

# Media Development Impact Dashboard 2009



## Key Findings

- In 2008, more than 32 million people in developing democracies got their news from 37 MDLF clients, an increase of almost 3.5 million from 2007.
- After 5 years with MDLF, current clients on average have increased their sales by 370%.
- In 2008, 29 clients generated more than \$150 million in sales, a fall of nearly 10% from 2007 mainly due to the falling value of local currencies against the US dollar.
- After five years with MDLF, current clients on average have increased their readers, listeners or viewers by 49%.
- In 2008, each dollar invested by MDLF leveraged \$4.11 in client sales, compared to \$2.49 in 1999.
- For every \$10,000 invested in 2008, MDLF supported access to independent news for 8,789 readers, listeners and viewers, more than double the 1999 level of 4,238.
- In 2008, despite the global financial crisis, 18 of 32 clients maintained a level of financial risk MDLF considers to be consistent with long-term sustainability.

## Overview

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Media Development Loan Fund is a mission-driven investment fund for independent news outlets in countries with a history of media oppression. Through low-cost capital, solutions and know-how, we help leading journalists build commercially sustainable businesses around professional, responsible quality journalism—independent media that are strong enough to hold governments to account, expose corruption and drive systemic change.

It is vitally important for us and our investors to understand how effective we are at achieving our mission. The aim of this fourth **Media Development Impact Dashboard** is unchanged from previous years: to provide an objective, systematic means of measuring overall effectiveness.

By analyzing detailed monthly financial reports from clients, we are able to gain a deep insight into their business performance. And by identifying individual and general trends, we are able to assess the development of client businesses over time and so establish the impact of our work. However, we should not underestimate the scale of this task. Not only are there inconsistencies in how clients compile data, but proving causality between our assistance and an improvement in a client's business is rarely possible. Other challenges we continue to consider include how to take inflation into account, and how or whether to incorporate a margin of error.

Despite these shortcomings, we are convinced that the Impact Dashboard is a credible attempt at measuring the impact of our work and another step towards better understanding the role of below-market rate financing in media development.

By focusing on the changes that we can quantify, compare and analyze, the Impact Dashboard answers questions like: How have a news business's sales figures changed over time? How many people receive their news from MDLF clients? Do news outlets become more financially viable while working with MDLF? What are the trends in sales and reach by region and media sector? Has MDLF assistance been effective in helping news outlets survive the global financial crisis?

## Methodology

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With information collected monthly from **clients in 24 countries**, we aim to show impact through data supported by context and explanation. We have again sought to improve the methodology and presentation over last year's Impact Dashboard so that the information we present is as reliable and informative as possible. In an effort to make this document easy to understand, while also wanting to maintain transparency in how it has been compiled, full details of our methodology are available online at [www.mdlf.org/en/main/impact/](http://www.mdlf.org/en/main/impact/).

## MDLF's Portfolio

A snapshot of MDLF's portfolio shows the scope of our work. In 2008, **we worked with 41 clients in 17 countries**. More than half of our clients were in Russia, Ukraine and Serbia, though we also have significant investments in other parts of Southeast Europe, Africa, Asia and Latin America.

The **23 new projects financed in 2008** included purchasing new printing equipment and new premises, launching new television channels and radio stations, and retaking control of an online news site. In addition to launching projects for six new clients in 2008, MDLF funded projects for existing clients and continued intensive monthly monitoring and managerial technical support for all ongoing projects.

MDLF's portfolio includes both small, regional companies and national media outlets. All MDLF clients, regardless of size, are leading news organizations in their market, directly connecting with decision-makers and the general public and helping to bring about increased openness, change and accountability.

	Cumulative (1996-2008)	2004	2005	2006	2007	2008
Portfolio size (including commitments):	n/a	\$25,724,091	\$29,132,836	\$32,844,025	\$36,259,279	\$36,647,745
Number of clients:	71	35	33	34	36	41
Number of new clients:	n/a	8	2	4	6	6
Number of countries:	24	15	13	13	15	17
New investments made:	\$73,582,236	\$8,019,611	\$7,334,488	\$10,900,880	\$10,479,544	\$6,372,668
New projects funded:	196	20	13	17	17	23
Principal recovered:	\$36,613,603	\$3,207,460	\$3,304,743	\$7,052,048	\$7,064,290	\$5,296,416

## Impact Dashboard Indicators

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MDLF measures its impact on the sustainability of independent media in two ways and uses several indicators for each:

### I. Client Impact

MDLF's primary objective is to help independent media businesses become financially self-sustainable. We have identified three indicators that measure how client businesses are developing and whether they are moving towards that goal:

#### i Sales

Sales—by which we mean income from circulation, advertising and printing services—are a good indicator of the 'size' of a business, showing growth or decline as a client strives to move towards sustainability. This Impact Dashboard analyses the results from 28 current client companies that have been with us for two years or more. We look at sales based on the number of years with MDLF, by media type, average annual sales growth for all companies from first to most recent year, and also change in sales for clients over the past year.

#### ii Readers, listeners and viewers

The number of readers, listeners and viewers shows how many people receive news and information from MDLF clients. In addition to the data provided by 28 companies on the "reach" of their regular business, we examined data from 22 of them who also provided news to readers through the internet. As with sales, we look at change based on the number of years a news outlet has been an MDLF client, by media type, and also change in reach for clients in the past year.

#### iii Financial viability

Financial viability assesses the overall long-term sustainability of client businesses by using MDLF's risk-rating scale. A composite of seven factors, the risk-rating scale assesses a company's financial position, market position and management capacities. We report on financial viability for clients in 2008, fluctuations for long-term clients, and variations by media type.

### II. Portfolio Impact

By collating individual client results, we are able to measure the overall impact of MDLF's work using two of the three indicators above:

#### Sales:

In addition to identifying trends in total client sales year-on-year, we can compare annual totals with the number of clients we work with to obtain an indication of the "leverage" of each dollar invested in our portfolio.

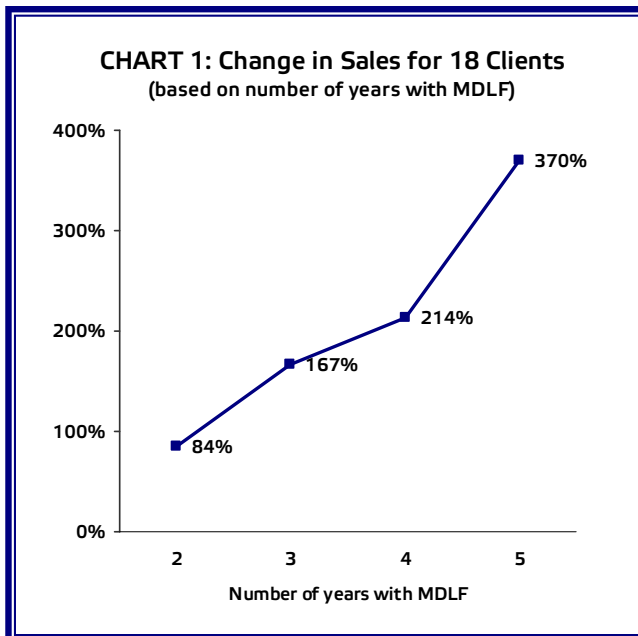
#### Reach:

Aggregating client reach totals allows us to measure the overall number of people in emerging democracies who receive news from MDLF clients. We are also able to examine MDLF's impact on a regional level.

## MDLF Client Impact i Sales

MDLF financing, along with intensive capacity-building support, aims to grow businesses so that they can become financially self-sustainable in the long term. While many of our clients see immediate short-term growth after we begin working with them—this is particularly true of print clients whom we have helped to purchase a printing press—it is the sustainable long-term growth that is our overriding objective and the measure of our success, or otherwise.

Although sales alone do not reveal the full picture, they are a good indicator of how a business is performing and, in most cases, MDLF support results in significant sales growth. Even with the global financial crisis affecting a lot of our clients at the end of 2008, most still saw positive sales growth over the course of the year.



Of course, MDLF support is only one of many factors that can affect sales growth and decline. In particular, much depends on the way a client’s business is managed and their openness to developing better business practices. External factors are also important, none more so in 2008 than the financial crisis, the impact of which will be explored in detail in the Spotlight section below.

Looking at the way in which a client’s sales have changed in the long-term is particularly revealing of our relationship with them. Chart 1 shows that the 18 current companies that have reached the five-year mark with MDLF have experienced average cumulative sales growth of **370%**, with the rate of growth rising from the fourth to the fifth year. This represents a rise of 43% over the figure of 327% for clients who had been with us for five years in last year’s Impact Dashboard.

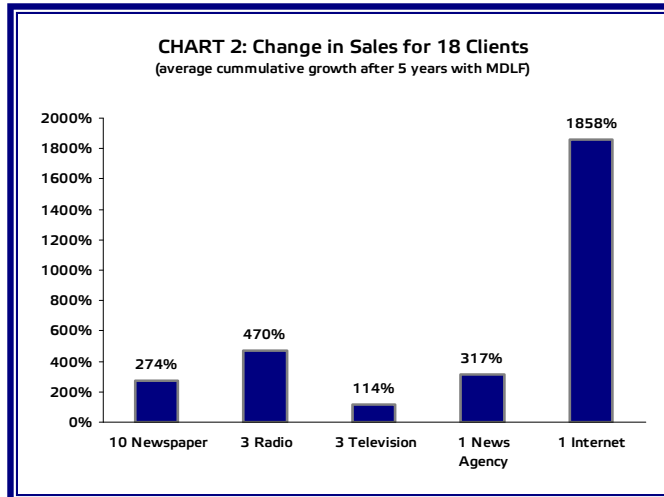
In addition, clients with longer relationships with MDLF continue to enjoy growth beyond five years. For the 16 current clients that reached the six-year mark, the average increase in sales from their first to their last year was **430%**, and after eight years (for nine clients) it had risen to **620%**.

Reasons for sales growth vary widely and it is impossible to say with absolute certainty that such increases are a direct result of a company’s work with MDLF. Nonetheless, the more companies we are able to look at, the greater the likelihood that an overall trend is a result of a factor common to all—partnership with MDLF.

Dramatic sales growth may not be the primary goal of a media company. For example, a news outlet that is reducing peripheral costs and focusing on its core business to combat the impact of the economic crisis will likely expect only modest sales gains, if any. In such cases, particularly in times of recession, avoiding a decrease in sales revenue is itself an achievement. At other times, a large-scale increase in sales may be expected for a company making a major investment in new infrastructure, like a printing press.

## Client Impact Sales continued...

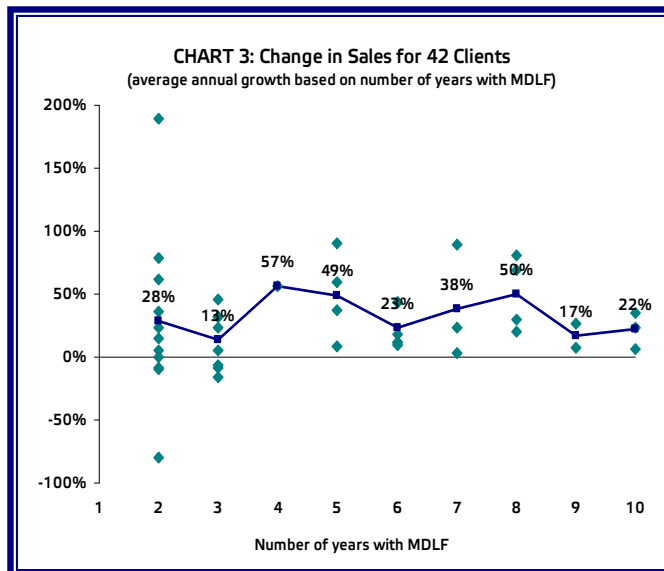
To provide greater context for the results, Chart 2 shows how sales have changed for our current clients by media over a five-year period compared to the first year they began working with us. It should be noted that these results also include a more than 1,000% increase for two clients. One of these is an internet news site whose sales increased by 1,858% as it changed its business model from providing free online news to a subscription-based site. After initial rapid growth, sales have remained impressive but have started to level out as the business matured. The other is a newspaper in Ukraine which generated 1,187% increase in sales in its first 5 years by launching a printing house and building an exceptionally strong client base for printing services.



As these two exceptional results somewhat distort the performance of the 'average' client, when we exclude them from the calculation average sales increased over the five-year period by **226%**—a lower number, but still a significant increase. This can be broken down as follows:

- **173%** for 9 newspapers;
- **470%** for 3 radio stations;
- **114%** for 3 television stations; and
- **317%** for 1 news agency.

While looking at clients who have worked with us for exactly five years provides a revealing snapshot, it leaves out how both newer and more long-term clients have been affected by their partnership with MDLF. Chart 3 takes a different look at the data by examining the average annual sales growth for all clients from their first year with MDLF to their most recent, based on their total number of years with us. Unlike the previous charts, this includes both current (28) and former clients (14) and gives a more detailed picture of the growth a client could expect to see after a certain number of years working with us.



From the first year of working with MDLF, clients can on average expect to see significant positive growth and, in most cases, an increase in annual sales in excess of 20%. The period of most consistent growth is between four and eight years of working with us. This might be explained by the fact that the focus of our work in the early years is

## Client Impact Sales continued...

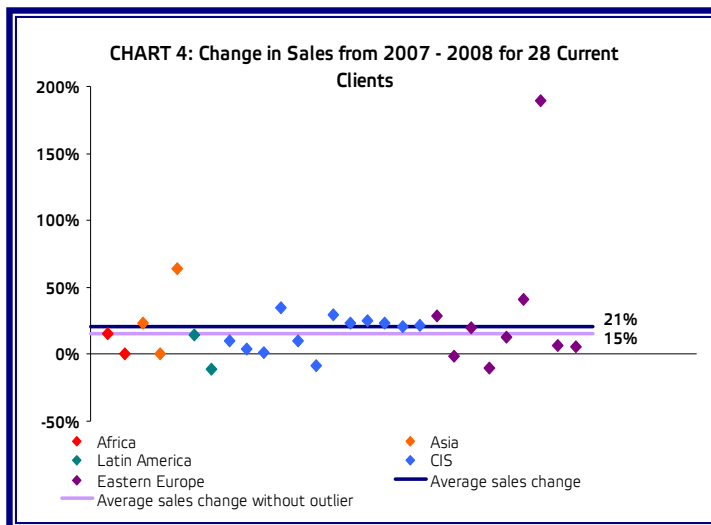
often addressing fundamental issues, such as management and ownership structures, and putting in place strategies for business growth that take several years to pay dividends.

By region, average annual sales growth for both current and former clients is broken down as follows:

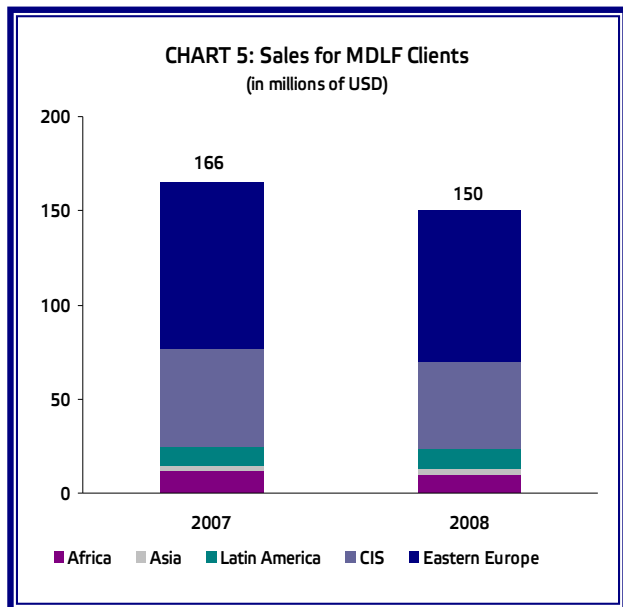
- Africa (4 clients): **26%**
- Asia (3 clients): **42%**
- Latin America (3 clients): **3%**
- CIS (17 clients): **38%**
- Southeastern/Eastern Europe (15 clients): **23%**

The strongest average sales growth has been in Asia, boosted by the internet publication mentioned earlier. But the CIS region is not far behind, in part resulting from a number of companies which saw sales boosted by opening new printing houses with our support. A second factor contributing to strong growth in the CIS is the experience that MDLF has built up over 13 years of working in the region. Over this time, MDLF has worked with scores of companies and developed a detailed understanding of the regional media markets and what is needed to build a successful business in that part of the world.

Examining long-term trends provides the greatest insight into how MDLF affects client sustainability, though looking at changes in sales over the past year provides a useful guide to current performance. Chart 4 looks at the sales growth (in local currency) that 28 of our current clients experienced between 2007 and 2008, broken down by region. Interestingly, this shows that despite the final quarter of 2008 being exceptionally difficult for media and other companies the world over, most of our clients experienced positive growth over the year. In fact, the average change in sales over the last year was **21%**. Even when the slightly distorting performance of one exceptional new radio client in Serbia is taken out, the average sales increase over the last year for the rest of our clients was still **15%**.



**Client Impact**  
 Sales continued...



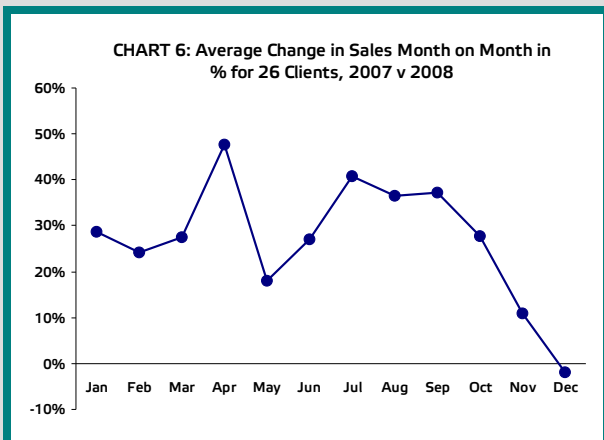
However, we see a totally different picture when we compare sales data converted into USD. When measured in local currencies, only four clients experienced a fall in sales, but when converted to USD this becomes 18 out of 28, and provides us with the first year-on-year fall in total dollar client sales since we began publishing the Impact Dashboard in 2006 (down to \$150 million from \$166 million for the 28 companies that were clients in both 2007 and 2008). This is explained by the massive fall in currency values in some of the countries most affected by the financial crisis. For example, all of our clients in Ukraine saw sales rise over the year in the local currency but all saw a fall in USD equivalent sales after the Hryvna fell by 38% against the dollar over the course of the year—the third worst performing currency with respect to the dollar in 2008. Similarly, almost all of our clients in Russia and Serbia saw sales fall in dollar terms.

**Global Financial Crisis**

When the global economic crisis hit in September 2008, the world’s financial sectors were the first to be affected, but other industries, including the news business, were not far behind. Media companies throughout the world have been severely impacted by the crisis, some going out of business and many dramatically reducing their operations.

MDLF clients appear to have fared relatively well during the crisis and none have yet been forced to close. Nonetheless, many have experienced a sharp reduction in revenue as a result. Manufacturers and retailers throughout the world have slashed advertising budgets in response to falling customer demand and to cut costs. For many of our print clients, this constitutes around 50% of their income, while for many radio and TV companies it is their only source of revenue. Several of our clients with printing houses have reported a sharp reduction in orders as customers reduce print runs in response to their own falling circulations.

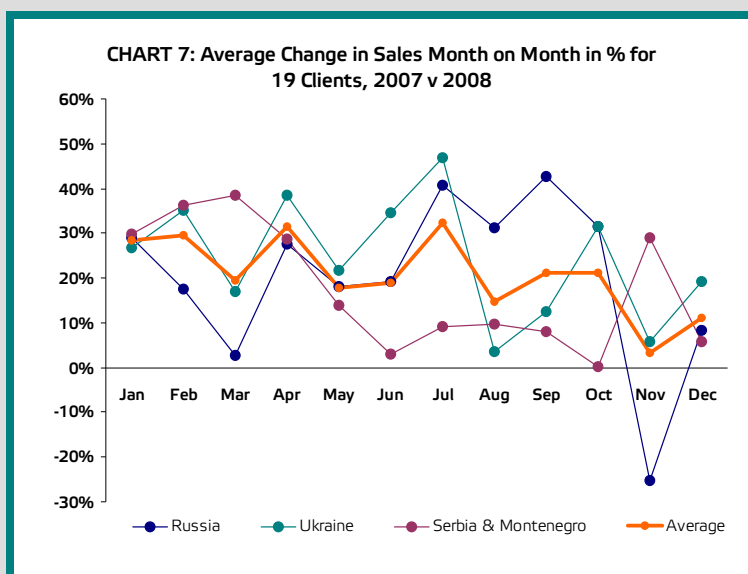
The impact of the crisis on our clients is particularly apparent when monthly changes in sales from 2008 are compared with the same figures from 2007. Chart 6 illustrates this for the 26 current clients who have been with us from at least the beginning of 2007 and who have sufficient data to be included. Average change in sales month on month began to taper off dramatically in the final quarter of the year. From January to September, clients enjoyed average sales revenue that was 32% higher than the same month one year previously; however, following the onset of the crisis, sales growth declined sharply and by December 2008 had fallen to -2% over December 2007. While this downward trend has continued in 2009, MDLF has been working hard to provide its clients with a range of support. We have provided strategic advice, helped them develop ways to manage costs, collections and debts, and supported an exchange of ideas on how to tackle the recession. As a first step to easing their cash-flow burdens, we also temporarily lowered interest rates on loans and rescheduled principal payments to give clients extra breathing space as they adapted to the new economic realities. At the end of 2008, we launched a Crisis Loan Fund for clients in the most affected countries.



**Client Impact**  
**Sales spotlight continued...**

The three areas where our clients have been most seriously impacted by the crisis are Russia, Ukraine, Serbia and Montenegro (data for these last two countries has been combined for the purposes of this section). Chart 7 illustrates the average change in sales month on month for clients in these three areas with the orange line depicting the overall average for all three. In Ukraine for example, because most of our print clients there obtain their raw materials from overseas, production costs rose dramatically when the Ukrainian Hryvna plummeted in November. Our clients in Russia saw a dramatic drop in sales for the month of November when, as in Ukraine, the currency fell dramatically.

While the fall may not appear to be as dramatic as in Chart 6, many of our clients in this region experienced a lag between the slowdown in the economy and the drop in their sales figures. As a result, we expect to see a much more noticeable decline in sales in 2009, particularly in Russia and Ukraine. However, while we do expect sales revenues to get worse for many clients before they get better, clients are all working hard to address the worst effects of the crisis. Even though many will continue to feel the effects of the crisis for some time to come, the fact that it has forced them to streamline their operations to remain financially viable during these difficult times is likely put them in an advantageous position to compete once the crisis is over.



**Client Impact**  
**ii Readers, listeners & viewers**

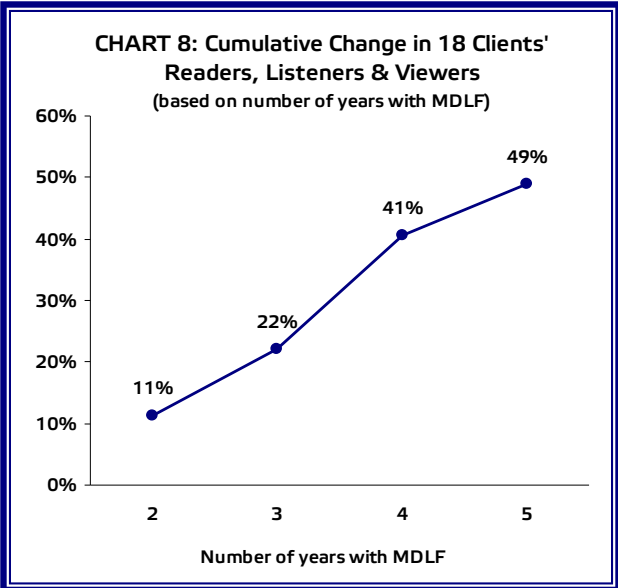
Increasing revenue is a clear objective of any business; for media companies, growing sales typically leads to an increased capacity to grow a business and ensures financial security. However, the size of a news outlet’s audience—its reach—is often also a good indication of its performance. Moreover, the more readers, listeners or viewers our clients have, the more people have access to an independent source of news—an essential part of MDLF’s core mission.

However, there are also times when a decline in reach is actually anticipated by a company and can, in fact, serve to make it more sustainable. During the crisis for example, several publishing clients have closed peripheral titles to focus on the core newspaper. This has led to a reduction in readers but significant savings in production costs and, ultimately, greater sustainability. Alternatively, if a radio company has saturated its regional market, the best strategic move may be to focus on leveraging the brand locally by developing new features like a website, rather than growing reach by expanding into a new regional market.

As illustrated in Chart 8, for the 18 current clients that have been with MDLF for at least 5 years in 2008, the average increase in reach at the five-year mark compared to their first year with MDLF was **49%**. This compares to 43% for the Impact Dashboard 2008, which included 19 companies. The steady upward trend in reach over a company’s first five years of work with MDLF is also very clear in the chart: On average a client can expect to grow its reach by almost 10% a year.

When these figures are broken down into media type, as in Chart 9, it is evident that regardless of what medium a news outlet uses to disseminate information, after five years of working with MDLF they all increased their reach.

The figure for radio clients is particularly high at 114%, primarily as a result of the exceptional 151% growth of a radio network client in Indonesia that now reaches 19.5 million listeners with its programming. However, the other current radio client that has been with us for at least five years has also seen growth of 77% over that five-year period. In fact, in its first year of working with MDLF it suffered a decline in reach of -38%, but following an initial reorganization, its reach has steadily expanded every year since.



**Readers, listeners and viewers**

*28 of our current clients who have been with us since at least the beginning of 2007 were included in the reach section of the Impact Dashboard 2008. These include:*

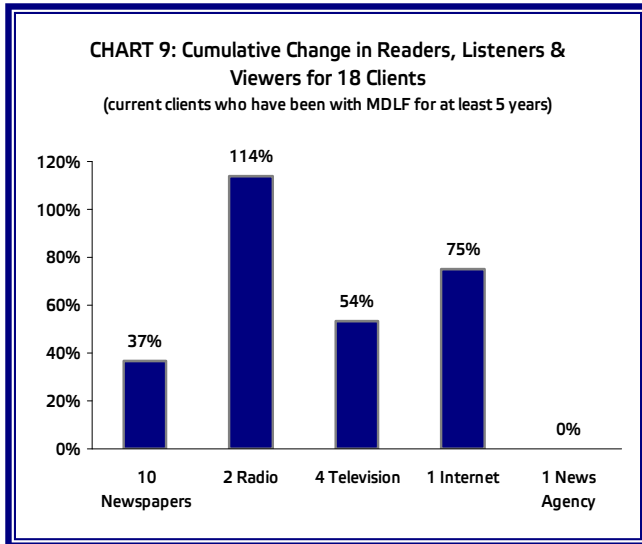
- 16 newspapers
- 4 radio stations
- 6 television stations
- 1 online site
- 1 news agency

*Many of the companies have 'secondary' publications or stations that are also included in this Dashboard.*

*Among these are:*

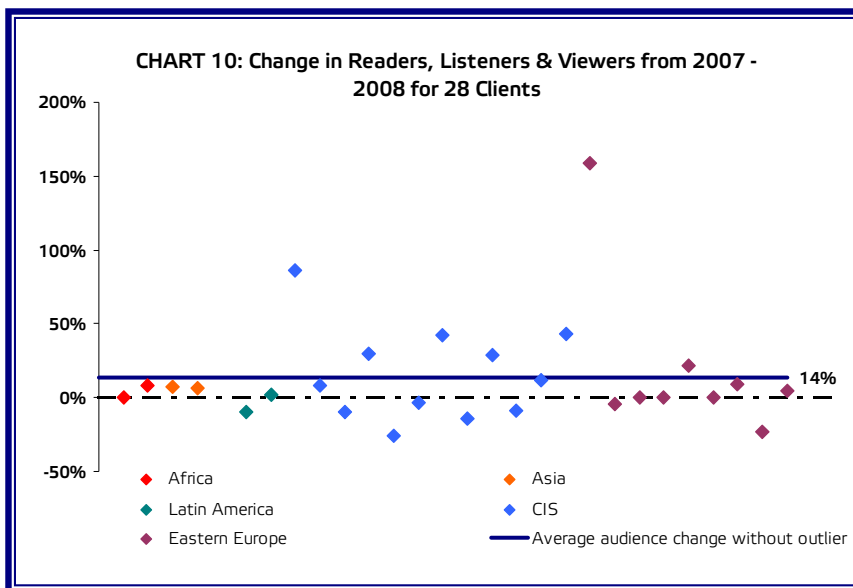
- 22 websites
- 8 print publications
- 3 radio stations

## Client Impact Readers, listeners & viewers continued...



Also clear from Chart 9 is that print clients face the greatest challenge increasing their reach. The declining trend in newspaper circulation in developed countries, as people choose to access news by other media like the internet, has steadily become a worldwide phenomenon. And perhaps it is no coincidence that clients in other mediums, particularly internet clients, are growing their audiences at a faster rate as news consumers are defecting from traditional print. Nonetheless, although readership might be slipping in some cases, most newspaper clients are positioning themselves well to develop other types of news delivery, particularly online.

While a distinct increase in reach is clear from these first two charts for clients who have been with MDLF for at least five years, Chart 10 provides a closer look at how all current clients have performed over the last year. It illustrates how reach has changed for each of the 28 clients that have been with MDLF since the beginning of 2007 and breaks them down according to region.



With the global financial crisis, many of our clients chose to focus on remaining financially viable and streamlining their operations in 2008, rather than taking the risks often necessary to expand their reach. Eight of the 28 clients in Chart 10 saw negative growth in reach during the year, six of which were newspapers while the other two were television companies.

At the same time, three clients saw growth in reach in excess of 50%, coming from three different regions and three different media types. Malaysiakini, an internet client in

Malaysia, in particular saw remarkable growth of 1400% this year—it has been excluded from the chart to allow the variances among other clients to be visible. This exceptional growth is largely explained by the fact that the news website decided to remove its subscription wall during the 2008 election and so provide open access to its content for a limited period—see the Spotlight section below.

## Client Impact Readers, listeners & viewers continued...

For all 28 of these clients, there was an average increase in reach during 2008 of 63%. Yet even when the exceptional Malaysiakini is excluded, the average growth in client reach for 2008 was still a positive **14%**, despite the numerous difficulties presented by the financial crisis and declining print circulations.

Also apparent from Chart 10, client locations appear to be less important than the media type in determining how successful a news outlet will be at increasing audience. Aside from a few outliers, clients of the same media type experienced broadly similar growth in 2008, regardless of location. The six newspaper clients mentioned above that saw negative growth in reach in 2008 are spread over most regions that we work in.

There are several reasons why increase in reach is not as striking as with sales. All clients aim to increase sales revenue as they work to make their business self-sustainable, while—as mentioned above—they may not necessarily plan to expand reach. Some companies already have near-saturation coverage in their cities, countries or regions, and a significant change in their audience size would not be expected. So, in some cases, change in reach, or lack of change, does not reflect on their success as a business—for example, a successful newspaper might set up a printing press which would drive sales but may have little impact on its own reach—though MDLF continues to track reach closely to help clients identify opportunities and potential problems.

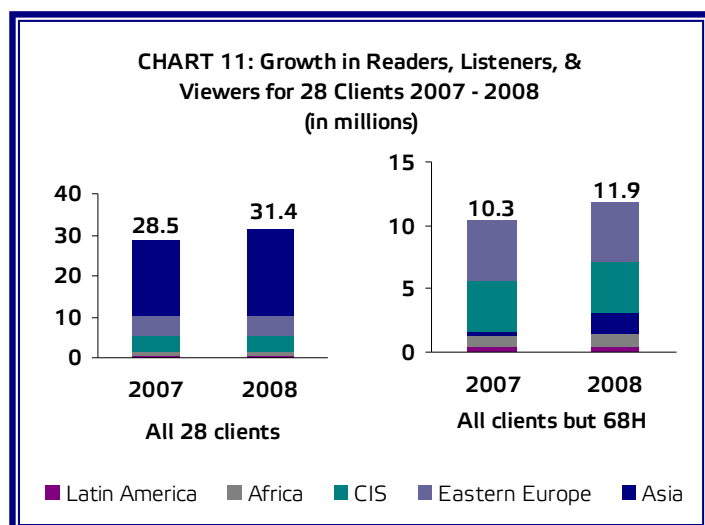
To better understand MDLF’s own impact on how many total people in developing countries are able to access independent media, Chart 11 provides an interesting illustration. It shows how many people total were able to access independent news through MDLF clients in 2007 compared to 2008 looking just at the 28 clients that have been with us for both years. Results show that nearly **10%** more people got their news from these 28 clients in 2008 than in the previous year—an increase of almost 3 million people.

The left section of Chart 11 includes Indonesian radio news agency KBR68H, which alone had 19.5 million listeners in 2008. Once KBR68H is removed in the right section of the chart, a remarkable increase in the rest of Asia becomes apparent. This is due to the audience increase that Malaysiakini experienced in 2008. A spotlight section below shows the evolution of Malaysiakini’s business over the course of their working with MDLF.

Of the 28 companies:

- 16 saw an increase in reach
- 4 stayed the same (or static data was used as current data was not available); and
- 8 experienced a decrease.

MDLF clients range from small local newspapers to national, multi-platform broadcasters. This diversity is reflected in the number of readers, listeners or viewers. In 2008, 19 of the 28 companies reached fewer than 300,000 people, and 5 reached more than 1 million each.



## Client Impact

### Readers, listeners & viewers spotlight

#### Malaysiakini

In the mid 1990s, in order to seek foreign investment into Malaysia's ICT sector, the Malaysian government set up a special economic zone called the Multimedia Super Corridor and made a pledge not to censor the Internet. This created a dual media policy, with the Internet being a free and open platform, in parallel to a tightly regulated and restricted print and broadcast media.

The demand for independent news grew significantly after the sacking and arrest of Deputy Prime Minister Anwar Ibrahim in 1998. In November 1999, two journalists set up news website Malaysiakini.com (Malaysia Now) as an alternative to the all-pervasive pro-establishment media. Launching at the height of the dotcom boom, the website aimed to become sustainable through online advertising revenues. As the sole provider of independent news, Malaysiakini's readership reached 100,000 visitors a day within eight months of its launch.

Yet when the dotcom bubble burst in 2001 and online advertising suddenly became scarce, Malaysiakini was forced to look at alternatives. With MDLF's assistance, Malaysiakini planned and launched the subscription model in early 2002, charging readers US\$28 per annum for daily content. Malaysiakini anticipated that 10% of the 100,000 readers would subscribe. However, only 1% subscribed in the first year. Readership dropped to 50,000, with many readers accessing only the free content, or sharing passwords with others.

Nevertheless, the subscription model grew stronger over time. Between 2002 and 2007, the number of subscribers as well as revenues from subscription grew by an average of 40% per year. Readership grew back to 100,000 daily visitors and about 300,000 unique visitors per month. Major growth spurts coincided with major political events in the country.

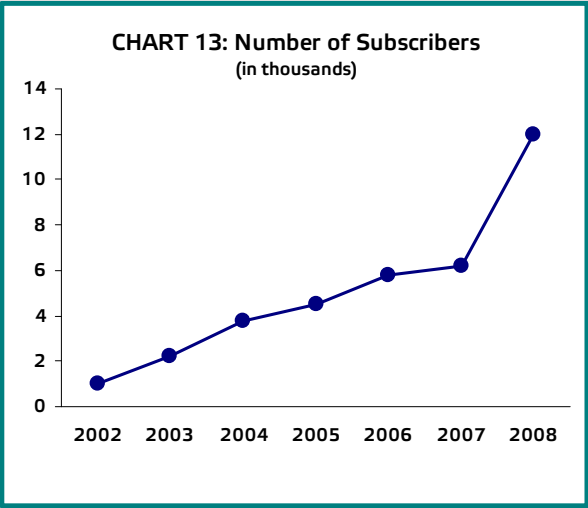
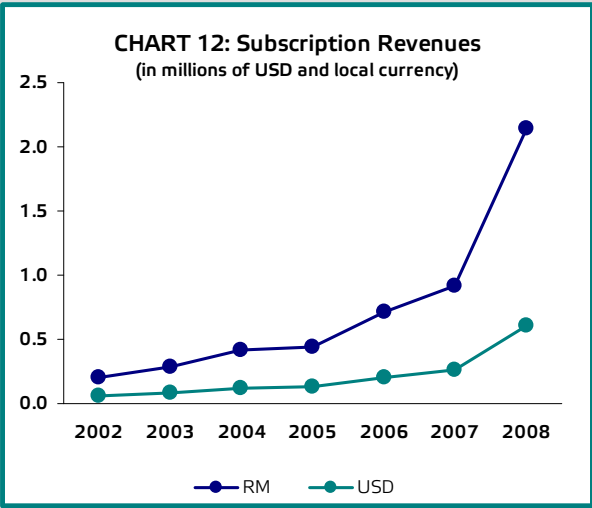
In advance of the March 2008 general election, Malaysiakini made the strategic decision to temporarily make its entire website freely accessible to all beginning on February 26. This decision was reached because of voters' urgent need for reliable non-partisan information about the elections and the unavailability of such information anywhere else. The management at Malaysiakini knew that they would be temporarily losing subscription revenues, but the importance of providing information to the public at such a crucial time was impossible to ignore.

As a free site during the election period, Malaysiakini reached over 800,000 visitors per day, hitting a high of 2 million visitors on the election day. The election results proved to be a major breakthrough in Malaysian politics, with the opposition for the first time capturing 5 state governments and dramatically reducing the majority of the incumbents at the federal level.

**Client Impact**  
 Readers, listeners & viewers spotlight continued...

As the result of the political breakthrough, the demand for independent news soared. Malaysiakini reinstated the subscription wall a week after the election. Within two months, the number of subscribers doubled to 12,000, with the daily readership reaching 350,000 per day and over 2 million unique visitors per month. By July 2009, Malaysiakini became the most read site in the country, as ranked by Google and Alexa. The number of subscribers and readership remained steady till the end of 2008.

The decision that the people at Malaysiakini made at such a crucial time turned out to be not only essential for Malaysia’s citizens, but also financially savvy for their company. As a direct result of making all of their content freely available leading up to the election and then reinstating the subscription wall shortly after the election was over, they were able to double their number of subscribers, and increased their annual subscription revenues by 133% as compared to the previous year.



As with any business, there is a certain amount of risk inherently involved in running a media company. This is particularly true in emerging markets where our clients face a variety of challenges ranging from political pressures to weak advertising markets. While such external risk is often unforeseen and uncontrollable, internal company risk can be an important part of the development of a sustainable, financially viable media business. Internal changes and developments at a company, while causing temporary risk, can often lead to growth and expansion, and in the end a more sustainable company. In fact, not taking such risks could hinder a company's chance of long-term financial success.

As a result, MDLF encourages clients to periodically make new investments in their business so they can develop through a risk cycle: a new project is taken on and financial risk rises; the project is managed well and financial risk is reduced; a new project is taken on and risk rises once more. This happens, for example, with the expansion of a printing business or the launch of a new news product.

With the onset of the global financial crisis in the autumn of 2008, media companies throughout the world, including most of our clients, faced a sharp upturn in risk—especially external, unforeseen risks of a type that is not related to the natural risk cycle. Many clients were quickly confronted with a dramatically different media market, defined by reduced advertising revenue, increased printing costs and violent currency fluctuations. In such an environment, eliminating risk is impossible. Many of our clients faced this new environment by making substantial changes to their operating strategies, in some instances creating greater short-term risk as part of a long-term plan to overcome the crisis. For example, several clients took on an additional MDLF loan to make an aggressive asset purchase which would place them in a stronger position once economic stability returns.

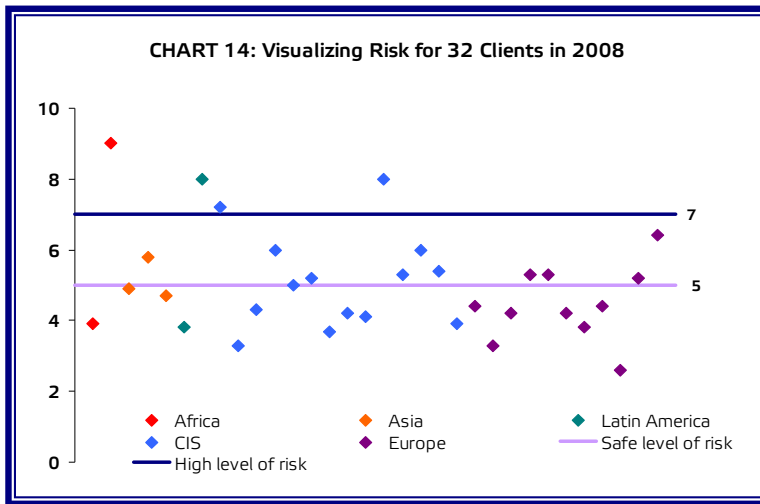
To monitor risk for its clients, MDLF maintains an official risk-rating system, assessed by auditors, which is used on a quarterly basis to calculate loss reserves. For this Impact Dashboard, MDLF uses seven of the risk rating factors that impact on long-term sustainability (listed in Box 1), ranging from debt capacity to position within industry. The rating ranges from one to nine, with the top rating being the most risky.

Unlike sales and risk data which look at the overall picture throughout the year, the risk ratings are compiled on a quarterly basis. The scores used for the Impact Dashboard are taken from the final quarter of the year—for 2008, that was easily the worst-performing quarter. As a result, the risk ratings for many of our clients rose noticeably as the financial crisis began to affect several components that make up the overall risk rating. For example, the sharp fall in advertising impacted seriously on earnings and in many cases resulted in problems with cash flow.

**BOX 1: Components of financial viability:**

1. Earnings/operating cash flow trends
2. Asset/liability value
3. Financial flexibility/debt capacity
4. Industry/industry segment
5. Position within industry
6. Management and controls
7. Financial reporting

Nonetheless, Chart 14 illustrates that at the end of 2008 the risk rating of more than half of MDLF's clients remained below 5, generally considered to be an acceptable level of risk. Given the year's especially difficult environment with media companies throughout the world going out of business, it is a testament to our clients that the majority were able to maintain a risk rating below 5 and that none were forced to close. We believe that because most of our clients had managed their financial risks well prior to the crisis (in 2007 only 7 clients had a level of more than 5 and only 1 of



those was above 6), they were better placed to withstand the turbulence of the recession than many of their competitors; it is only because they were operating on such strong fundamentals that they have weathered the storm. And since the onset of the crisis, MDLF has helped many of these companies to minimize the level of unwanted external risk that they are exposed to by helping them to maintain a consistent strategy for combating the crisis and remaining sustainable long after the crisis has ended.

For the 14 clients whose risk rating rose above 5 in 2008, only 4 have seen their rating rise to a dangerous level of 7 or above. Of these, one is a Georgian client that has not only had to deal with the global financial crisis but also with the Russian-Georgian war over the territory of South Ossetia in August 2008, and two face specific challenges not related to the financial crisis. Most other clients have remained around 5 or 6 and we believe are in a good position to quickly reduce their rating as the global economic situation improves.

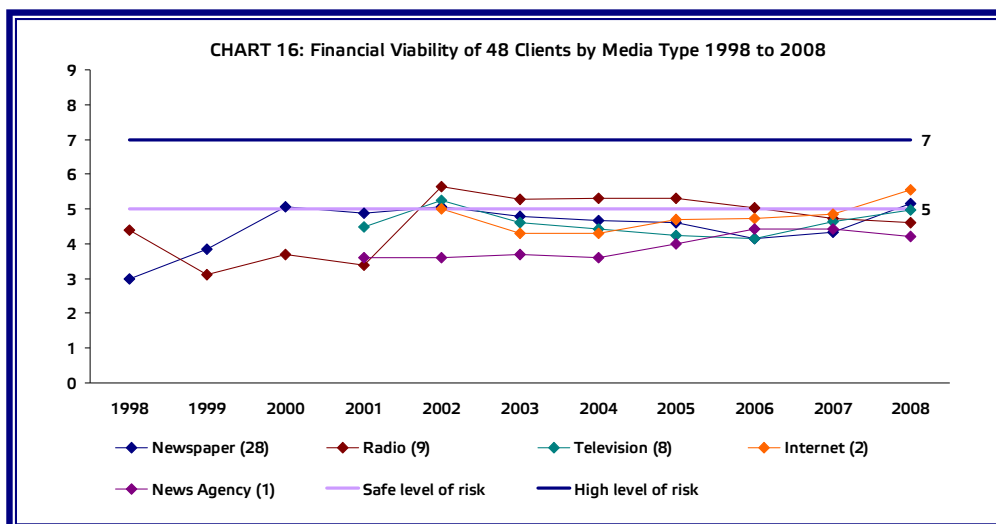
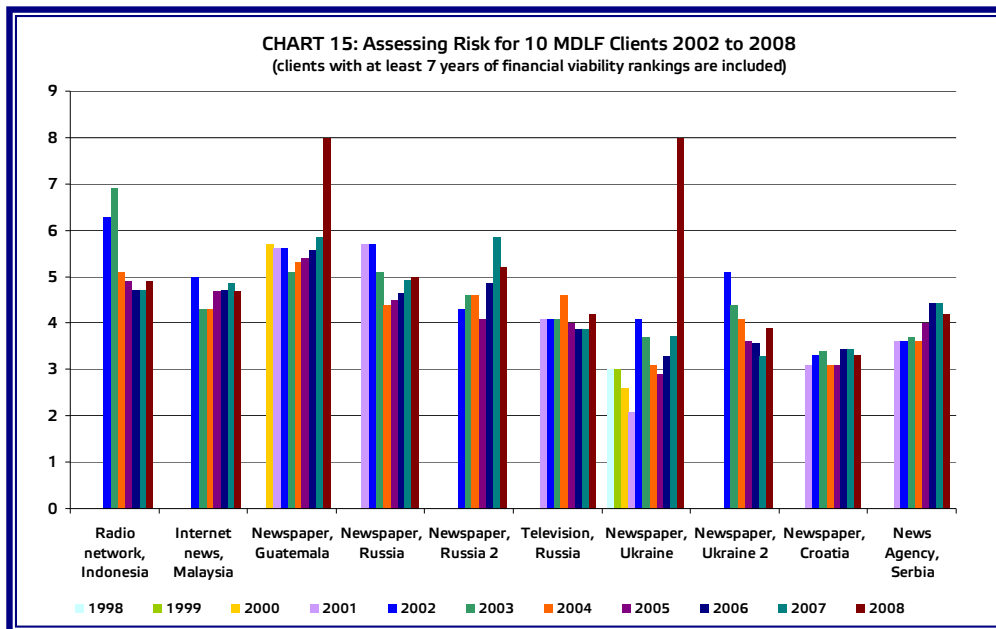
While clients with risk ratings above five come from all regions in which MDLF operates, the CIS region saw the greatest number of clients migrate out of the safe zone. In 2007, only one client from CIS had a risk rating above five, while in 2008 there were seven in total. This is likely due in part to the dramatic currency fluctuations that countries in the region experienced. With the devaluation of the Ukrainian Hryvna, for example, print clients faced a crippling increase in the cost of paper as most of them obtain newsprint from abroad.

Showing change over time for individual clients demonstrates how news businesses move through the risk cycle and how financial viability develops over the long term. For the ten clients with at least seven years of risk ratings including 2008, illustrated in Chart 15, it is clear that fluctuations are a natural part of running a media business.

What also stands out is the often high level of risk many clients face in their first few years of working with MDLF. This is altogether expected as most new clients are struggling to be financially sustainable when they start working with MDLF and their risk rating rises still further by taking a loan from us. Moreover, MDLF often helps new clients develop fresh business strategies that may carry more risk in the short-term but increase sustainability over the long-run. This could include opening a printing facility, piloting a new news project, or simply reorganizing their operations. Typically, the risk level then decreases after the first few years once the company reaches its stride.

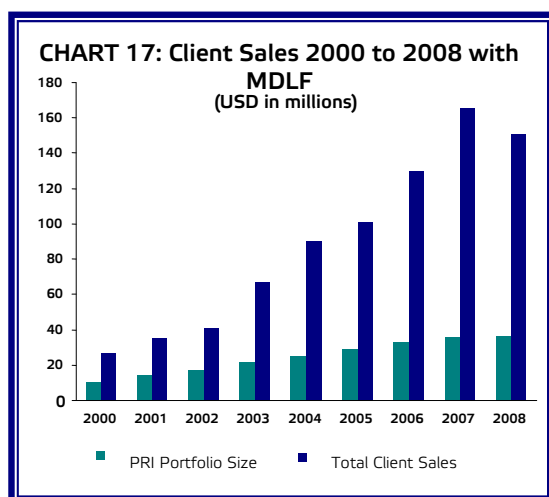
Chart 15 also provides another way of looking at the jump in risk rating a few clients experienced in 2008 as a result of the global economic crisis. Even with this recent spike, all but two long-term clients—newspapers in Guatemala and Ukraine—have remained mostly within the safe zone and demonstrate the periodic rises in risk that are essential for a news business to continue to be competitive.

When financial viability is broken down by media type, shown in Chart 16, radio clients can be seen to have operated with higher risk than other media for several years, though the trend is downward as existing clients have gained a greater measure of self-sustainability. Unsurprisingly, our two internet clients, operating a new medium with relatively untried business models, now have the highest risk rating. The one news agency we work with has proven to be particularly adept at maintaining a low risk rating, which is impressive considering that it operates in a difficult political environment—Serbia. While Chart 14 showed that a number of clients had reached a risk rating of seven in 2008, Chart 16 demonstrates that this is abnormal compared to our clients’ previous performances. It is clear from this chart that the average risk levels are more likely to be much closer to, and usually below, five.



## II. MDLF Portfolio Impact

### i Sales



The global financial crisis had an immediate impact on media revenues in 2008. Last year saw a decrease in total sales—when measured in US dollars—for all companies working with MDLF over 2007. This is the first year-on-year fall since we started keeping comparable data and amounted to an overall decrease of nearly \$15.3 million in revenue during the year. Although the principal explanation for the reduction is the weakening value of local currencies against the dollar, it is not the only reason. Client revenue comes primarily from advertising sales and providing printing services for those clients that have a printing press. Both of these revenue-generating activities suffered due to the financial crisis as advertisers cut budgets and other publishers reduced printing in order to reduce production costs.

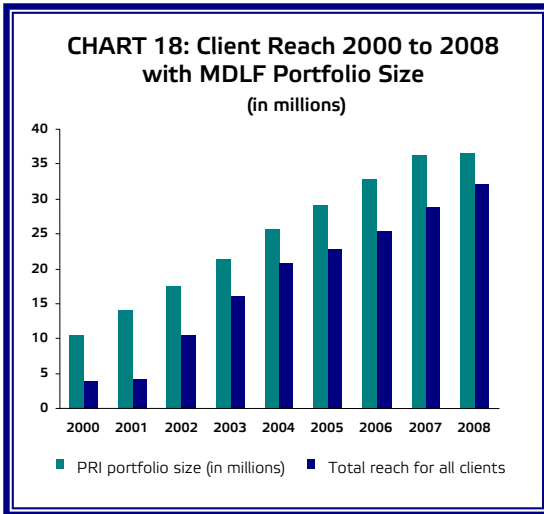
Despite this nearly 10% fall in sales revenues, client sales have increased dramatically compared to 1999—more than a 650% increase. This growth is partly attributable to the increasing number of client companies in MDLF’s portfolio, which climbed from 7 in 1999 to 37 at the end of 2008. In the same period, MDLF’s portfolio size increased from \$8 million to more than \$36.6 million, as more clients were added and existing clients were provided with additional loans for new projects. The increased amount invested by MDLF has an exponential impact on portfolio results as financing is provided through a revolving loan pool, meaning that each dollar is used over and over again to benefit independent media.

A third factor also helps to explain the increased impact of MDLF’s portfolio: MDLF achieves much greater leverage from each dollar of financing than it did in 1999. In 2008, every dollar invested leveraged \$4.11 in client sales, compared to \$2.49 in 1999.

The fall in total client sales in 2008, however, explains why the leverage figure is lower than the \$4.58 achieved in 2007. 2007-2008 saw the sharpest decrease in leverage since we began tracking it in 1999. While leverage has fallen from year to year several times in the past, the greatest previous fall was \$0.15 from 2001 to 2002, whereas the decrease in leverage from 2007 to 2008 was \$0.47. We believe that this decrease is a direct consequence of the global economic crisis and the falling revenue—when measured in US dollars—which many of our clients have experienced.

Overall, however, the long-term trend towards greater leverage might be explained by a combination of MDLF’s improved efficiency as well as by clients’ own developments, including: companies seeking financing for projects with higher rates of return; general increasing profitability among clients; and clients returning for repeat lending, which has led to increased capacity in their ability to develop and manage projects.

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Leveraged annual sales per \$1 invested	\$2.49	\$2.54	\$2.48	\$2.34	\$3.12	\$3.49	\$3.46	\$3.94	\$4.58	\$4.11



Despite the global economic crisis, client reach has performed much more strongly than sales. In 2008, more than 32 million people in developing democracies got their news from 37 MDLF clients, a rise of almost 3.5 million from 2007. This compares to a total of 3 million in 1999.

This continuing positive growth in unfavourable economic conditions may have a simple explanation. With the onset of a crisis, financial or otherwise, citizens have an even greater need for reliable news and information so that they can remain informed about unfolding events. MDLF clients appear to have continued to grow reach by building on their reputations for providing high-quality independent news, often in places where such information is not available anywhere else. Moreover, even though many of our clients may have suffered in terms of sales in 2008, none were

forced to close as were some of their competitors. As a result, several clients were able to pick up the readers, listeners or viewers that their competitors left behind.

In addition, MDLF’s use of the loan pool model again plays a role in the size of the audience reached by its clients, as the same funds are used for the benefit of multiple clients worldwide. For every \$10,000 invested in 2008, MDLF supported access to independent news for 8,789 readers, listeners and viewers, compared to 4,328 in 1999—more than double the 1999 level and an increase of 10.5% on 2007.

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Reach for every \$10,000 invested	4,328	3,769	2,945	6,006	7,531	8,056	7,809	7,727	7,952	8,789

## Glossary

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**Financial viability:** Defined by seven key risk factors (see Financial Viability section).

**Financing:** MDLF loans and other financial investments, including such tools as finance leases and equity investments.

**Independent media:** Privately owned, non-political enterprises that provide the general public with a socially valuable service through the publishing or broadcasting of independent news.

**Portfolio:** The group of companies in which MDLF has outstanding investments, including loans, finance leases and equity.

**Reach:** Readers, listeners or viewers.

**Risk rating scale:** The set of key risk factors used by MDLF to measure the risk of loss of each loan (see Financial Viability above)

**Sales:** Income from circulation, advertising and printing services.