Reinventing the Media Investor

By Don Podesta

Wanted: Media investors with a social conscience. Willingness to be satisfied with small return on investment strongly preferred.

That is the message that Sasa Vucinic, managing director of the Media Development Loan Fund (MDLF), is sending to the media development community. It also neatly encapsulates the formula that Vucinic says is the key to building sustainable independent media and reflects the way his organization operates.

Sasa Vucinic in his New York office.

Since 1996, the MDLF has provided independent news media outlets with nearly $95 million in loans, grants, and equity investments. The MDLF has financed more than 200 projects for 72 independent media organizations in 24 countries, according to its Web site. More than 32 million people get their news from MDLF's clients and former clients.

"If there is such a thing as a media bank, this is the media bank," Joyce Barnathan, president of the International Center for Journalists, said in an interview.

In Vucinic's view, "to move the needle of media development further, what is needed is a new type of media investor." In an interview at the MDLF's offices in New York, Vucinic explained that traditional investors fall into two categories: financial and strategic.

Financial investors, those "who want 18 percent [return on investment] and don't have an interest in media, are not good," according to the Serbian-born Vucinic. Strategic investors, who buy up media outlets and create large chains or networks, are no better. So what Vucinic has sought is a third category of investors—what he calls the social investors, meaning those who are willing to invest in projects for the common good of society, even if it means lower returns.

Unlike most other businesses, Vucinic argues, news media have two "personalities," one commercial and the other "the social role that media play in every society." When media companies compete in the market, they compete with companies that don't have to take into account that social role.

"You have the *New York Times* on the stock market, the *Washington Post* on the stock market, and Procter & Gamble," he said. "You're forcing media houses to compete with Procter & Gamble" for stock investors' dollars.

Media companies can do well with a 5 percent return on investment, but the 18-20 percent profits that investors in U.S. media were accustomed to reaping until the advertising-based model largely collapsed in the face of competition from the Internet in the last decade are no longer sustainable. And trying to keep profits at that level to please investors has long-term detrimental effects on the future of news media. "If you have to perform for the market, you don't have time to invest" in such areas as new technologies, Vucinic explained. In fact, he said, it was the U.S. media companies' obsession with short-term profits that kept them from experimenting with new technologies and "seeing this digital tsunami that was coming."

The MDLF makes it clear to every client in which it invests as an equity partner (as opposed to providing loans) that when the media outlet turns a profit it will take its stake out to reinvest in other projects. But it is careful about the kind of ownership that will be left in place, giving the stakeholders in the media organization veto power over to whom the MDLF can sell its shares. The ideal is employee-owned news organizations willing to accept low profit margins if it means they can sustain the journalism, including salaries. In that scenario, profits for the organization as a whole are nice but not essential.

Recently it has partnered with the Swiss bank Vontobel and responsAbility, a Zurich-based social investment services provider specializing in developing countries, in a program that allows investors to put money into an account that lends 20 percent of the investment to the MDLF at 1 percent interest. The remainder is invested at prevailing market rates.

In the early 1990s, Vucinic served as editor in chief and general manager of Radio B92 in Serbia. The station, a respected source of independent news, faced serious pressure from the government

Sasa Vucinic, In His Own Words

CIMA asked Vucinic about his experience at Radio B92 during the Balkan crisis of the early 1990s.

In general, I am a bit hesitant to talk publicly about my time with B92 as a few months from now it will be exactly 17 years since I left the station. Some younger brilliant guys took over at that time and did a fabulous job, and some even younger guys are doing a fabulous job now. I am ancient history there and I am not sure that it is right or that it is fair to them for me to be repeating and reviving those "ancient stories" from "my time".

But there is a topic, related to B92, which I feel very comfortable talking about and that is how that B92 experience influenced and gave birth to the idea of the "media bank", which later got life under the name of MDLF.

As general manager of B92, I was ultimately responsible for "making ends meet" and for making the station financially viable. That experience gave me an inside look into the sophisticated ways that a government can strangle a media company without leaving behind any traces of the crime. Deny access to newsmakers. Threaten advertisers. Delay licenses so that the legal status appears shaky and unstable—this also financially bleeds the company which has to pay staff while it is off-air or off the newsstands. Send, systematically, different kinds of inspections, from financial and working conditions inspectors to tax auditors.

Although some of this happened to me 17 years ago, many MDLF clients face exactly the same pressure today—in Russia, in Montenegro, in Zimbabwe. Sometimes the authorities are clumsy and leave fingerprints all over their work, but other times they are smart and skillful and leave no traces of what they are doing. I remember thinking how unjust it was that a hostile government has so many sophisticated tools at its disposal to make an independent media company appear unsuccessful on the market. How they can strangle you in silence. I will never forget that incredibly powerful feeling of solitude (or is it loneliness) you get in this fight. The only thing we needed—I thought—was a level playing field. A fair chance to try. Nothing else.

during the Balkan crisis, an experience that left Vucinic with a profound empathy for media organizations facing similar troubles. "Every time I am a member of an investment committee, which makes a decision on a specific investment, I try to imagine myself in the shoes of the person sitting in front of me, applying for funds," Vucinic wrote in an e-mail follow-up to the interview. Those moments, he wrote, "remind me of the purpose of MDLF."

Trevor Ncube, executive deputy chairman of M&G Media in South Africa, an MDLF partner, said in an interview that the MDLF is not like any other bank. "They understand media. They are into media for the same reason I am into media—good governance, transparency, freedom of information," Ncube said. "Profit is a byproduct of what we do."

The MDLF—the brainchild of Vucinic and the late Stuart Auerbach, a long-time *Washington Post* reporter—was launched with a half-million dollars in seed money from billionaire George Soros. From that initial support, the MDLF's list of contributors to its investment pool has grown to more than 20, and the MDLF is now self-sustaining. By investing in media outlets that have turned a profit and by lending to those who have been scrupulous about repaying the low-interest loans, the MDLF has built up a nest egg of $20 million and has been self-sustaining since 2008. This allows it to experiment more, take more risks, and fund still more media projects. As of the end of 2009, the MDLF's outstanding portfolio of investments and loans stood at about $38 million. It has written off only about 2 percent of its loans since it began operating.

In order to qualify for support from the MDLF, applicants must have been operating legally in their home countries for at least one year and must have an "established reputation for promoting democratic institutions and practices and exercising the principles of a free, independent and responsible press," according to the MDLF Web site. Among other requirements, applicants must also "devote a significant part of editorial content or programming to fact-based news and documentaries, independent from the influence of the government or of any other interest group." (A list of requirements, funders, and some of MDLF's clients can be found on MDLF's Web site: http://www.mdlf.org/en/main/apply/64)

Many years later I can say that the whole purpose of MDLF is to try to level the playing field for independent media in the countries in which it works. We are in the business of giving a chance to those dedicated, smart, and independent people whose mission in life is to make the part of the world in which they live better and more responsible to their community. We provide affordable financing for their ambitions. We invest in their voices. They, on the other hand, provide ideas, endless hours of hard work, incredible courage, and dedication. So, if MDLF can keep a journalist's business alive, and in the process ease his or her feeling of solitude, then MDLF has served its purpose.

Here is one "investment secret" which is a direct consequence of my B92 experience. Every time I am a member of an investment committee, which makes a decision on a specific investment, I try to imagine myself in the shoes of the person sitting in front of me, applying for funds. How does it feel being a publisher of an independent daily newspaper in Guatemala City, having survived at least four attempts on your life over a decade and a half? What does a broadcaster in Jakarta feel like, after a religious mob threatens to "remove them" from their building? Trust me, these two minutes in which I try to imagine their lives and their responsibilities always give me a different understanding of the numbers in the loan application in front of me. They make me humble. They remind me of the purpose of MDLF. That is how I know I am ready to make an investment decision.

I am not going to lie and say that it was easy to get MDLF to the point where it is today: our approach and model proven, and our business strategy overperforming by creating a $20 million endowment for future projects. It took a lot of self-belief to live through more than a decade of doubts, and there were times when we weren't sure we'd still be here. At MDLF's 5th anniversary we even made T-shirts reading: "Our biggest achievement so far is—that we are still in business".

"They provided a great service to independent media outlets in the late 1990s in Eastern Europe and the former Soviet Union," Peter Graves, an independent development consultant, said of the MDLF in an interview. From its origins in Eastern Europe following the collapse of communism, the MDLF has branched out into Africa, Asia, and Latin America.

Graves attributes the fund's success to its "fairly rigorous selective criteria for clients they would assist. They weren't going out there willy-nilly."

The MDLF's very first client is a case in point. When Slovakia separated from the Czech Republic in 1993, the managers and editors of the state-owned newspaper, *Smena*, were immediately dismissed. They founded their own publication, the daily *SME*, but faced the hostility of the government of then prime minister Vladimir Meciar. There were only two publishing houses in the capital, Bratislava, at the time, one of them state-owned and the other privately held but whose owner was indebted financially to the government. Neither would print *SME*. Alexej Fulmek, now chief executive officer and chairman of the board of *SME*'s parent company, Petit Press, said he and his team found a printer in the southern part of the country, about 70 miles away, to print their paper, but the distance the papers had to be trucked back to Bratislava meant the news deadlines had to be so early that it was hard for *SME* to be competitive.

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— Peter Graves, an independent development consultant

In 1995 Fulmek learned that Soros' Open Society institute was creating a fund—the MDLF—to support independent media in post-communist countries and arranged to meet Vucinic in Prague.

"At that time every printing house in Bratislava was refusing to print *SME*, and our only hope was to create our own printing press," Fulmek said in an interview and follow-up e-mail exchange. "Mr. Vucinic said a few discouraging words such as: business plan, loan, and project."

Fulmek said he considered those mere formalities and was prepared to write a brief proposal. Three months and a 70-page business plan later, he had the loan to buy printing presses. "We were amateurs," Fulmek said, pointing out that he and his partners were journalists, not businessmen.

Now Petit Press is the second-biggest publishing house in Slovakia, with 30 newspapers and about $60 million (U.S.) in annual revenues. The economic downturn of 2009 hit Petit Press's bottom line hard, but it still managed to end the year in the black.

Vucinic can point to only two disappointments in the MDLF's portfolio of loans and investments. One was a case in which "some guys decided, 'We just want to be rich,'" and had no interest in producing the high-quality news content that the MDLF strives to promote. It supports news media exclusively, not media that focuses on music or entertainment.

The other was a case of fraud. A television station owner in Macedonia took a loan from MDLF intended to finance the purchase of transmitting equipment and instead used the money to buy frozen chicken wings, no doubt expecting to use the low-interest loan to finance a business that would have a high rate of return and eventually buy the transmitting equipment with the profits. Or not. In any case, the MDLF doggedly pursued the borrower. It took seven years, "but we recovered every single penny," Vucinic said, plus interest, legal expenses, and even punitive damages.

Premesh Chandran, president of Malaysiakini, a Web-based multimedia news organization in Malaysia, said the MDLF "played a critical role for Malaysiakini, not only providing investment, but long-term support, mentorship, access to their network of people, clients." Malaysiakini has established itself as a trusted and timely news site—a must-read for many Malaysians.

"To me what differentiates [MDLF] is that they help chart the strategy going forward and then help you get there. They have much longer time frames (5-10 years), as opposed to foundations which normally give a grant for a single year," Chandran said via e-mail. "Also, being media people themselves, they are painfully aware of implementation issues, and are very realistic in their projections."

Ncube said he approached the MDLF in 2006, when his company was in financial trouble. "They were very quick to respond to our distress call," he said. The MDLF board made a decision to support M&G (for *Mail & Guardian*, the newspaper it publishes in Johannesburg) within four weeks. Because Ncube is from Zimbabwe, South African banks did not know him and would not approve loans. The MDLF's decision to support his company "was a huge relief because everybody looked at us as a basket case," Ncube said.

The M&G group, which had never turned a profit before it became involved with the MDLF, registered three years of profitability before the economic crisis of 2008-2009, Ncube said. The MDLF has a 10 percent interest in M&G Media in South Africa and sits on its board.

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— Tosca Santoso, managing director of KBR68H

Tosca Santoso, managing director of KBR68H, a radio news agency in Indonesia, first received assistance from the MDLF when he was a print journalist, running an underground magazine during the authoritarian New Order government of then president Suharto. MDLF provided a loan to buy printing equipment, which was "very risky, because our business [was] illegal at that time," Santoso said. "MDLF also gave very important contributions on developing business plan and financial report. I don't think any other organization, or bank, [would] give us a loan like MDLF did."

In 1999, the MDLF helped establish KBR68H, which started broadcasting via seven radio stations. Now, his group has more than 720 radio stations, reaching millions of listeners, Santoso said.

In the beginning, KBR68H depended on donor funding, but it is now self-sustaining, with more than 70 percent of its revenues coming from advertising and nearly 30 percent from production collaboration with other organizations. The agency's annual budget is about $2.2 million.

Nonetheless, the MDLF's business-oriented approach to supporting media is not necessarily an appropriate model for developing or supporting independent media everywhere, said James Deane, head of policy of the BBC World Service Trust. Deane pointed out in an interview that fragile and conflict-afflicted states, such as Somalia, Sudan, and Afghanistan, simply do not have the economic and political conditions for independent media to flourish. In such states, Deane said, there is "not enough of an advertising market to sustain serious, public-interest, investigative journalism."

Vucinic said that governments can do a lot to maintain news media as a public good, in the same way that governments subsidize agriculture, education, and health care as a public good.

"If you want to produce more soya, you know how to do that—tax breaks, incentives," Vucinic said. "If you want your voters to know what they're talking about, to know why they're voting the way they are voting … it's the same thing as investing in education." One way governments could help sustain independent media is through tax policy, Vucinic suggested.

At the heart of Vucinic's philosophy is the belief that the social good provided by high-quality journalism trumps profit-making. This means working with journalists who share the MDLF's values, who "have the same understanding of journalism that we do," Vucinic said.

The MDLF has been encouraged to consider working in the United States, which Vucinic said it might do, perhaps starting as early as this year. As the MDLF's client base spreads from Eastern Europe to Asia, Africa, and Latin America and as the media development field matures, Vucinic would like to take his organization to a different level, what he call calls MDLF 3.0. "Instead of us giving all the individual loans we can possibly give … we want to become the eBay for media lending," he explained. "We want to encourage a lot of smaller MDLFs to be created." He would like to provide both the financing and the knowledge to help make that happen.

"At the very beginning … we thought, 'Money is the thing,'" Vucinic said. Now "we understand it's really not the crucial thing. The crucial thing is actually knowledge."