Case Study no. 10 **June 2010**

This study is based on the experience of the public-private development partnership for independent media, a joint initiative between the Swiss Agency for Development and Cooperation (SDC), the Media Development Loan Fund, responsAbility Social Investments AG and Bank Vontobel. It forms part of a series of thematic case studies of SDC's Employment + Income Network.

Innovating Development Finance for Independent Media

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1. The Public-Private Development Partnership for Independent Media

Public-private development partnerships (PPDPs) can generate significant added-value for development projects by adding private funds and know-how to the public sector's contribution. SDC is striving to strengthen the role of PPDPs. In this case, SDC has teamed up with three actors:

1) MDLF is a non-profit investment fund supporting independent media enterprises in countries with a history of media oppression. MDLF provides low-cost tailor-made loans, equity capital and know-how to help journalists in challenging environments build sustainable companies around professional, responsible, quality journalism. MDLF establishes close and long-lasting relationships with its customers.

Since its foundation in 1995, MDLF has provided USD 95 million to 70 media enterprises in 24 countries. It has raised most capital from development agencies - including SDC - and philanthropic foundations. Due to MDLF's fast growth, however, this became a rather limited source of funding so that new and more innovative funding strategies had to be found.

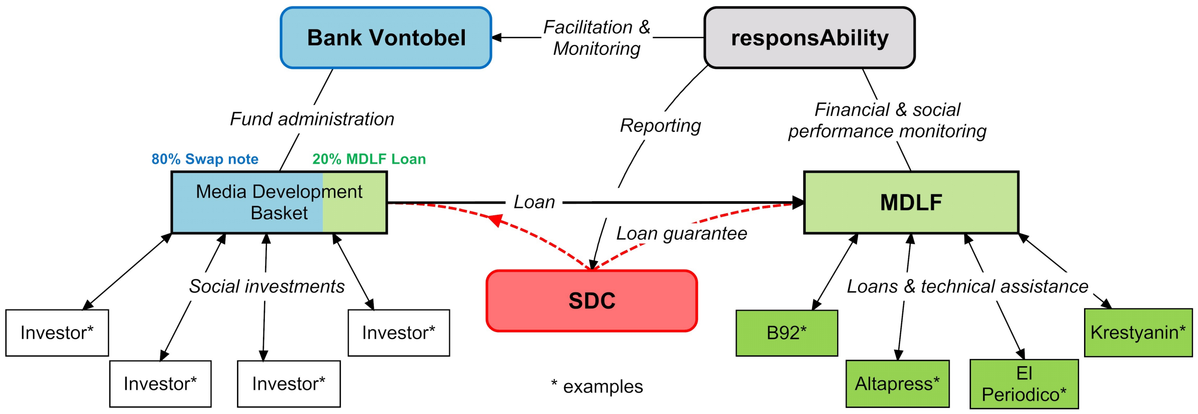
2) responsAbility is a Swiss company providing financial services to investors interested in social and sustainable development. It helps bridging the financial gap between the developing and the developed world. SDC assisted in its set-up in 2003 and has kept a thematic dialogue ever since. Keen to add new social investment themes to its large microfinance portfolio of USD 200 million (year 2006), responsAbility linked MDLF with Bank Vontobel and supported the latter in developing a new capital market product.

3) Bank Vontobel is a Swiss private bank with a growing interest on the part of its clientele for innovative sustainable investment products. Vontobel approached responsAbility for advice on how to tap into new social investment themes.

Inventing an investment vehicle for independent media development

There appeared to be a clear match between MDLF – looking for new capital – and Vontobel – looking for new investment opportunities. But in order to unlock this new investment theme, a few obstacles had to be overcome.

The **first** obstacle was related to the **size of the loan**: MDLF was seeking USD 3 million which is a large amount for philanthropic foundations and donors, but a rather small amount for getting an investment Bank involved. For this reason and also to diversify the risk of an investment into MDLF, a loan of USD 3.2 million to MDLF by Bank Vontobel was combined with a USD 12.8 million bond-like (a Note on the 5 year Swap rate of the Swiss Frank). This resulted in a structured investment product with a USD 16 million volume and a low risk profile.



The **second** obstacle was related to the very nature of MDLF's activity: from the point of view of a commercial investor, it appeared an uncertain business to invest into fledgling media enterprises doing business in countries where market conditions are precarious, and media are frequently exposed to political pressure. This obstacle was addressed by responsAbility providing a detailed due diligence on MDLF's investment track record.

The **third and most challenging obstacle** was a technical issue linked to the nature of structured products. Bank Vontobel was required to offer daily tradability of its structured products by listing them at a specialized public exchange. The product, however, was very illiquid. At this point, SDC's support as a guarantor was sought. Well aware of the fact that risks should be shared, it was only due to the developmental and innovative value of this project that SDC agreed to cover the full risk of default. responsAbility – which facilitated the whole process of bringing the stakeholders together – was tasked with the regular monitoring of the creditworthiness of MDLF and, in addition to this financial analysis, with the assessment of the social impact of MDLF's activities from a development perspective.

2. The Effect on Development Finance

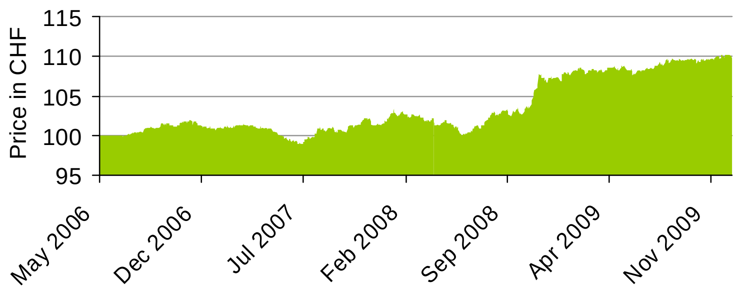
In summer 2006, Vontobel launched the 'VONCERT on responsAbility Media Development Basket' – the concrete output of this PPDP. This novel product attracted a lot of media coverage and within a few weeks, Bank Vontobel had sold a couple of tens of thousand shares.

Stirring up the social investment market

From a donor's perspective, the PPDP succeeded in mobilizing private social investment capital amounting to a couple of million Swiss Francs for the cause of independent media. These new developments at the intersection between development finance and social investment were no less intriguing for commercial social investment providers.

In terms of the absolute sales numbers, the product did not perform overwhelmingly well. The volume of new sales quickly decreased and a clear majority of the 200'000 shares remained unsold and was retained by Vontobel. One reason was the short marketing period of 2-3 weeks - typical for structured products, but possibly too short given the novelty of this product. Another reason might have been the dilution of the social value of the product by the 80% share of the bonds-like investments in the basket.

Price chart Media Development Basket



Financial returns

2006 (7 months)	1.00%
2007	0.40%
2008	5.71%
2009	2.33%
Since inception	9.80%
Average return p.a.	2.80%

In terms of **financial performance**, however, the product met even the most optimistic expectations: with a yearly return of 2.8%, an investment of CHF 100.- into independent media at inception was worth CHF 109.8.- by the end of 2009. This was linked to the performance of the underlying bond-like swap notes and - more important - the robust performance of MDLF: since MDLF had received the USD 3.2 million loan from Bank Vontobel in 2006, its risk of default had remained consistently low. Bank Vontobel did not need to claim compensation through SDC's loan guarantee.

3. The Effect on the Media Development Loan Fund

Mobilisation of capital is only a means to an end – in this case, the development of independent media through loans and technical assistance. This is assessed in terms of MDLF's **outputs** and the **outcomes** in terms of improved sales and audience reach of the MDLF-supported media enterprises.

The MDLF investment portfolio

In 2006, when the PPDP was established, MDLF's loan portfolio amounted to USD 32.8 million. This number had grown to USD 36.6 million by 2008 when MDLF was supporting 41 clients in 17 countries.

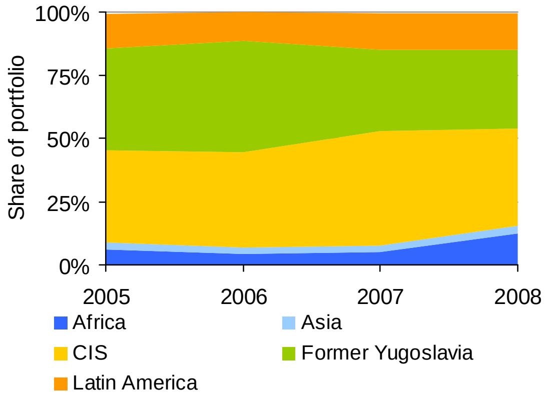
Historically, MDLF has been most active in the media sectors of former Yugoslavia and the CIS countries. The reasons for this go back to the founding of MDLF by Sasa Vucinic, journalist and former editor-in-chief of B92, one of Serbia's most important independent radio stations. The creation of MDLF was inspired by the immense difficulties facing independent and impartial media during the break-up of former Yugoslavia and the authoritarian pressures under the Milosevic government. In recent years, however, the portfolio share of Africa and Latin America has started to rise (comprising 14% and 13% of the 2008 portfolio respectively).

MDLF portfolio overview

	2006	2007	2008
Portfolio size (USD)	32'844'025	36'259'279	36'647'745
Number of clients	34	36	41
Number of countries	13	15	17
Sales (USD)*	129'405'459	166'067'498	150'622'232
Persons reached*	25'379'000	28'833'000	32'210'000

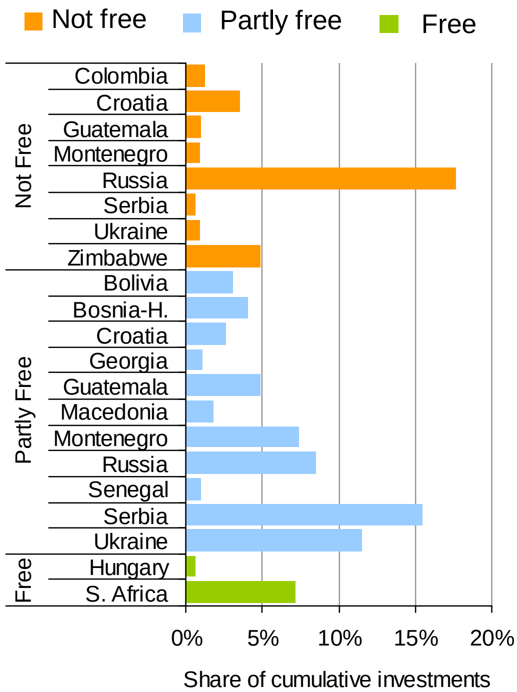
* of the companies contained in the portfolio

Regional portfolio composition



Another way to assess MDLF's activities is to look at the **media environments** in which MDLF chooses to operate. MDLF clearly supports media enterprises in countries with below-average ratings in terms of media freedom.[1]

Cumulative investments in countries (1996-2008)



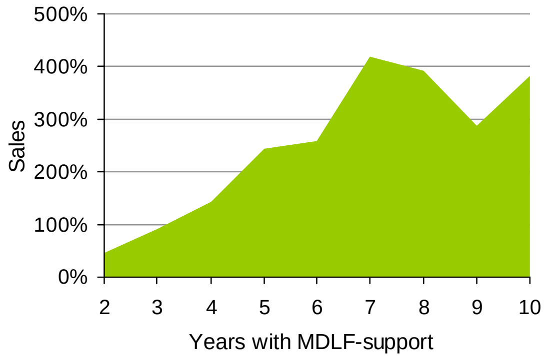
Cumulatively, investments in so called "partly free" environments constitute a clear majority of 61% and 31% of investments have been undertaken in the really difficult "non-free" environments. MDLF's investment activity in free environments has made up merely 8%. Noteworthy is MDLF's strong concentration of investments in Russia which, on one hand, is an upper middle income country but, on the other hand, one with a markedly low rating in terms of press freedom. [2]

Outcomes of MDLF's media assistance

Once MDLF has identified editorially independent and qualitatively outstanding media enterprises, its mission is to help them sustain their economic independence.

A key measurement for assessing MDLF's success in this regard is the development of the **sales** performance of its investees. Based on the performance of all 42 current and former clients, it is safe to say that MDLF's clients not only grow significantly but do this in a sustainable way. It is understood that MDLF's support is only one out of a multitude of factors that influence their sales performance.

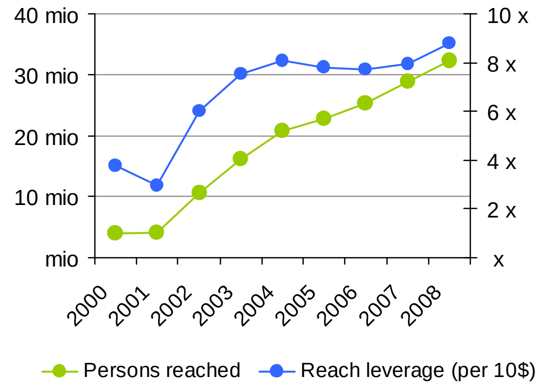
Development of sales performance
(1996-2008)



Ultimately, MDLF strives to foster citizenries that are well-informed and attentive to the political, social and economic developments in their countries. Another important indicator of success is therefore **client reach**: the number of newspaper readers, radio listeners and website visitors provided with independent news by MDLF-supported media enterprises. During the last couple of years, the number of clients reached has grown significantly from 4 million in 2000 to 32 million in 2008. This has been achieved not only by supporting more enterprises in absolute terms, but also by increasing the leverage of the portfolio. The leverage factor – the number of persons reached with 10$ of MDLF's investments – increased from 3.8 in 2000 to 8.8 in 2008.

Several reasons can explain the long-term trend towards higher leverage: on one hand, MDLF itself has become more efficient over the years, on the other hand, supported media enterprises have become more profitable generally, and clients returning for repeat lending have increased their capacity to develop and manage fundable projects.

Total client reach and leverage



Thanks to the availability of these leverage factors, the effect of the original loan from Vontobel to MDLF can be estimated quantitatively: the USD 3.2 million loan yielded USD 12.6 million in sales and helped to provide independent news to 2.8 million people in developing and transition countries in 2006. These are impressive numbers and yet this is a conservative approximation, because MDLF works as a revolving loan pool, continuously reinvesting the loan until its repayment in 2011.

4. Effects on media enterprises: Two examples

The two cases of Radio B92 in Serbia and the Mail & Guardian in South Africa explain how MDLF's assistance works at the level of individual enterprises and how its support makes a difference.

B92 Serbia – Defending freedom of speech and promoting reconciliation

Since its foundation as an underground student radio in Belgrade in 1989, B92 has evolved into an internationally acclaimed media enterprise with radio and TV stations, a publishing house and a cultural centre in Belgrade. B92 also runs one of the most frequently visited websites of south-eastern

Europe. B92's mission and values have always stayed the same: an unconditional commitment to independent and objective journalism in pursuit of societal development and responsibility.

During the wars 1991-1999, B92 was one of the very few sources of reliable information and balanced reporting. By fighting against hate speech and intolerance, and by campaigning against nationalistic propaganda, B92 made a crucial contribution to the moderation of Serbian politics. But this inevitably exposed B92 to political pressures, state censorship, intimidation and violent attacks on journalists. B92 was shut down four times. Each time it found creative ways to continue operating: by switching to web- and satellite-based news distribution and by covertly working from secret locations. B92 managed to withstand the political, legal and physical assaults by the Milosevic regime only thanks to grants from Western donors and human rights organizations. B92 survived, but it was far from being a sustainable enterprise.

With Serbia's democratisation starting to emerge in 2001, donor funding for Yugoslav media began to dry up. B92 needed to start operating on a commercially sustainable basis if it was to survive.

In post-war Serbia, however, independent media enterprises continued to operate under **conditions of extreme uncertainty** and their situation remained as precarious as during Milosevic's government. The characteristic entanglement of politics and organized crime continued to pose an extremely complex challenge. Under Milosevic, attacks originated predominantly from the secret police. But following the end of the authoritarian regime, multiple and parallel power structures have emerged with oligarchs and politicians collaborating more or less secretly.

Often, enterprises are influenced or forced out of business through financial pressure by oligarchs, while state-run and state-controlled enterprises are treated preferentially by being offered subsidies or tax allowances. Lastly, physical threats and assaults on journalists and infrastructure have not disappeared. In addition to these difficulties, B92 faced some unique challenges: it was operating a TV station that had not been licensed by the authorities and, having been formed originally in a socialist Yugoslavia, B92 was "socially owned" and therefore subject to privatization by government auction. Under such conditions of extreme uncertainty, however, **no commercial investor would risk an investment.**

B92 succeeded to transform itself into a **sustainable enterprise** only thanks to its intensified work with MDLF. Firstly, MDLF participated in the privatization of B92 and purchased the full stake, hereby preventing a take-over by an oligarch or other political interests. This was followed by large injections of capital to finance the operating deficits of B92 while it was developing its TV station in a fledgling local advertising market. MDLF also provided B92 with intensive and in-depth training and monitoring in the areas of strategic planning, financial management and organizational structure.

After B92 had consolidated itself and obtained a national broadcasting licence, MDLF worked with B92's management to find private investors that would provide additional capital without impinging on B92's editorial integrity. With a Swedish investment fund on board, MDLF sold part of its stake, recovering its investment including a sizable capital gain.

B92 sales and reach

	2004	2005	2006	2007	2008
Sales	+47%	+58%	+79%	+46%	-10%
TV: reach	+54%	+29%	+69%	-31%	-
Radio: reach	+12%	+5%	+19%	+10%	-
Website: reach	+59%	+47%	+59%	+50%	-

(Year-to-year changes)

Thanks to this support, B92 has been able to continue nurturing a national dialogue on the war, to push forward the process of national reconciliation, and to investigate and expose rampant corruption. The stories that B92 broadcasts ask hard questions and provoke very painful reactions. This is a job that is not very popular and barely lucrative, but of crucial importance to Serbian society in order to resolve its past and develop a common future.

Mail & Guardian South Africa

Since its foundation in 1985, this newspaper has played a unique and essential role in South Africa, serving as a leading source of investigative reporting and political coverage in the country. It built up an international reputation as a vocal apartheid critic in the eighties, leading to a number of clashes with the government, culminating in the paper's temporary suspension in 1988.

For most of its life, however, the paper was **chronically operating at a loss**. In 1995 the British newspaper The Guardian became the majority shareholder of M&G but in 2002 decided that it could no longer afford it and sold it to noted independent Zimbabwean journalist and entrepreneur Trevor Ncube. In a short time, Ncube lead a complete turn-around of the newspaper, marked by an expanding readership, increased ad sales, and better positioning of the paper to serve South Africa's growing black middle-class.

Ncube of course knew that reversing the paper's losses would take time, and he had lined up financing from a Botswana-based bank to cover the projected operating deficits during the turn-around stage. But after he had completed the purchase, the bank reneged on its commitment and demanded majority control of the paper as a condition for financing. **No other banks were willing to provide the needed financing**, as M&G had yet to show any profit in all its years of operations. This situation brought the company to the edge of insolvency.

It was at that point that Ncube approached MDLF for assistance. MDLF approved a credit line that included a warrant to purchase a 10% stake in M&G in the future. Another problem that MDLF helped to solve was M&G's on-going reliance on competing newspaper networks for its own distribution. To address that issue, M&G purchased a regional distributor in 2006 and expanded its reach to cover the country. MDLF provided an additional loan to finance this acquisition and the expansion.

M&G has been a high-performing borrower and has already repaid 89% of all funds loaned by MDLF, and Ncube's strategy for turning M&G around has been an unqualified success: Since 2003, the papers' sales have grown by an average of 17% annually and readership has grown four-fold. Qualitatively, M&G has continued to meet the highest standards with its investigations into corruption and its production of probing inquiries. As a result, various attempts have been made to gag the newspaper through court actions, for example when M&G revealed how public money was diverted from South Africa's state oil company to the African National Congress (ANC) ahead of the 2004 elections.

Mail & Guardian sales and reach

	2004	2005	2006	2007	2008
Sales	+52%	+34%	+6%	+15%	+13%
Print: reach	+5%	+7%	+20%	+35%	+37%
Website: reach	+14%	+23%	+36%	+12%	+6%

(Year-to-year changes)

5. Conclusion

SDC's contribution as a guarantor was essential for Bank Vontobel, responsAbility and MDLF to start building trust and a working relationship. The PPDP was able to break new grounds by developing a novel financial product that mobilizes private investment capital for the strengthening of independent media enterprises.

The private-sector actors have shown interest in following up with a successor product in 2011. Their willingness to go along without SDC covering the risk of default is a promising indication of the sustainability of this kind of vehicles. In the longer term, new investment vehicles focusing on developmental goals are expected to follow by building on the experience of this innovative PPDP.

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[1] The Freedom House Rating of Press Freedom is used. The rating considers the degree of media oppression in the legal, political and economic spheres (see http://www.freedomhouse.org). MDLF's portfolio has an above-average exposure to countries that are considered "not free" and "partially free".

[2] Some countries' press freedom (Freedom House) rating changed during MDLF's investment activity. Hence they appear in more than one category on the chart (Croatia, Guatemala, Montenegro, Russia, Serbia, and Ukraine).