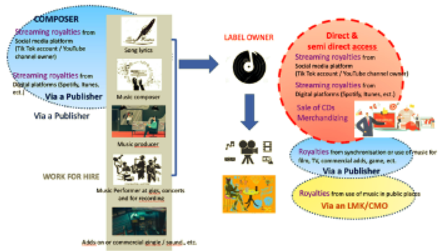
Figure 4.1. The Importance of Financial Inclusion for the Music and Gaming Sectors

Central role of the bank for sector's growth

A **loan** to replace advance fund
= **capacity to negotiate**
= **more revenue**

A **loan** to fund development
= **increased growth capacity**
= **more revenue**

Example gross revenue for PC game with publisher	with bank
US$ 1 000 000	US$ 1 000 000
- 41% (Steam & tax)	- 41% (Steam & tax)
= 590 000	= 590 000
- 100 000 (advance)	- 120 000 (loan)
= 490000	= 470 000
- 50% (Publisher)	- 30% (Publisher)
	= 273 000
= 245 000	**= 329 000**



Financial products and services to:
- manage multiple income stream and cash flow
- fund an album

= greater savings
= greater visibility to invest
= increased growth capacity
= more revenue

Note: The figure is based on examples of revenue of successful games.
Source: Author, based on interviews.

1. Bankers and Game Developers

Gross revenue from the sale of PC games may be large, but the net revenue for a developer engaged with a publisher after recoupment of the advanced development and marketing fund and after deduction of the publisher's and Steam's percentage is about 25% (calculated assuming US$1 million gross revenue). Interviewees said that some developers still find the current system satisfactory since the revenue earned is in US dollars and production costs and cost of living in Indonesia are relatively low. However, the system still has room for improvement to allow artists to earn more. From an economic development perspective, the biggest part of capital flow remains outside Indonesia since digital platforms and most publishers are non-Indonesians. Thus, the above reasoning only limits and/or slows down the game developer's capacity to grow. According to the analysis, the current system disproportionally benefits publishers (and/or investors). They are the ones who grow their capital whilst game developers make money more slowly, progressively reinvesting their gains. It takes at least 1 year to work on a game before its release. Whilst some games enjoy quick success, some studios must repeat the process a couple of times, forcing them to engage in other activities such as B2B and outsourcing services. The sector is limited by the publisher's interest and capacity. Compared with an ecosystem with greater financial inclusion, the environment is less favourable for growth. Self-published mobile games generate 59% from gross revenue.

If a game developer had access to a loan at 20%, for example, to fund the development phase, the game developer's capacity to negotiate with the publisher would be stronger and increase revenue by 35% on the hypothetical sale of US$1 million. Once the loan is reimbursed, all subsequent revenue will increase because the developer was able, thanks to the loan, to negotiate a larger share of the profit.

Mobile game developers' access to loans could enable investment in capacity building, development of more games, and diversification of games, which would, in turn, generate revenue and contribute to the sector's growth and employment.

Financial inclusion of game developers and studios alone will not transform the sector. Bankers need to learn and understand the sector and the way developers work and their cash flow. They need to understand intellectual property and the business that can be developed from it. Game developers need to receive financial and entrepreneurial education to manage their activities. Even if they are not motivated to become entrepreneurs, they must understand the business to make decisions and to discuss it with business managers, to manage their own money and to build personal wealth, and to build a solid relationship with their bankers.

The money advanced by publishers for the production phase varies depending on the scope of the game. Interviews have mentioned an average of US$80,000 to US$100,000 for a medium-sized game. Firstly, most although not all young developers have never handled such amounts. Secondly, most of the expenses are for team salaries and sub-contracted human resources. Many of the interviewees see the fund as an advance on revenue and not a loan, not realising that they must pay back the amount from gross revenue. What if the game is unsuccessful? What if they take more time than planned? The study revealed that few developers keep accounting Excel sheets and that they pay themselves salaries as high as those received by experienced developers. Even if some game developers save carefully, not knowing about or not performing a cash burn analysis and understanding the burn rate can make or break their next round if the game does not succeed. The risk is that the start-ups fails because they run out of money. Another risk comes with lack of experience, resulting in underestimating some costs or expenses and negotiating less than the amount needed to produce the game. Finally, because the amount in US dollars seems big, game developers do not necessarily calculate how they could make more money by keeping the development fund low to negotiate a higher percentage rate as does Riris from GameChanger Studio, for example.

Most game developers have a background in computer sciences, information technology and communication, and arts. Some have just graduated from high school. Most are self-taught. Some have worked for game studios. Except for a couple, the interviewed game developers come from middle-class or well-off families. They do not have business background and they have been relatively protected financially. Many just want to make games and are not interested in the business side or in marketing-related aspects that involve investing in community building and social media to retain and attract new players.

Whilst they are grateful for the opportunity, even the alumni of the Telkom Indigo Game Startup Incubator, an integrated programme providing funding, mentoring, networking events, publishing support, and PC coworking space, regretted they had to become entrepreneurs and/or a studio CEO. They said they just want to focus on making games. Telkom Indigo Game Startup Incubator has nurtured 35 talented game start-ups since 2019. The selection process follows different steps from those of creation. Developers are provided IDR3 million per person to help them focus on developing their project. Thereafter, they must pass several thresholds and at each they will receive an investment fund to develop the Alpha, Beta and Gold versions of the game. In exchange, Telkom holds convertible note shares in the studios. The studios might have to reimburse the investment.

For this reason, experienced developers advise new ones to work with publishers rather than self-publish. Publishers create the conditions for the game to be released and to succeed, thanks to their experience and advice as well as their access to platform owners and media.

Game developers need time to enjoy their achievements, to learn and gain confidence. It is a progressive process and making games takes time. Turning all game developers into businesspeople may not be the right solution. Encouraging them to include someone with a business and marketing background as part of their team or sharing the cost of a business manager amongst several game developers could be an alternative worth exploring. When game developers released *TTS Lontong* mobile game and it became viral, they recruited a friend with a business and marketing background as the CEO and founded Gambir Studio. Riris from GameChanger Studio partnered with her publisher to make up for her weakness in community management and promotion. The solutions come with increased knowledge and understanding, and maturity.

2. Bankers and Musicians

Musicians must deal with many different revenue streams. Whilst some may be regular, such as monthly or quarterly digital platform streaming royalties, gigs, concerts, and work for hire are likely to be irregular even if scheduled. A banker can make a difference by providing financial products and services adapted to the needs of artists and to enable them to have regular cash flow despite irregular income. By developing a customer-centred service, the banker could advise artists on how to best manage and invest their revenue to build financial independence and sustainability. The artist could become wealthier whilst the banker would earn on products and services and on savings.

Musicians become clients, but with multiple revenue streams. Risks associated with artists have always been the origin, uncertainty, and irregularity of income because they have been dependent on grants, sponsors, concerts, and major labels. In Indonesia, the risk is largely minimised today as artists find creative entrepreneurial ways to make a living from music without relying on sponsors or major labels, and through diversified sources. They invest in their community of fans as the basis of a sustainable livelihood. Financial and entrepreneurial education and inclusion would make a difference and unleash growth potential.

The major hindrance to financial inclusion remains bankers' perception of musicians and of financial inclusion, which suggest a lot of work for no return. If bankers knew more about the sector and artists' livelihoods, they would see the commercial value of serving musicians.

Government Regulation Number 24 of 2022 on creative economy provides a platform for intellectual property assets to become objects of guarantee for financial institutions, through bank and non-bank financial institutions to maximise their business applications.

However, according to Maulida Anggun Nur Rahmi (Rahmi and Aminah, 2022), '[t]he imposition of intellectual property assets (copyright) as objects of fiduciary collateral is hampered by: a) lack of legal support for the mechanisms and procedures for regulating intellectual property as collateral; b) lack of preparation from stakeholders related to both financial institutions and the Indonesian Notary Association (INI); c) lack of independent appraisal agencies; d) lack of a clear regulatory concept regarding intellectual property as collateral; and e) intellectual property reforms are required, particularly in terms of legal substance, legal structure, and legal culture'.

Using intellectual property assets because they are objects of economic value is a laudable initiative. However, it should not condition or delay financial inclusion of musicians: They pay tax on their income and contribute to the livelihoods of many people directly or indirectly involved in the music sector. Bankers have a vested interest in getting to know the artists and their sector, and to learn about intellectual property business opportunities by serving them now and by designing products and services that help build musicians' financial and entrepreneurial capacities. Bankers and musicians can use copyright as a tool for further growth. The development of creative economy and digital economy require everyone, including bankers, to adapt.

Artists' capacity to save or to produce proof of incoming payment, such as sold tickets for a tour, concert, or event, or a streaming royalty report, can serve as a guarantee to reduce the risk. In creative industry, the best collateral remains the capacity of clients to earn and make money because they will be able to pay a loan.

Like game developers, artists, whether independent or affiliated with a major label, need financial and entrepreneurship education. Making a budget to organise a tour, calculating returns, managing expenses—all require financial education and notions of accounting. Many indie artists and their managers do not use Excel sheets because, they say, they 'have everything in their head'. Financial education is necessary to understand how a decision impacts livelihoods and business sustainability. Major label artists need to manage revenue during the best years of their careers to prepare for the future. Entrepreneurship education is required to support the development artists' micro and medium-sized business, from merchandising to creative projects such as the *Float to Nature* initiative by Float Band, for example. The idea is great and promotes music as well as tourism, but the musicians do not know how to take the idea forward, how to turn it into a sustainable business.[8] Whilst aiming to upload their music on digital platforms, many have engaged with music digital service providers offering packages (recording, releasing, promotion) in exchange for shared profits due to the complexity and lack of knowledge about digital sales and streaming royalties. But musicians have been discouraged by unprofessional behaviour or poor returns and have given up and concentrate on live performances. Entrepreneurship includes understanding intellectual property and business possibilities, as well as being able to negotiate a service for its true value with a publisher, an aggregator, or a label. The government could support and protect artists by regulating music service providers.

Not every musician wants to become a businessperson. Not everyone needs to be an entrepreneur, but everyone needs to have an entrepreneurial mindset to advance their career. All musicians must know something about finance and entrepreneurship, firstly, to make the right decision about their career, their future, and the future of their family, and, secondly, to be able to discuss the business with the person they have entrusted to run it. Artists' lack of interest in the business could create opportunities for business managers, community

[8] https://tinyurl.com/9x64mhrh

managers, marketing experts, intellectual property lawyers, accountants, and tax specialists to offer their services to artists.

Financial and entrepreneurial inclusion of game developers and musicians is required to enable them to grow. Working with them should be regarded as a business and not a social responsibility. If game developers and musicians grow, banks grow. The question is: Can bankers become entrepreneurs? Creative economy is fast emerging. Many executives now find themselves needing to gain the knowledge, creativity, and problem-solving skills to adapt to the changing landscape. Adopting an entrepreneurial mindset may require adjusting default mindsets and changing decades-long rigid processes. Doing so will result in innovation. Just as artists are beginning to project a new image, so can bankers by being open to experimenting with new ideas and ways of working. As the saying goes, 'It takes two to tango'.

The Cuhlia pilot project could inspire Indonesian artists and bankers (Box 4.1).

Box 4.1. Cuhlia: An Innovative and Strategic Approach to Financial Inclusion and Entrepreneurship

For the first time, a bank in Cameroon, La Régionale d'Epargne et de Crédit, is offering a financial product (Progress Pack) and a bank loan that does not need collateral to artists to drive their careers. Involving a bank frees the whole music industry: Recording studios, art designers, and photographers work and the music flourishes.

The bank demonstrates that financial inclusion of traditionally non-bankable people—those with irregular income—is a possible win-win.

Pilot Project Achievements: A First in the World

Nineteen Cameroonian artists have opened current and a saving accounts at the bank; they took out loans, 13 to produce their music, 1 to help finance his music tour, and 1 to set up his restaurant. All have produced and uploaded their music on digital platforms (Spotify, iTunes, Boomplay, etc.).

The project has helped build a relationship between the bank and artists through joint training that enables everyone to get to know and understand each other better whilst providing a platform for the banker to learn about the music sector and artists' multiple income streams.

The first results are promising and show that a bank can evolve into a customer-centric service and that financial and entrepreneurial education helps artists live with dignity by diversifying and managing their income streams. Today, the bank's slogan is, 'If the client grows, the bank grows!'

Djoguy and Daniel Onbogo are two Cuhlia artists who have just started micro-businesses. Inspired by the DSIK business games and the experience of Senegalese superstar Didier Awadi, they decided to diversify their sources of income.

Daniel invested his savings in poultry farming. He now earns from making music (performances, streaming royalties, other royalties), holding voice coaching classes to a dozen students, and selling chicken.

Djoguy paid for his own subscription to Afrotunes and the recording of his album. He took out a loan to open a restaurant to diversify his sources of income and to have a place where he can perform.

The bank is starting to offer the Progress Pack to other clients in the informal sector.

Cuhlia is a pioneering approach to bring down financial entry barriers to the music industry and to promote entrepreneurship so that artists can live without being dependent on grants and sponsorship or other support. Cuhlia is designed to build the confidence of bankers and artists in artists' capacity to repay loans. Such confidence is strengthened when artists gain financial independence by selling their music on digital platforms, developing income-generating activities, and using savings and current accounts in clever ways so that they have a regular income despite irregular earnings.

The pilot project was designed and implemented by the author (Isabelle Antunès) for the German Sparkassenstiftung for International Cooperation (DSIK) with funding from the German Development Cooperation, from October 2021 to September 2022.

DSIK provided training to the bank in the cash flow approach, client-centred service, and development of financial products that cater to the specific needs of clients with irregular income. DSIK gave financial and entrepreneurship education to musicians and their managers, using its unique simulation business games; a 2-year subscription to Afrotunes, a digital service provider aggregator; and training in copyrights and royalties and social media marketing.

Cuhlia goes beyond supporting the development of the creative industry value chain. The bank is applying the approach to other sectors, helping change financial institutions' business models by shifting from money trading to entrepreneurial finance whilst investing in clients who have the potential to earn money and grow, thanks to access to productive-use loans, instead of targeting clients with collateral only.

Supported by artist entrepreneurs such as Didier Awadi, Cuhlia aims to become a global movement uniting artists, bankers, and mentors to connect people and countries through music whilst offering visibility and access to new markets, supporting the development of creative industries.

Sources: Cuhlia; Instagram campaign.