

PD-ABN-746
93085



FINAL REPORT

ASSESSMENT, INVESTIGATION, AND EVALUATION OF INVESTMENT FUND POSSIBILITIES IN RUSSIA

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Submitted to:

**The United States Agency for International Development
USAID/Moscow**

**Under Contract No. AEP-0085-I-00-6020-00
Delivery Order No. 2**

December 1996



ACRONYMS

CDC	Citizens Democracy Corps
DPI	Democratic Pluralism Initiatives Project
EBRD	European Bank for Reconstruction and Development
GAAP	Generally accepted accounting principles
IESC	International Executive Service Corps
MDP	Media Development Program
NIS	Newly Independent States
NVS	Consortium of regional independent television stations
RAP	Russian accounting principles
RAPIC	Russian-American Press and Information Center
SEC	Securities and Exchange Commission
SOW	Scope of Work
USAID	U.S. Agency for International Development
USRIF	The U.S.-Russia Investment Fund



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EXECUTIVE SUMMARY

This report presents the findings of an evaluation of the U.S. Agency for International Development's (USAID) Media Development Program (MDP) in Russia. The purpose of the evaluation was to assist in the formulation of an appropriate strategy for the program in the coming years, and specifically, to recommend steps USAID might take to encourage private investment in the Russian media.

STATE OF THE RUSSIAN MEDIA

Based on the numerous interviews, it was concluded that USAID's support of the Russian media has been very effective, and that the agency has had a significant impact on the development of independent journalism. Application of journalistic principles is still sporadic, however, and competitive forces need to be nurtured. Ownership of Russian media organizations should be as diversified as possible. During a time when many media organizations are being purchased by large corporations, it is reasonable that USAID should take measures to strengthen the remaining independent organizations.

INVESTMENT PROSPECTS

Despite continued problems that limit the flow of investment capital in Russia, capital markets are slowly developing. There is every reason to believe that media organizations can attract a share of the available investment capital. The reasons for the attractiveness of this sector include:

- the proven success of media investments in other emerging markets,
- the quality of their managements,
- profitability,
- low debt levels,
- location outside the two major Russian cities, and
- their future revenue prospects.

While the formation of an investment fund aimed specifically at the media has been discussed, the free market will provide funding if the media organizations are properly prepared, and a facilitator is present at the transactions.



USAID should build on its successful programs in support of independent media in Russia because a program aimed at encouraging investment would have a sustainable impact and the likelihood of success is high enough to justify the cost. Alternative types of assistance offer far less potential to leave behind a viable independent media when USAID withdraws from Russia. The ultimate goal is to develop a program that is financially self-supporting. At the current time, a pilot program could be implemented which would provide assistance to 6 to 10 organizations, with a broader program of assistance in the future if market conditions improve.

The recommended method of implementation involves five stages:

- Develop a short list of the media organizations with the highest potential for the investment process; send teams to assist with the preparation of financial statements, business plans, and market research;
- Formulate an investment marketing strategy for these organizations;
- Implement a thorough and methodical marketing plan to introduce these media companies to potential investors;
- Provide technical assistance to negotiate and close deals; and,
- Create a partnership with a private firm that will continue the process with other media companies.

Although many of the organizations appeared to have investment potential, none had standard financial statements, written business plans, or basic market research information (such as a survey of local advertisers or regional economic data). These are necessary for determining investment strategies and should be developed immediately. These three items would benefit the target organizations and, at the same time, give USAID an in-depth understanding of the status of the media sector.

Investment counseling teams (up to 3 persons) would conduct site visits (up to 2 weeks each) to assess each organization's financial condition and to clarify its business plan. Site visits would allow the investment counseling teams to coach business owners on the consequences of seeking investment, and ascertain their level of comfort with giving up various levels of control in exchange for capital. In the course of these visits, the team should also impart an understanding of the basic concepts of generally accepted accounting principles (GAAP) to replace Russian accounting principles (RAP).



To formulate an investment marketing strategy, the information acquired from the site visit will need to be reviewed to determine whether the organizations are ready for investment. Summary memoranda would be prepared (within 2 to 3 weeks) to provide investors with information on each potential investment; detailed financial data and other proprietary information would be withheld. It may be worthwhile to review the data and to reconsider separate programs for print and broadcast media.

Depending on the information obtained, the optimal strategy may be to create an intermediary organization to serve as an investment conduit. This could be a simple holding company, or an organization that could take on marketing or managerial tasks for its member companies.

The assisted media organizations need to be introduced to as many potential investors as possible. Selection of personnel is critical; most sources of funding receive a large number of unsolicited inquiries so that persistence is necessary to overcome negative initial reactions.

USAID's willingness to provide continued assistance to interested investors could be extremely valuable. Much of the administrative work, such as gathering documents and supervising an audit, could accelerate the review process while USAID would remain aware of and updated on the negotiation process. This assistance would be of limited duration (up to one month) and could be provided on a matching basis to ensure the serious intent of the investor.

Once the pilot program has been completed, it will be necessary to determine whether the program can continue on a self-sustaining basis. The pilot program will have given USAID and its affiliates direct experience in the investment process along with a track record that can be used to stimulate further private investment in the Russian media. The completion of the pilot program will prepare the market and prove the sector's attractiveness to investors.

ROLE OF USAID CONTRACTORS

Although many USAID programs have attempted to facilitate investment, none has been particularly successful up to this time. This media program can and should make use of many of the resources of other USAID programs, but the importance and the visibility of this program call for a fresh start under the auspices of the established providers of assistance to the media. The proposed program would have immediate impact, and would continue USAID's positive influence on independent media in Russia. Finally, it would create the framework from which investment assistance could be provided to Russian companies on a continuing basis.



I. INTRODUCTION

OVERVIEW

A program evaluation for the U.S. Agency for International Development/Moscow (USAID/Moscow) was conducted during October 1996 to assess the capabilities of USAID's Media Development Program (MDP) (Project No. 110-00010) in Russia, and to make recommendations on how the MDP can use technical assistance to stimulate investment in the Russian media. Because USAID will be sharply curtailing its programs in Russia in the coming years, this evaluation is part of USAID's process of developing an effective exit strategy that will help to sustain existing programs. Investment in media organizations could be an important part of such a strategy; it would help to ensure the continued existence of sustainability of enterprises committed to the principles of a free press and help further a diversity of Russian voices. The MDP is a component of USAID's Democratic Pluralism Initiatives Project (DPI).

EVALUATION METHODOLOGY

The scope of work (SOW) for the evaluation detailed the following areas of inquiry of the MDP:

- a determination regarding the effectiveness of the Russian MDP;
- identification of possible players in the media investment market; and,
- recommendations for USAID technical assistance in media development.

In addition, a memorandum from Eastern European and Newly Independent States (ENI/USAID/Washington), dated September 23, 1996, provided further elaboration of the SOW, including focusing the project specifically on current and future investment issues. (The SOW and memorandum are included as Appendix A.)

A 4-person evaluation team met with USAID representatives in Washington and Moscow and reviewed relevant documents. During the initial planning meeting with the DPI staff in Moscow, it was confirmed that the priority of the evaluation should address how private investment in the media could be encouraged, with less emphasis on the assessment of prior MDP programs.

Interviews were conducted in person with more than 70 individuals representing nearly 40 organizations, as well as representatives of MDP and its founding organizations,



Internews and the Russian-American Press and Information Center (RAPIC), both of which provide technical assistance to the Russian media with USAID support. In Nizhny Novgorod, Samara, Novosibirsk, Tomsk, and Krasnoyarsk, meetings were held with representatives of print and broadcast media. In Moscow, investment fund representatives and USAID contractors whose services might be used in the implementation of the recommendations were interviewed. Meetings were also held with staffs of advertising agencies because the Russian media's future revenues are dependent upon advertising sales. At a 2-day conference in St. Petersburg, entitled "Media Markets in Russia and the CIS," a number of investors were interviewed and follow-up questions were asked of media representatives who had been interviewed in the previous weeks. A briefing at USAID/Moscow was conducted at the conclusion of the site visits. (See Appendix B for the agenda of the debriefing and Appendix C for a listing of persons interviewed.)

DATA CONSTRAINTS

The economic transition now taking place in Russia has made a great amount of financial data unavailable. In more mature markets, investment decisions are made based on financial statements audited to international standards, or in the case of venture capital proposals, on the basis of comprehensive business plans which include financial projections. In Russia, such information has been prepared only by a handful of large, sophisticated enterprises.

None of the media organizations visited could provide financial statements in the Western format or a comprehensive business plan. This was not surprising in light of the relative youth and small size of these organizations. However, they can still be considered good potential investments. Each of these organizations understood the need for standard financial data; they simply had no reason to prepare it up to this time. The problem is compounded by the environment in which Russian companies operate. Faced with punitive tax rates and frequent extortion by criminal assets, most Russian companies maintain multiple accounting records for different purposes, and are understandably cautious about sharing their records with outsiders.

Although it is often the task of an interested investor to assist the Russian company in converting its accounting systems to international standards, obtaining a reliable audit and preparing the standard documents prior to making a financial commitment, it was not within the evaluation SOW to do so. Conclusions were based on qualitative criteria and on past experience with Russian companies as well as media organizations in other countries.



II. IMPACT OF THE DPI ON THE RUSSIAN MEDIA

Based on the interviews conducted, it is apparent that MDPs are among USAID's most successful efforts in Russia. The combination of grants administered by MDP and technical assistance programs from Internews and RAPIC garnered positive comments from nearly every respondent; even those who have refused USAID assistance grudgingly admitted its positive impact.

Training programs have been especially effective. In addition to imparting the basic concepts of independent journalism, these training programs are credited with creating a sense of community among media organizations. The formation of NVS, a consortium of regional independent television stations with ambitions to develop a major programming network, is a direct result of station owners meeting regularly at Internews training programs. Only one television executive offered a dissenting opinion, claiming that all television stations "would declare war" on USAID because they would not like the U.S. influence anymore. One executive thanked USAID for the continued existence of her station while one journalist flatly declared, "The more Western influence on the media here, the better."

It appears that the emphasis of training programs should shift from journalism to management and sales training. One station manager noted that a journalist trained in the values and techniques of a free press cannot implement these concepts unless the station manager has received similar training. Because management and marketing are the keys to financial viability for these enterprises, future training programs should concentrate in these areas.

The personnel of Internews and MDP are particularly well regarded in the field. Clearly, many media organizations look to MDP and its related organizations for continued leadership.



III. THE STATE OF THE RUSSIAN MEDIA

JOURNALISTIC INDEPENDENCE

The concepts of a free press are well understood in Russia but implementation is sporadic. Surprisingly, a large number of media business owners expressed a strong commitment to journalistic independence. One Siberian television station conducts a live weekly interview show with the governor of the oblast who fields telephone calls from the public. This level of open government is extremely rare, even in the U.S.

On the other hand, many media organizations publicly support (and are supported by) politicians and all are quick to accuse one another of biased coverage. It was not clear, however, whether the political influence on Russian media is stronger than that of lobbyists and public relations firms in the U.S. No direct interference in the content of a news program was reported. However, a television station in Samara is the victim of unexplainable power outages; and, a television station in Krasnoyarsk had its heating bill increased by a factor of twenty last year, claiming that a competing station had influenced municipal authorities. One newspaper, which relies on state-owned presses, claimed that if it printed critical articles of the governor, prices would increase for printing and delivery. A television station supportive of Yeltsin found its power cut off during the 1991 coup attempt.

Quality programming appears to have a fairly tenuous presence in the Russian media. Tabloid journalism, game shows, and classified advertising now consume a major portion of the current programming. There are compelling reasons for USAID to continue its support of the media in Russia, including quality programming as well as the societal value of an independent press. This conclusion is all the more compelling in light of the proven effectiveness of USAID's support to date.

OWNERSHIP AND THE NEED FOR CAPITAL

Lack of capital is a serious threat to the independent media. Most media organizations are in need of basic necessities, such as transmitters and studio space. Only a few independent papers own their own presses, and many must buy press time from state-owned competitors. Those who control the presses do not necessarily control what the independent papers print, but they may manipulate prices and disrupt operations to the point where the firms are not economically viable.

It is encouraging that ownership of the media remains fairly diffuse. In most major markets, existing state-owned enterprises must compete with new, vital private enterprises which helps balance news coverage. This breadth of ownership may be temporary, however. Recently, there has been a trend toward consolidation of media ownership, particularly as



the television system forms various types of programming networks. It cannot be predicted who might be in control of these media conglomerates in the future, but powerful and well-connected companies, such as Gasprom and Most Bank, have invested in the sector. Most observers believe that their motivation extends beyond financial gain to the political power attainable through printing presses and airwaves. It is feared that such powerful owners will manipulate the news media for political purposes and that it will become increasingly difficult for small enterprises to compete.



IV. INVESTMENT MILIEU FOR RUSSIAN COMPANIES

During 1995, many observers hoped that Russia might soon become popular with emerging markets investors. However, this did not occur. The uncertainties of the presidential election and the lack of a legal infrastructure are contributing factors. High interest rates, which are inhibiting economic growth, are particularly problematic for businesses needing finance for equipment purchases. This lack of economic growth is a large problem for international investors. A growing economy would rapidly increase corporate earnings and Russia would be able to become a competitor for capital from the U.S., Japan, and Europe.

CURRENT INVESTMENT SITUATION

Despite this lack of momentum, progress is being made. It has been estimated that U.S. concerns invested \$1 billion in Russia in 1995, and \$1.5 billion in 1996. While this was not the tenfold increase that might have been anticipated, it nonetheless represents real growth. Emerging market investors are well aware of Russia's tremendous potential. One analyst has stated that the success of Gasprom's issue of American depository receipts indicates that the marketplace is beginning to accept Russia as a serious place to invest its money, and has put aside the criticism of government instability, lack of proper laws, and high crime.

Weaknesses in Russia's infrastructure do not have an equal impact on all investors but are most problematic for portfolio investors who require a high degree of liquidity. The U.S.-Russia Investment Fund (USRIF) for example, seeks to make investments that meet the same criteria used by investors in other parts of the world. The result has been that USRIF has completed investment of only one-third of its \$350 million capitalization.

The problem faced by investors in Russia who attempt to apply standards used in other countries is illustrated in the following example. American mutual funds are required by the Securities and Exchange Commission (SEC) to invest no more than 5 percent of their assets in any one security. In addition, they have to be ready to redeem investors' shares on a consistent schedule, usually daily. The effect of these rules is that mutual funds must invest in at least 20 different securities to maintain the prescribed diversification. Many of these securities must have heavy trading volumes so that they can be easily sold to raise cash for unexpected withdrawals of fund shares. Although American mutual funds have sent billions of dollars to emerging markets in recent years, the Russian market offers few securities that meet these stringent requirements. As a result, Russia has benefited from only a token share of this capital flow.

Not all investors apply such inflexible restrictions to their investment decisions. Many of the funds which were established by governmental or non-profit organizations with a



specific mandate to invest in Russia are now under pressure to increase the flow of transactions, and are therefore more inclined to be flexible than they were at the time of their inception. Strategic foreign investors who seek investments in the same sectors in which they are already successful in their home country are likely to be flexible. Storey First's purchase of interests in Russian television stations is a good example of this type of investment—a specific strategy and a long time horizon. There are also the venture capitalists, who will invest directly in an attractive business plan with little concern for trading practices or the presence of custodian banks.

This is a very good time for such strategic, direct investments. By the time the mutual fund managers and other institutional investors are comfortable making investments in Russia, asset valuations are likely to be much higher than they are today. While large institutional investors may be prominent and vocal in their criticisms of Russia, there are other intrepid investors who are eager to begin investing in Russia.



V. INVESTMENT PROSPECTS FOR THE MEDIA SECTOR

While the overall investment climate in Russia is mixed, the prospects for the media sector are less equivocal. Media stocks have generally been profitable for investors in emerging markets: when societies are in transition, demand is high for both news and consumer information, commodities that were extremely scarce under 70 years of communism. In addition, advertising revenues typically rise sharply during periods of economic growth. The rate of advertising revenue growth often exceeds that of economic growth during periods when new products are being introduced and distribution channels are changing, as they are now in Russia. Despite the fact that macroeconomic factors are less than optimal, it is likely that some Russian companies will have high earnings in the coming years from the combination of news and advertising.

INVESTMENT ADVANTAGES AND DISADVANTAGES

The most important factor in an investment decision is the projected growth in the company's earnings, for this is what will directly increase the investment's value. For this reason, particular interest was taken in the prospects for advertising growth in outlying regions. All the advertising experts interviewed predicted that a much larger share of Russian advertising will be sold outside Moscow and St. Petersburg in the future. The two reasons cited were:

- Regional advertising rates are low and are likely to rise to a more typical cost-per-thousand in the coming years; and,
- As multinational consumer companies, such as Procter & Gamble and Mars, expand their regional distribution systems in Russia, they will require regional advertising campaigns. One advertising executive claims that Mars needs to buy television spots in 22 cities in order to saturate the Russian market. While one can build a rather pessimistic model for growth in the Siberian economy, worldwide economic history leaves little doubt that there will be a higher level of consumption of the products advertised in the future, and that such consumption will be driven by advertising expenditures.

As previously stated, the media's delivery of news and consumer information has made it an attractive sector in developing nations. As examples, one can cite the 5-year sales growth of Televisa in Mexico, Matichon in Thailand, and TVB in Hong Kong. Other advantages and disadvantages of the Russian media sector are:



Advantages

- **Youthfulness of the sector:** Unlike many sectors of the Russian economy, most media enterprises were founded since the collapse of the Soviet system in 1991. These companies are not burdened with the typical problems of Soviet-era enterprises, such as overemployment or the need to support social programs, such as day care centers, bakeries, etc.
- **Marketing orientation:** Because companies had no need for marketing under the quota-based Soviet system, this is often the weakest area of Russian companies. Many of the media organizations, however, had a clear emphasis on marketing, including very competent, well-trained advertising sales organizations.
- **Profitability:** These new companies had no former subsidies from which to detach and no outdated equipment to be amortized.
- **Low level of long-term debt:** None of these companies has a significant debt load.
- **Location outside major cities:** All of the attractive enterprises visited were outside the two largest Russian cities; investors have tended to focus their attentions on Moscow and St. Petersburg so that the potential of outlying areas has not yet been thoroughly examined.

Disadvantages

- **Small size:** All of the attractive media organizations visited were quite small. Because foreign investors perform considerable research and legal work in order to complete a Russian investment, many prefer that an investment be at least \$5 to \$10 million. For example, a typical regional television station might have a total market value of \$6 million—twice the annual revenue, or 8 times net income. The 51 percent stake that might be purchased by an outside investor is only slightly over \$3 million; minority positions would necessarily be in the range of \$1 to \$2 million.



- **Small operating margins:** Although they are profitable, margins are not especially large at these companies and barter transactions reduce free cash flow.
- **Fear of government interference:** Investors recognize that the news media is probably more susceptible to government interference than are other companies.
- **Questions about licensing:** Russian law is sketchy on the subject of television and radio station licensing. Although the law addresses the granting of licenses with renewal every five years, the subject of transferability has not been addressed specifically.

INVESTORS' ATTITUDES

The presence of investors in the Russian media sector provides evidence of optimism in the sector. Despite the well-publicized failure of Turner Broadcasting to establish joint operations with TV6 in Moscow, several strategic investors were attending the conference in St. Petersburg. A representative of Metromedia was quietly buying radio stations throughout Russia, and a representative of a Swedish media firm was carefully considering regional television stations.

Only one fund manager was biased against this sector. USRIF has already placed 10 percent of its invested funds in the media, and it is clear that Renaissance Capital Group is doing detailed media sector analysis. A representative of the European Bank for Reconstruction and Development (EBRD) suggested the possibility that a media-directed fund could be developed in conjunction with USAID, disproving perceived resistance on the part of investors to consider the media sector.

All funding organizations have various restrictions in their investment policies. However, no investment parameter was identified which was perceived to be more burdensome to media organizations than to any other business. In addition, the requirements of various funding organizations are often contradictory. While one funding source may require majority ownership, another may prefer a more passive role, and may actually prohibit majority ownership. Most prefer the presence of a Western partner, but only a few consider this an absolute requirement. The International Executive Service Corps' (IESC) *Guide to Sources of Finance in Russia* shows this wide variation in investment policies. If the investment is worthy, it is likely that any restrictions can be obviated through negotiation and creative efforts.



POTENTIAL INVESTORS

Potential investors that could play a role in providing technical assistance and capital to an emerging privatized Russian media include media organizations in the U.S., Europe, and Asia, which might make a direct investment in a Russian partner, such as Storey First and Metromedia. The potential in this group is virtually limitless. Among the investors already identified and working on the scene are:

- venture capital firms;
- funds established by non-profit or governmental organizations for the purpose of Russian investment, such as:
 - USRIF,
 - CARESBAC, and
 - Small Enterprise Equity Fund;
- commercial funds and investment trusts, such as:
 - AIG Brunswick Millennium Fund,
 - Alliance ScanEast Fund,
 - Croesus Capital Management Fund,
 - First NIS Regional Fund,
 - Framlington Russian Investment Fund,
 - Junction Investors,
 - MC Russian Market Fund,
 - NCH Investors,
 - New Europe East Investors Fund,
 - Pioneer Direct Equity Fund,
 - Russian Partners Company,
 - The Russian Technology Fund,
 - Sector Capital Fund, and
 - Trust Company of the West; and,
- multinational organizations, such as:
 - EBRD and its regional venture funds,
 - EBRD small lending programs, and
 - International Finance Corporation.



VI. RECOMMENDED PILOT PROGRAM FOR IMPLEMENTING AN INVESTMENT STRATEGY

USAID should build on its successful programs in support of independent media in Russia because a program aimed at encouraging investment would have a sustainable impact and the likelihood of success is high enough to justify the cost. Alternative types of assistance offer far less potential to leave behind a viable independent media when USAID withdraws from Russia. (See Appendix D for a discussion of alternative programs.)

The ultimate goal is to develop a program that is financially self-supporting. At the current time, a pilot program could be implemented which would provide assistance to 6 to 10 organizations, with a broader program of assistance in the future if market conditions improve.

The recommended method of implementation involves five stages:

- Develop a short list of the media organizations with the highest potential for the investment process; send teams to assist with the preparation of financial statements, business plans, and market research;
- Formulate an investment marketing strategy for these organizations;
- Implement a thorough and methodical marketing plan to introduce these media companies to potential investors;
- Provide technical assistance to negotiate and close deals; and,
- Create a partnership with a private firm that will continue the process with other media companies.

Although many formal and political requirements affect the establishment of such a program, it is important that the process be initiated as quickly as possible. Conditions change so rapidly in Russia that a project that takes more than 9 to 12 months is apt to be outdated before it is implemented. With the changes in ownership now taking place among media organizations, the most viable organizations may be bought by firms with missions not primarily concerned with promoting independent media. Even the most committed advocates of an independent media would find it difficult to resist the cash windfall that would come from a buyout by firms such as Gasprom or Most Bank.

Although many of the organizations appeared to have investment potential, none had standard financial statements, written business plans, or basic market research information



(such as a survey of local advertisers or regional economic data). These are necessary for determining investment strategies and should be developed immediately. These three established business procedures would benefit the target organizations and, at the same time, give USAID an in-depth understanding of the status of the media sector.

SELECTION OF THE TARGET ORGANIZATIONS

The initial group should include 12 to 15 of the enterprises most ready for outside investment. A list of candidates could be assembled with the help of Internews, MDP, and RAPIC. Approximately half of these should be willing to participate in a pilot program which would begin during the first half of 1997. Sample data needed for inclusion in the pilot program could include the following:

- organization's solvency (short-term assets exceed short-term liabilities);
- amount of long-term debt, if any;
- percentage breakdown of present ownership;
- level of advertising revenues for the most recently available one-year period;
- management's willingness to share ownership with outsiders, including foreigners; and,
- management's willingness to provide all financial data to the research team.

Based on this preliminary information, a committee made up of representatives of these 3 organizations should select the initial group of 6 to 8 organizations to receive assistance. Selection would be based on these four criteria, listed in order of priority:

- attractiveness to potential investors, taking into account financial condition, marketing potential, and quality of management;
- proven commitment to the principles of independent journalism;
- geographic diversification; and,



- homogeneity of the selected group to facilitate combined marketing to potential investors.

At least seven media enterprises (television stations in Tomsk, Nizhny Novgorod, Ekaterinburg, Irkutsk, and Krasnoyarsk, plus newspapers in Nizhny Novgorod and Tomsk) appear to have the potential to attract outside investors. Two of these stations claim revenues (before expenses) in excess of \$3 million per year; one newspaper claims net income (after expenses) of \$750,000 per year. Most of these enterprises employ 100 to 300 people, including support personnel. Personnel at Internews estimate that there are 16 to 20 similar enterprises among television stations alone.

DEVELOPMENT OF FINANCIAL STATEMENTS, BUSINESS PLANS, AND MARKET RESEARCH

Investment counseling teams (up to 3 persons) would conduct site visits (up to 2 weeks each) to assess each organization's financial condition and to clarify its business plan. Team members would have expertise in business planning, accounting, and knowledge of media operations; if possible, operable language skills or reliable interpreters would be available. The team's approach should be replicable.

Prior to the team's arrival, the organizations would be given a detailed outline of the scope of work and clear guidelines on the project's policy on the use of confidential information. The following documents would be created as a result of the site visit:

- Western-style balance sheets and income statements which would be unaudited but provide the most accurate possible depiction of assets, liabilities, and cash flow;
- investment plans, concentrating on the use of invested funds and their impact on future earnings;
- a recommendation regarding the need for further business development assistance, making use of existing USAID programs;
- assembly of all available market research, so that future earnings estimates can be defended to potential investors; and,
- clarification of licensing issues.

Site visits would allow the investment counseling teams to coach business owners on the consequences of seeking investment, and ascertain their level of comfort with giving up



various levels of control in exchange for capital. In the course of these visits, the team should also impart an understanding of the basic concepts of generally accepted accounting principles (GAAP) to replace Russian accounting principles (RAP).

Several existing USAID resources should be used to conduct these tasks:

- the financial management module of the tool kit; and,
- the *RAP to GAAP* workbook, recently developed by IESC to assist in the conversion from Russian accounting principles to GAAP.

Use of volunteer executives from IESC or the Citizens Democracy Corps (CDC) could be arranged for follow-up consultations when necessary. This support would be indicated for enterprises which need to spend additional time on the business plan or on the conversion to an international accounting system.

FORMULATION OF INVESTMENT MARKETING STRATEGIES

To formulate an investment marketing strategy, the information acquired from the site visit will need to be reviewed to determine whether the organizations are ready for investment. Summary memoranda would be prepared (within 2 to 3 weeks) to provide investors with information on each potential investment; detailed financial data and other proprietary information would be withheld. It may be worthwhile to review the data and to reconsider separate programs for print and broadcast media.

An important decision to be made at this point is whether it would be advantageous to market several media organizations to potential investors as a package. Such a combination would make sense because many of the targeted organizations have similar characteristics and are already forming networks and other cooperative projects.

Depending on the information obtained, the optimal strategy may be to create an intermediary organization to serve as an investment conduit. This could be a simple holding company, or an organization that could take on marketing or managerial tasks for its member companies. Such a combination would be extremely appealing to potential investors, since it would provide a larger and more diversified investment vehicle. Based on the preliminary data, it appears as if a combined investment vehicle could be designed to attract outside capital of \$10 to \$15 million, a level which would provide sufficient economies of scale for the investor. Should the package include the involvement of any Western management expertise, it would probably fit the minimum screening requirements of most investment funds.



The decision-making process would require suggestions and comments from Internews, MDP, and RAPIC, as well as from the participating organizations. A committed coordinator with the leadership skills to assess many viewpoints and to move the group toward a consensus plan is needed.

IMPLEMENTATION OF A MARKETING PLAN

The assisted media organizations need to be introduced to as many potential investors as possible. Selection of personnel is critical; most sources of funding receive a large number of unsolicited inquiries so that persistence is necessary to overcome negative initial reactions. Sending information or making telephone contacts to a list of obvious target investors will not be sufficient. In the search for possible potential investors in the U.S., for example, it will be necessary to make a considerable number of telephone calls to identify candidate companies, and then to identify the decision maker in each of those companies. For the primary consultant, four months of full-time work should be sufficient to complete the work, including facilitation of site visits and coaching of the target organizations. While there is no reason to limit investor searches to the U.S., American investors could be given priority because much of the best work is conducted in the U.S.

PROVISION OF TECHNICAL ASSISTANCE DURING NEGOTIATION PROCESS

The goal of this stage is to conclude any pending negotiations. USAID's willingness to provide continued assistance to interested investors could be extremely valuable. Much of the administrative work, such as gathering documents and supervising an audit, could accelerate the review process while USAID would remain aware of and updated on the negotiation process. This assistance would be of limited duration (up to one month) and could be provided on a matching basis to ensure the serious intent of the investor.

Most importantly, this stage requires a patient but determined facilitator—an investment banker who is skilled at overcoming the cultural barriers that inevitably exist in international transactions. For both the investor and media company, considerable planning will be required to ensure favorable impressions and smooth negotiations. Consultants could be hired for short-term assignments. Accounting expertise would be necessary with assistance from legal experts experienced in completing negotiations.

CREATION OF A USAID/PRIVATE PARTNERSHIP

Once the pilot program has been completed, it will be necessary to determine whether the program can continue on a self-sustaining basis. The pilot program will have given USAID and its affiliates direct experience in the investment process along with a track record that can be used to stimulate further private investment in the Russian media.



The completion of the pilot program will prepare the market and prove the sector's attractiveness to investors. In the event that the private sector is still not prepared to take over this activity within a year, the pilot program will still have had a positive impact at minimal cost.

The pilot program activities are typical of those of corporate mergers and acquisitions handled by investment bankers. Commissions for this type of work are usually between 6 and 8 percent. This means that an investment of \$10 million in a group of media companies would generate commissions of \$600,000 to \$800,000. Similarly, a holding company of several media organizations may be created during the pilot program. This company could have sources of income (for example, from advertising sales) that would allow it to continue the investment banking function on behalf of other media companies. USAID could provide a minimal amount of funding that would act as a catalyst in the start-up phase. The partner should have its own capital at risk, however, and its major source of income should be fees paid by investors. A minimum level of investment-related technical assistance channeled through the holding company would allow USAID to maintain its presence and to continue its strategic influence on the development of the Russian media while the private sector bears responsibility for the burden of the work.

PROJECT COORDINATION

Undertaking this project would represent a shift of emphasis for USAID, whose previous work for the media has consisted primarily of technical assistance in the traditional sense. Personnel should be chosen carefully, and the shift in emphasis should be communicated completely to all interested parties.

The first three stages would take 7 to 9 months from the time of the first site visit. The pilot program should be supervised by a coordinator with leadership skills and a commitment to seeing the project from beginning to end. The coordinator would organize and guide the teams involved in business planning and would be responsible primarily for the marketing activities.

PARTICIPATION OF MDP AND RELATED ORGANIZATIONS

Internews appears to be the best organization to coordinate the pilot program as described because both RAPIC and MDP, although extremely effective organizations, have been narrower in scope than Internews. In other Eastern European countries, Internews has proven its agility in adapting its structure to fit changing goals, and has established profit-making affiliates in some cases. This suggests that Internews might be interested in forming the intermediary investment vehicle, a possibility that seems less suited to the more limited focus of either MDP or RAPIC. In addition, Internews is respected by many media



organizations which are apt to have legitimate concerns about sensitive issues, such as control of the project and confidentiality.

On the other hand, MDP and RAPIC have key personnel who are thoroughly familiar with the Russian media. It is recommended that personnel from these organizations be used to develop the program and to select its participants.

CONCLUSIONS

Prior to the privatization phase of the pilot program, only a small number of organizations will be provided with assistance in order to have maximum impact in a minimum amount of time. Investors are interested only in the strongest organizations, and unlike government assistance programs, have no interest in the general needs of the sector. An investment program that seeks to assist a large number of organizations will not be able to meet the needs of investors and is not likely to be successful.

Leading Russian enterprises to financing sources is primarily a matter of quality control. The best enterprises need to be polished and primed, but for organizations unlikely to succeed at attracting investment, expectations need not be raised. The most successful media organizations will probably attract investment; the neediest surely will not.

If it is decided that a private investment partner should be found, the ultimate impact of the project is limitless. If the investment climate improves, additional media organizations will be ready for the same services; the necessary skills and a credible track record would already be developed within USAID. This would be the right time to leave behind a private investment banking operation, which could be USAID's permanent legacy.



APPENDICES

A: SCOPE OF WORK

B: AGENDA FOR THE DEBRIEFING WITH USAID/MOSCOW

C: PERSONS INTERVIEWED

D: ALTERNATIVE PROGRAMS



APPENDIX A
SCOPE OF WORK

Attachment 1

Statement of Work: Assessment, Investigation and Evaluation of Investment Fund Possibilities in Russia

I. Purpose of Assessment:

This assessment will (a) assess the capabilities of the USAID Media Development Program (MDP) in Russia to provide technical assistance, (b) assess the investment funds in Russia, both donor and private supported, and (3) make recommendations on how MDP can use technical assistance to stimulate more direct investment in the media sector.

II. Background:

A. Evolution of the USAID program.

In the original design of USAID's Democratic Pluralism Initiatives Project as authorized in April, 1992, one of the four key components was to support the development of independent media in Russia and the New Independent States (NIS) of the former Soviet Union. The project design foresaw USAID promoting an independent media that is both financially and politically independent of the state, and serves the following functions: 1) as an essential foundation for freedom of the press; 2) as a mechanism for keeping state media honest; 3) as a mechanism for keeping a government accountable for its actions; and 4) as a significant source of information on which Russian citizens make political and economic decisions.

USAID's independent media support programs in Russia began in the Spring of 1992 with a grant to Internews with the modest goals of limited e-mail training, facilitating the exchange of video information, training just over 100 television journalists, and providing some very basic television equipment to independent stations. Over the past four years, Internews has met those goals as well as having established a network of more than 80 independent television stations participating in a programming exchange, coordinating the production of a weekly prime-time magazine, trained nearly a thousand journalists and managers, outfitted a centralized production facility, and organized the Open Skies network, which distributed an hour a day of quality programming to over 100 stations in Russia. The expanded objectives of the program are " to provide support to aid in the establishment of an independent television news distribution system to facilitate alternatives to state-controlled

broadcasting monopolies. This distribution system, or network, will be complemented by both journalist and business management training to assist independent news organizations in the NIS become effective and sustainable institutions." The Internews program is scheduled to continue through August, 1998.

In 1994, USAID completed a 6-month research and design effort to identify key restraints facing independent media organizations in Russia, and to determine the gaps in assistance provided by both the USG and other donors. The study showed that the two greatest needs facing independent Russian media organizations were business training and equipment. Little had been done in either of these areas by western assistance programs. USAID proposed to provide this type of support through Russian-American Media Partnerships program (now called the Media Development Program, MDP) that was both innovative and likely to leverage additional resources. It was envisioned that such a program would link up US and Russian media professionals to expose Russia to innovative facilities and innovative standards in the US. The program was designed to allow for 15-20 partnerships, to be selected competitively, and involve several different types of media organizations, at a cost of \$10 million. The program also expanded USAID assistance into print media.

The intent was to target Russian organizations which, due to their structure or purpose had an ability to catalyze deeper reforms for independent media in Russia. For example, support to the National Association of Telecasters, which represents 60 independent broadcasters, benefits all broadcasters by seeking regulatory reform. Assistance to a wire service reaches not only the 80 newspapers which subscribe, but the readership of these papers.

In September 1994, a cooperative agreement was made with Internews and the Russian-American Press and Information Center (RAPIC) to implement the Media Development Program (CCN-008-A-00-4136-00). In just under two years, this program has developed fourteen partnerships and numerous training programs. This program has also generated over \$1-million in cost-sharing throughout the partnerships. The Media Development Program is scheduled to continue through March, 1998.

The independent media program has also been supported by US-based training funded through the NIS Exchanges and Training Project, with over 300 Internews-affiliated journalists and managers participating over three years.

B. The current program objectives

In 1996, USAID/Russia designed a Results Framework that states our objectives in the language of the reengineered USAID. Specifically, the independent media program contributes to the achievement of the Mission's Strategic Objective 2.1 - Increased, better informed citizens' participation in political and economic decision-making - through achievement of the following intermediate results:

- Intermediate Result 2.1.2 By increasing citizens' access to needed information about the changing economic and political systems, they will be better equipped to make informed political and economic choices;
- Intermediate Result 2.1.2.1 Strong independent broadcast stations are better able to produce and air high quality programming;
- Intermediate Result 2.1.2.2 Independent stations provide an alternative to state information, and increase coverage of local/regional issues;
- Intermediate Result 2.1.2.3 The financial and institutional status of the media sector is better developed.

These are the objectives that USAID/Russia will achieve during the next three years as we exit from Russia [N.B.: FY 98 is the final year of funding, FY 99 is the close-out year]. USAID/Russia must now develop an explicit exit strategy that describes how we will target MDP assistance in FY 97 and FY 98 in order to meet these objectives.

Because MDP works within the framework of the entire media industry and has a technical assistance mechanism in place, using MDP to provide intensive technical assistance to a variety of Russian media organizations to make them more attractive entities for commercial investors would have a beneficial, multiplier effect.

III. Statement of Work:

The Contractor will undertake the work required to produce a report that (a) assesses the capabilities of MDP to provide

technical assistance; (b) assess possible players in the media investment market, both potential investors and potential recipients, and (c) makes recommendations on what mechanism MDP can develop to stimulate direct investment in the media sector, and (d) builds on the background of knowledge MDP has already acquired about investment funds. Specifically:

A. Assess the current capabilities of the MDP project in Russia, including

1. Criteria for selecting subgrants -- are they adequate to effectively identify/select media organizations which a) can further SO2.1 objectives; b) attract commercial finance
2. How many partnerships of the fourteen have commercial potential;
3. Track record for providing technical assistance;
4. How Russian media organizations may be made attractive for outside investors.

B. Assess possible players in the media investment market, both investors and recipients, including:

1. Who are the investors, both private- and donor- funded, interested in investing in the media in Russia?
2. Does the media sector (specifically independent media) present attractive investment opportunities for private investors?
3. What information do investors need from potential recipients, particularly financial information, in order to make sound investments?
4. What will the recipients use the investments for?
5. What is the investment potential of the current MDP partnerships?
6. What is MDP's comparative advantage in providing technical assistance to stimulate investment, compared to other technical assistance providers? How best can MDP contribute to helping Russian organizations receive investment?

C. Conclusions

These should pull together information derived from investigations of MDP and investment issues.

1. Increasingly, the USAID-supported media program has focussed on increasing the financial sustainability, and hence the editorial independence, of media outlets. This is seen through the increasing sophistication of the financial management in-country training requested by television station financial managers, as well as newspaper editors.

What components of the program can reasonably become sustainable (i.e.: survive beyond the life of the grant, without continued USAID and/or foreign donor funding)? What attributes have made these particular components more likely to sustain themselves?

2. What components of the program are most and least valuable in contributing to the development of sustainable Russian independent media and the development of a domestic environment conducive to the growth of sustainable independent media in Russia?
3. Investment Assessment: How can MDP work with other donors and technical assistance providers to maximize investment in the independent media in Russia? Should MDP develop a "feed" technical assistance facility to prepare media organizations to receive investment funds? If so, what should be the features of such a facility? How should it interact with investors?

IV. Assessment Methodology and Schedule:

The assessment will be conducted by (1) reviewing all relevant USAID documents; (2) conducting interviews of key staff at Internews, RAPIC, and USAID in Washington, DC and in Moscow, Russia; (3) conducting interviews of selected MDP partnerships throughout Russia; (4) conducting interviews with donor-supported and private investment funds in Russia; (5) conducting discussions with other technical assistance providers, such as CEC and IESC, who could work with MDP in providing technical assistance to media organizations.

Timeline: The Washington interviews should begin on or about September 27, 1996. The Russia visit should begin o/a October 1, 1996, and continue for three weeks to conduct briefings with USAID, the Media Development Program, Russian media experts, eight days of in-country site visits, and a debrief in Moscow on the way back to Washington. Following the field work one week should be provided for the team to submit a draft report by October 31, 1996. One week will be necessary for USAID/Moscow to review the draft. Finally, one week will be required after receipt of USAID feedback for the final report by November 15, 1996.

- (1) During two days of work in Washington, DC, to begin on or about September 27, the assessment team shall review background documents provided by MDP, including:

- all design documents to date which have discussed a media investment fund
- all necessary core documents for MDP
- all documentation related to investment funds supplied by MDP, including investment fund annual reports.

Contractor shall conduct interviews and hold briefings with Internews/RAPIC staff in Washington. Appointments will be arranged by Deborah Mendelsohn, Internews/CA, who will also provide copies of background documents.

(2) Contractor will travel to Russia, starting with approximately 7 working days in Moscow for meetings with USAID staff and grantees and Moscow-based investment organizations and to draft a schedule for field appointments.

(3) During field work, the Contractor shall conduct interviews of members of the media programs, donor-supported and private investment firms, other providers of technical assistance such as CDC and IESC, and investment specialists. Approximately 10 working days will be needed for field work.

(4) Before returning to DC, Contractor will provide a debriefing to USAID/Russia in Moscow (2 working days). After returning to DC, Contractor will provide a draft report within 5 working days of the debriefing. USAID/Russia will then make comments on the report and communicate them to the Contractor within 5 working days.

(5) The Contractor will finalize the report within one week of receiving USAID/Russia comments. Approximately 5 working days will be needed to finalize the report.

V. Team Composition and Level of Effort

The contractor will provide a team of two specialists for this assessment. The minimum requirement for both specialists is superior written and verbal communication skills. In addition, USAID will identify two Russian team members to be hired by the contractor.

Preference will be given to a team with relevant developmental experience.

The team should have a mix of the following skills/background:

- evaluation, including qualitative methodologies like key informant interviews, etc.

- Russia expertise - knowledge and understanding of the constraints and dynamics of operating in Russia's rapidly evolving society
- media market/investment expertise
- media financial management expertise

The Contractor will certify that there is no conflict of interest with respect to the performance of this evaluation on the part of the Contractor and each team member for this evaluation.

The Contractor will guarantee that substitutions will not be made for individuals selected as team members without the approval of USAID/Moscow. If substitutions have to be made and if USAID/Moscow does not concur in the substitutions, the evaluation will be canceled or postponed at USAID/ Moscow option.

Contractor will also guarantee that the approved team members will be available for all aspects of the time schedule.

VI. Deliverables and Logistics:

Deliverables: The Contractor will produce for USAID/Russia a debriefing before departing Russia. After 5 working days, the Contractor will provide USAID/Russia with a draft report. USAID will provide comments within one week. After receipt of USAID/Russia comments, the Contractor will produce one final report that will be no longer than 30 pages. Five hard copies of the final report paper will be delivered to USAID/Russia along with a copy on a 3 ½" disk in WordPerfect. As per Section D.3.(a)(5) of the Contract, the Contractor will send two additional copies of the final report to the Center for Development Information and Evaluation, Directorate for Policy, USAID, Washington, DC 20523.

All logistical support will be provided by the Contractor to include travel, transportation, secretarial and office support, interpretation, report printing and communication, as appropriate. The Contractor shall ensure that the assessment team has adequate finances to make all logistical arrangements without support from the USAID office in Moscow.

USAID/Moscow will provide country clearance for the team.

To: Julie Allaire-MacDonald, Deputy Director, DIHR
Carol Marquis, Media Specialist, DIHR

From: Deborah Crane, ENI/PCS 

Re: Elaborations on the Statement of Work for the Media Assessment

Date: September 23, 1996

The following elaborations on the statement of work for the assessment team are based on the discussions I have had over the past two weeks with the two of you, Internews, the Media Development Project, USAID/Moscow's Office of Private Enterprise, and several donor-funded investment funds (EBRD and FDD). They are intended to help the assessment team get a better idea of what USAID is expecting from the assessment.

1. Part A of the SOW focuses on assessing MDP's capabilities as a provider of technical assistance and Part C asks for recommendations on what mechanism MDP could develop to stimulate direct investment in the media sector. It is important for the assessment team to understand, however, that we are not limited to developing this activity within the boundaries of the MDP program. The team will want to consider: 1) the capabilities of Internews as well as MDP; and 2) the potential role of other USAID-funded sources of business-related technical assistance such as the Tool Kit training and the small business development centers. It is within this context that the team should review what role MDP or Internews could play in supporting media firms in their efforts to access investment and finance. This role may be identifying media firms with solid commercial potential, actually providing the technical assistance needed to prepare the firm for making a successful application for financing, and/or providing follow-on assistance to successful firms to help them use new equipment, employ new marketing or management techniques, etc. The assessment team should think creatively about how to bring existing elements of USAID programs to bear on the objective of assisting media firms in accessing financing, as well as assessing the feasibility of a new effort. Since budget resources available for new activities are quite limited, it will be important that the team weave in other USAID programs, if appropriate.

The team should be sure to meet with John Beed and Cecelia Ciepiela or Valery Krylov. The team should be able to review a set of the tool kit training manuals so they are aware of the resources that will be on-line and available through USAID-funded training and local consulting firms. Since it will be difficult to give the team a set of the training materials, they should plan on setting themselves up in a conference room at USAID and spending an hour or more flipping through some of the manuals to get a sense of the scope and focus of the training.

2. In terms of the investment funds, the team's schedule should include as many as possible of the following private investment funds with a Moscow representative:

Framlington Russian Investment Fund -- Connel Gallagher

New Russian Small Business Investment Fund (donor funded) -- DDD Rep Brad May
Pioneer Direct Equity Fund -- Tim Frost or Alexander Tsapin
Russia Partners Company, L.P. -- Lauralee Raddatz
San Antonio Capital -- James Chavin
Renaissance Capital Group -- Gregory Bedrosian
Sector Capital -- James West or Nataly Ivanova

Note: Because of Charles Tennes' involvement in producing the "Sources of Financing in the NIS" document, the team should be aware of private funds like Alliance ScanEast (Helsinki), BCEN-Eurobank (London), First NIS Regional Fund (London), Junction Investors Ltd. (Boston), and NCH Advisors (NY) which are operating in Russia but based elsewhere. In addition, the team should be provided with Shelley Markoff's list of U.S.-based private investment funds and contact points which, while not operating in the NIS (that we know of), are active in media finance. The team may wish to contact these institutions either before or after the Russia portion of their work.

3. The SOW uses the term investment and refers to investment funds as a key potential source of financing for media firms. The SOW does not intend to limit the team to equity investment, however. The team should also assess bank lending as a source of financing.

4. It would be helpful for the team to identify potential constraints to both lending and equity investment in the media sector, such as requirements that there be a Western joint-venture partner. The team's assessment will be critical in determining whether and how USAID proceeds in developing a technical assistance activity. It may be that technical assistance will not address the key constraints -- this will be very important for USAID to know.



APPENDIX B

AGENDA FOR THE DEBRIEFING WITH USAID/MOSCOW



AGENDA FOR THE DEBRIEFING WITH USAID/MOSCOW
October 25, 1996

- **Assessment of DPI Media Impact to Date**
 - ▶ Media training programs are among USAID's greatest successes.
 - Many Russians are committed to an independent media.
 - USAID has fostered a true community of media organizations.
 - In many areas, Russians are qualified to continue training programs without foreign assistance.
 - ▶ The early focus was on journalism; media organizations are now most in need of management and sales training.
 - ▶ The personnel of Internews and MDP are highly regarded, and many media organizations look to them for leadership.

- **Assessment of the State of the Russian Media**
 - ▶ The concepts of a free press are understood, but their application is sporadic.
 - ▶ Most media organizations are in need of capital for facilities and equipment, including such fundamentals as transmitters, studios, and printing presses.
 - ▶ Ownership is diffuse; it is distressing that the sector is attracting firms such as Gasprom and MOST Bank.

- **Assessment of the Investment Climate for Russian Companies**
 - ▶ The positive aspect is that the situation is not becoming worse.
 - ▶ This year has been disappointing; momentum is lacking in two critical areas:
 - improvements in the investment infrastructure and
 - economic growth.
 - ▶ The portfolio investment is still slow; direct investment is more promising.

- **Assessment of the Investment Prospects for the Media Sector**
 - ▶ This is one of the most attractive sectors in Russia.
 - Many media organizations are profitable, well-managed, and generate cash.
 - The sector does not have many vestiges of state-owned enterprises.
 - Regional advertising revenues are likely to increase.
 - The media sector has proven attractive to investors in other developing countries.
 - Investors are already in Russia.
 - ▶ The media sector is changing too quickly.



- **Assistance USAID can Provide: Implement the Recommended Pilot Program**
 - ▶ Eliminate the problems caused by the lack of financial documentation; send counseling teams on site visits to the model enterprises.
 - Prepare the organizations; be specific about the scope of work and confidentiality issues.
 - Use the financial management module of the tool kit, IESC's *RAP to GAAP* workbook, the media organizations' confidence in Internews and MDP, and the financial expertise of the subcontractors.
 - By the conclusion of the site visit, develop financial statements, written strategic plans including financial models, investment plans concentrating on use of funds, and an understanding of the owners' attitudes toward outside investment.
 - Provide the organization with an understanding of GAAP and an objective understanding of the organization's assets and liabilities.
 - ▶ Decide how to package the investments.
 - ▶ Sell the package:
 - Prepare a summary memorandum.
 - Choose the appropriate person to systematically canvass potential investors, such as the funds with a Moscow presence, the strategic investors, venture capital firms, and those investors already identified.
 - Assist during negotiations.
 - ▶ Provide assistance for feasibility studies.

- **Alternative Programs**
 - ▶ Separate programs for print and broadcast media
 - ▶ Lending programs
 - ▶ USRIF
 - ▶ Ratings
 - ▶ Support of the NVS Network
 - ▶ Regional business support centers



APPENDIX C
PERSONS INTERVIEWED



PERSONS INTERVIEWED

USAID

Washington

Deborah Crane
Peter Graves

Moscow

William Hammick
Julie Allaire-MacDonald
Carol Marquis
Cecilia Ciepiela
John Beed
Emmy Simmons

ORGANIZATIONS SUPPORTED BY USAID

Media Development Program

Shelley Markhov
Rob Colson

Russian American Press and Information Center

Stephen L. Bouser, American Co-director
Peter Mahoney, Deputy Director
Robert Manoff, Co-chairman

Internews

Manana Aslamazian, Executive Director, Internews Russia
Deborah Mendelsohn, Director of Programs
Meg Gaydosik, Consultant
Grigory Libergal, Programming Director

International Executive Service Corps

Edward Morrison, Country Director
Kenneth MacLeod, Field Associate

Business Support Center, Tomsk

Sergei Kasatkin, Deputy Director
Olga P. Koneva, Liaison, Business and Government Relations



POTENTIAL INVESTORS AND FUNDS

Metromedia International

Michael A. Krafft, Vice President, Business Development

MTG International

Per Almgren, Managing Director

Renaissance Capital Group/Sputnick Funds

Gregory Bedrosian, Director

Genna Lozovsky, Media Analyst

James Dingman

European Bank for Reconstruction and Development

Cyrille Arnould

MC Securities Limited

Kingsmill Bond, Russian Market Fund

Pioneer/First Voucher

Timothy Frost, President

U.S.-Russian Investment Fund

Tom Dans, Vice President

Small Enterprise Equity Fund, Nizhny Novgorod

John McGuire, former Chief Investment Officer

CARESBAC, St. Petersburg

David Lingelbach, General Director

Eurasia Foundation

John Sturino

Marcia Itin

Melanie Peysner

Steptoe and Johnson

Sarah Carey, Partner



BROADCAST MEDIA

Afontovo TV, Krasnoyarsk

Alexander Karpov, General Director
Larissa Malinova, Station Manager

TVK, Krasnoyarsk

Alexander Klukin, General Director
Elena Sazhina, Advertising Sales Director
Irina Dolgushina, Broadcasting Director

NTSC TV Company, Novosibirsk

Yakov London, President

NTN TV, Novosibirsk

Boris Komarov, President

National Association of Telebroadcasters

Natalya Selezneva, Public Relations and International Contacts Director

TV6, Moscow

Stella Neretina, Deputy General Director

Channel 4, Ekaterinburg

Igor Mishin, General Director

TV2, Tomsk

Arcady Myofis, President

Baikal TV, Irkutsk

Alexander Tynikov, President

Skat TV, Samara

Nikolai Fomenko, President
Ludmilla Shanina, General Director

Volga TV and Radio Maxima, Samara

SETI NN, Nizhny Novgorod

Anatoly Lerman, President
Natasha Ershova, Press Attache



PRINT MEDIA

Vecherni, Krasnoyarsk

Sergei Komaritsin, Director

Molodost Sibir, Novosibirsk

Boris Konocalov, Editor in Chief

Sibirskaya Gazyeta, Novosibirsk

Valery Yukechev, Production and Distribution Director

Yuri Tomatchev, Advertising Director

Krasnoe Znamya, Tomsk

Tatyana Kondratskaya, Director

Tatyana Vintizenko, Editor in Chief

Tomskaya Gazyeta, Tomsk

Editor in Chief

Fedorov Corporation

Sergei Fedorov

Samarskaya Gazyeta

Sergei Ryazanov, Editor in Chief

Birzha, Nizhny Novgorod

Vladimir Lalrin, Chief Editor

Independent Media (including Moscow Times)

Dirk Sauer

ADVERTISING

BBDO, Moscow

Vladimir Rass, Media Director

Russian Public Relations Group, Ltd.

Mikhail Ivanov

Andrey Fedotov, Managing Director



APPENDIX D
ALTERNATIVE PROGRAMS



ALTERNATIVE PROGRAMS

Several alternative programs were considered in addition to the pilot program recommended in this evaluation report. These are discussed here with the reasons for rejection.

ESTABLISHMENT OF A DESIGNATED FUND FOR MEDIA

A designated fund would be an ideal means for USAID if it needed to quickly locate a funding source. Such an ambition, however, would likely become mired in political and policy questions, and would take too much time. If these organizations are worthy of investment, the market will provide funding for them.

For similar reasons, the idea of working with one investment partner for the pilot program is not feasible. Developing and maintaining such a partnership would consume valuable time. A qualified coordinator working with Internews, on the other hand, could begin implementing the initial steps in a few months. The idea of a designated fund does not coincide with the concept of a free market. If many of the Russian media organizations are viable and attractive investments, then competitive forces should be used. There is no reason to limit the program to just one investor.

A LENDING PROGRAM

Given the difficulty of borrowing money in Russia, a lending program to assist media organizations could be useful. However, several lending programs already exist. USRIF has a lending program, and EBRD has made over 3,000 small loans, working through a network of EBRD-trained Russian banks. The Eurasia Foundation is developing a fund whose primary purpose is to assist print media with the purchase of presses. The rejection of a separate lending program does not mean that financing packages should not include a combination of debt and equity.

SEPARATE PROGRAMS FOR PRINT AND BROADCAST MEDIA

The needs of print and broadcast media may be divergent enough to call for two separate programs. The basic process of attracting investors is the same for both types of media. If it is decided that a group of enterprises should be marketed together, a combination of both print and broadcast media provides additional diversification. This question might be reconsidered after the completion of the business plans and other documents.



SUPPORT OF AUDIENCE MEASUREMENT SYSTEMS

At this time, the absence of dependable audience measurement systems is a hindrance to the development of advertising revenues in Russia, particularly outside Moscow and St. Petersburg. Considering the number of organizations (including Gallup) which made presentations at the St. Petersburg conference, it seems likely that the marketplace will tend to this problem soon, and that the involvement of USAID is not indicated.

SUPPORT OF THE NVS NETWORK

This is a loosely structured organization made up of several of the television stations which appear to be good investment candidates. It is tempting to conclude that maximum impact would be achieved by supporting the network rather than individual stations, but it is the stations that own the license, the franchise, and ultimately, the advertising revenue. NVS is an organization in its formative stages. A possible role for it might be reconsidered when the investment marketing strategy is being formulated.

USING USAID SERVICE ORGANIZATIONS FOR BUSINESS PLANNING

Unfortunately, neither the CDC nor the regional business support centers have proven to be effective at business planning. At their best, the two volunteer organizations (CDC and IESC) provide extremely effective technical assistance. Quality control is a serious problem in both the recruitment and supervision of volunteers. These organizations might be used to supplement the resources of a professional coordinator, but the project is too important and too visible to risk assistance of indeterminate quality in the initial stages.

The center located in Tomsk is the only regional business support center which was visited. Unfortunately, impressions were quite negative. The center did not seem to be generating activity commensurate with its costs, and its only success story involved the importing of Indonesian redwood for use in trim for new homes—in other words, importing timber to Siberia. Furthermore, one television station manager reported that the center had assisted him in obtaining a grant from the Eurasia Foundation, but the center's director threatened to ambush the grant unless the station provided free advertising for one of the director's personal business interests.