CASE STUDY

MEDIA DEVELOPMENT INVESTMENT FUND

MAY 2019

EXECUTIVE SUMMARY

Media Development Investment Fund (MDIF) is a not-for-profit fund that provides affordable debt, equity, and quasi-equity financing as well as technical assistance to independent media companies in countries where the free press is under threat. MDIF was initially established in 1995 to support media companies in Europe transitioning from communist systems to free markets. MDIF has quickly expanded to provide financing to media businesses around the world. To fund these activities, MDIF has raised a blend of concessional and commercial capital through multiple fit-for-purpose instruments, including two innovative investment note products. Most recently, MDIF has launched a series of blended finance debt and equity funds that leverage first-loss capital, as well as a partial guarantee on the debt fund.

As of December 31, 2018, MDIF has provided more than $172 million in financing and technical assistance grants to 115 independent media companies, primarily small and medium enterprises (SMEs), across 40 countries. As the only global investment fund for independent news media, MDIF presents several insights for others considering blended finance in the media sector – or in other sectors that face significant investment barriers:

- While blended finance is not a panacea for financing the SDGs, it can still support private sector development for less commonly targeted SDGs
- Fit-for-purpose vehicles can be used to unlock specific pools of investment capital
- It can be difficult for 'first-time fund managers' to raise commercial capital – even those with a relevant track record
- The larger ticket sizes required to attract investors can be challenging to reconcile with impactful investment sizes
- Blended finance offers a unique opportunity to align incentives for development impact and financial returns

SYNOPSIS

Deal Sponsor	Media Development Investment Fund	
Mandate	To provide finance and business support to independent media companies in countries with a history of media oppression to build and free, thriving societies.	
Launch Date	1995	
Size	$58 million	
Capital Structure	*General Fund*	Grant capital: $25.1 million
		Concessional debt: $1 million
		Commercial debt: $11.9 million
	MDIF Media Finance I (MMF I)	First-loss debt: $600,000
		Senior notes: $5.4 million
		Guarantee: 50% principal on senior notes
	Emerging Media Opportunity Fund (EMOF)	General partner: $647,000
		Limited partners: $12.3 million *(with $1 million in first-loss position)*
Investment Instruments	Debt, equity, quasi-equity	
Technical Assistance	Every investee is eligible for technical assistance through the Media Advisory Services (MAS).	
Investment activities to date	Total financing	$172.5 million
	Total loans and equity	$148.2 million
	Total technical assistance	$23.7 million
	Total clients	115
	Total countries	40
Impact-to-date	93.7 million people get news from current MDIF clients, 105% growth in client sales after 5 years, 32% increase in client reach after 5 years, 86% of clients saw their corruption reporting create impact *(as of December 31, 2018)*	

INTRODUCTION

A free and independent press plays a critical role in economic and political development. Countries with free media tend to be more conducive to business and better integrated into global financial markets as well as have reduced political risks. Access to information and a free press have long been championed by the international community and are now an explicit component of the Sustainable Development Goals (SDGs), enshrined in Goal 16 (*Peace, Justice, and Strong Institutions*). While an independent media has demonstrated an important role in promoting a country's economic development, for example by exposing corruption and facilitating civic participation, the media sector has remained largely outside the target realm of the donor community. This is particularly striking given the close correlation between a country's level of economic development and press freedoms, whereby countries with higher levels of press freedoms are found to be associated with lower levels of poverty and higher GDP / capita.

Recognizing the unique financing needs of the media sector in challenging environments, Media Development Investment Fund (MDIF) was established in 1995 as a non-profit company with the mission of investing in independent media companies where access to free and independent media is under threat. MDIF deploys loans, equity investments, loan guarantees, and technical assistance. Over its more than 20-year history, MDIF has pioneered blended finance approaches for the media sector. Initially, MDIF leveraged grant capital to mobilize concessional debt and then commercial debt (through social impact notes). More recently, MDIF launched a blended debt fund and a blended equity fund to mobilize additional sources of capital and further expand its investment activities. This case study reviews the evolution of MDIF's capital structure and fundraising approaches, highlighting how blended finance can be used to mobilize additional financing to sectors with significant investment barriers, like media and information.

DESIGN AND FUNDRAISING

Media Development Loan Fund – later replacing "loan" with "investment" – was founded in 1995 by Serbian journalist Sasa Vucinic and Stuart Auerbach, an American journalist for the Washington Post. The collapse of the Soviet Union was marked by an emerging free press throughout post-Communist Europe following years of media oppression; however, access to financing for independent media companies was scarce. International grant capital was available only in small quantum and local financial institutions were often state-controlled or, if not, fearful of potential political consequences of lending to this segment. Against this backdrop, MDIF set out to be a specialized "media bank" to support the increased sustainability of independent media businesses, including print and broadcast.

MDIF quickly gained traction in the market, prompting a series of expansions to its original investment scope and instruments. From the outset technical assistance was a defining feature of MDIF, as part of the founding premise that there was a critical need for business support in addition to financing. After its initial investments, MDIF quickly identified demand for financing in this sector beyond post-Communist Europe and expanded the geographical remit to other countries where access to free and independent media is under threat, beginning with Indonesia in 1997. MDIF diversified its set of financial instruments for supporting the media sector soon after, introducing equity investments in 1999. MDIF then expanded its sectoral focus to digital media – in addition to traditional print, television and radio – as pure digital outlets began to emerge.

MDIF initially garnered financial support from philanthropic organizations that shared a commitment to press freedom. In 1995, MDIF received its seed funding from George Soros in the form of a $500,000 grant. The Open Society Foundations subsequently provided matching grant funding along with the concessional debt raised from additional supporters, including the MacArthur Foundation (in 1997) and the Swedish International Development Cooperation Agency (Sida) (in 1998). In the early 2000s, the recognition of the importance of a free press to economic development increased significantly following a World Bank report on the relationship between mass media (i.e., as a counter to corruption) and poverty reduction. Leveraging this momentum, MDIF was able to tap into a new source of capital: organizations that were focused on poverty alleviation, such as Oxfam/Novib and Calvert Impact Capital (then Calvert Social Investment Foundation) who provided concessional and debt financing.

Later, the growth of the impact investing market brought more new funders to the table and MDIF launched two innovative fixed-income products to attract these investors. First, MDIF built on the success of Calvert Impact Capital's 'Community Investment Notes' and launched a fixed-income product called 'Free Press Investment Notes' to raise capital from individual investors. Free Press Investments Notes allowed impact-oriented investors to participate in MDIF's portfolio, backed by a loss loan provision and significant net assets. In 2006, MDIF launched another innovative fixed-income product, responsAbility Press Freedom Voncerts, in partnership with Swiss investment bank Vontobel and social asset manager responsAbility. Facilitated by responsAbility, the Voncerts were a Swiss-registered blended investment product that enabled MDIF to access Bank Vontobel's private investors by offering a financial and social return for investing in their fund, with public guarantees to project against losses.

Until 2015, MDIF had financed its portfolio entirely off of its own balance sheet, which leveraged a base of concessional capital to mobilize additional concessional debt and impact investments in support of free press. However, this model faced limitations to scale – namely, a mismatch in its assets and liabilities as the organization continued to use its short-term capital to extend longer-term lending and equity financing. To further expand and better scale its financing activities, MDIF launched Emerging Media Opportunity Fund I (EMOF I), a blended equity fund in December 2016, and MDIF Media Finance I (MMF I), a blended debt fund in October 2016. EMOF I leverages a first-loss capital tranche and focuses on broadcast and digital media in frontier markets primarily outside of Europe. MMF I benefits from a first-loss capital tranche and a partial guarantee, and aims to provide working capital primarily to small-and-medium sized enterprises (SMEs) providing independent news and information. Late in 2018, MDIF began fundraising for MDIF Media Finance II (MMF II), a follow-on fund to MMF I.

STRUCTURE AND GOVERNANCE

CAPITAL STRUCTURE

MDIF General Fund

The majority of MDIF's activities to date have been funded from MDIF's balance sheet using program-related investments (the "General Fund"), which has been operational since 1996. The General Fund was initially funded through investment grants, but over time has also attracted concessional debt and commercial debt through innovative products offered to investors by credible institutions. The General Fund is currently capitalized with $36.3 million, which includes grants, concessional debt, and senior debt notes.

Grants & concessional debt: The General Fund is funded by grant capital and concessional debt from public and private development organizations, including OSF, Sida, and Oxfam Novib. Concessional debt has included traditional grants, recoverable grants, as well as (repayable) zero- or low-interest rate loans. The grant capital (traditional and recoverable) serves, in effect, as first-loss to the concessional and commercial debt.

Commercial debt: MDIF has received debt financing on commercial terms from private investors, including financial institutions and impact investors. In addition to receiving direct investments, MDIF has also issued senior notes to expand or refinance its portfolio, primarily through two innovative partnerships:

- responsAbility Press Freedom Voncert: Voncert was a structured interest rate product issued by Vontobel Investment Banking (VIB), which invested in MDIF for a five year term. There were three Voncert issuances in 2006, 2011, and 2012. The first Voncert was issued to VIB clients and structured such that 20% of funds were allocated to MDIF and 80% to the Vontobel Swap Note Open End on the five-year Return (i.e., a Return Swap Index). The first issuance benefited from a full guarantee from the Swiss Development Cooperation (SDC). The subsequent issuances (Voncerts II and III) were fully invested in MDIF and provided partial (two-thirds) guarantees from SDC, Open Society Foundations and Stichting Democratie en Media respectively. All three issuances were Swiss franc denominated. Voncert I was listed on the Swiss stock exchange, while Bank Vontobel offered secondary trading through the entire term on a best effort basis for Voncert II and III.
- Free Press Investment Notes (FPIN): FPIN are issued by MDIF to investors who invest on specific terms and receive a fixed rate of return. The Notes are issued in minimum amounts of $1,000 and purchasers are able to choose both term rates (1, 3, 5, 7, or 10 years) and interest rates (0%, 1%, 2%, 2.5%, and 3% – the last two are available to investors only for 5-10 year terms). Large notes can be individually negotiated. FPIN are issued as senior obligations ranking pari passu with other senior obligations of MDIF.

MMF I & II

Launched in October 2016, MDIF's first special investment fund, MMF, was originally structured as a single $10 million debt fund, but it was ultimately broken into two $6 million debt funds: MMF I and MMF II. MMF I had its first close in October 2016 and reached final close fully funded at just under $6 million in February 2018. The Fund was capitalized by two-tiers of notes, with a partial guarantee of the senior capital tranche.

- First-loss subordinated debt: MDIF provided 10% ($600,000) of the total fund size in a first-loss position by means of a subordinated note. The first-loss capital was allocated from the General Fund.
- Senior notes: $5.4 million senior debt was provided by investors for a seven-year tenor with a four-year

commitment period for drawdown, earning a fixed annual coupon of 4%.

- Partial guarantee: The senior notes are partially secured by a guarantee provided by Sida (senior to the subordinated debt provided by MDIF). The guarantee covers the first 50% of principal losses on the senior notes (up to $2.7 million).

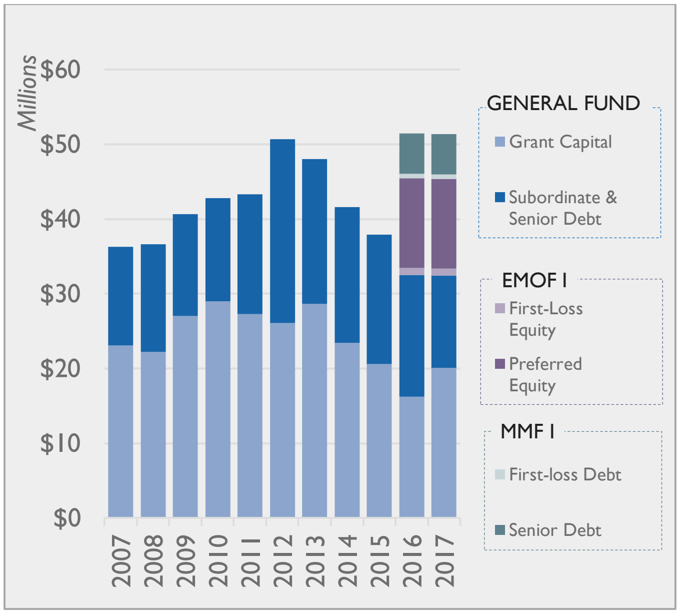

Figure 1: MDIF capital structure over time

MDIF earns a management fee of 1% per annum of drawn and outstanding senior notes. MMF I benefits from grant funding provided by Sida to MDIF ($3.2 million over 5.5 years) that supplements the management fee. Sida is also providing grant funding for technical assistance to MDIF's clients ($3.2 million over 5.5 years).

Launched in 2018, the follow-on fund, MMF II, mirrors the structure of MMF I and will seek to raise another $6 million in debt capital. Like its predessor, MMF II will also offer first-loss protection on the senior notes and be partially secured by a guarantee provided by Sida.

EMOF I

EMOF I launched in December 2016, with a first close in December 2016 and final close at end of 2018 with $12.95 million committed (against a target of $30 million). EMOF I is structured as a traditional private equity fund, with a single General Partner (GP) and multiple Limited Partners (LPs). MDIF is the GP and committed to invest 5% ($647,000) of the fund. EMOF I has a hurdle rate of 5%, and a 20% carry for the GP. MDIF's carry is fully tied to five impact metrics, which each represent 20% in total carry (*see Impact Metrics below for more detail*).

The fund LPs have invested a minimum of $1 million and pay a management fee of 2.75%. The Fund has a target IRR of 10.5% net to investors. There are two tiers of LPs:

- *First Loss Account*: Soros Economic Development Fund (SEDF), a long-time champion of MDIF, agreed to contribute its LP distributions to an interest-bearing first-loss account, up to the lesser of $1 million or 10% of the aggregate Capital Contributions by the first loss beneficiaries (i.e. up to $10 million). At the termination of the fund, SEDF will either receive the total cumulative value of the First Loss Account (in the case of no losses) or part of the total value and/or interest held in the account (in the case of losses).
- *Senior LPs:*
    - LPs that committed less than $10 million at the time of initial closing are eligible to benefit from the First Loss Account. The minimum commitment by each LP is $1 million. The First Loss Account can be used to cover losses on a pro rata basis upon the termination of the Fund.

TECHNICAL ASSISTANCE

Since its inception, technical assistance has been a core component of MDIF's mandate to support independent media. Technical assistance is offered in some form to every MDIF client, and in some cases, to pipeline businesses approved by the Board of Directors. MDIF's technical assistance division, Media Advisory Services (MAS), employs a hands-on and customizable approach to technical assistance, providing clients with tailored consulting, training and/or other resources, adjusted to the specific needs and challenges faced. To this end, MAS seeks to build strong relationships with clients to foster an environment of open communication. MAS coordinates each client's technical assistance activities with the MDIF investment team and regional staff.

To date, MDIF has committed over $20 million in technical assistance grants, which have been used for activities including business plan development, specialized on-site consulting projects, multi-party workshops, digital strategy advisory, management and financial reporting training, and software development. Over the course of a year, MDIF commonly provides technical assistance in some form to each client, either in the form of grants or capacity building activities, including one-on-one consultant engagements. MDIF also seeks to facilitate knowledge sharing and networking across its portfolio companies, including through regional events (e.g., topic-specific workshops on product management, revenue modeling, video production, and financial planning) and a biannual Media Forum, which brings together MDIF clients, staff, and external stakeholders from across 46 countries.

Beyond direct support to clients, MDIF is dedicated to building the support network for the independent media community. In 2012, MDIF launched a web portal, "The Knowledge Bridge", to provide media companies in emerging democracies with the tools and specialist advice they need to develop sustainable digital businesses. In addition, MDIF has two multi-year national-level capacity programs: the Myanmar Media Program (MMP) and the South Africa Media Innovation Program (SAMIP), designed to increase the prevalence of independent media in their respective countries, broadening the reach of MDIF's traditional technical assistance activities.

LEGAL STRUCTURE AND GOVERNANCE

MDIF is registered as a New York tax-exempt not-for-profit corporation with 501(c)(3) public charity status. The 501(c)(3) status allows MDIF to make interest-bearing and revenue-generating investments to further the mission of the non-profit, known as program-related investments (PRIs).

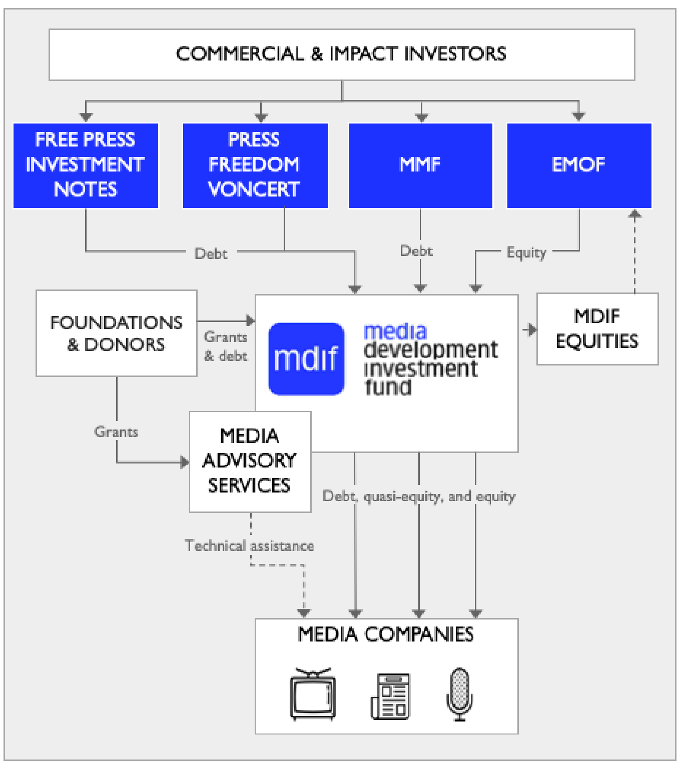

Figure 3: MDIF Structure

MDIF has a board of seven, primarily non-executive, directors, mostly comprised of eminent journalists, media executives and investment professionals. The board is actively involved in the selection process of MDIF investees. All potential investees must be approved by the board before being accepted as investment candidates, based on an evaluation of their social impact, which may include interviews or on-site visits conducted by the board. The board also approves MDIF's annual strategic plan and audited financial statements, and evaluates the performance of MDIF's portfolio. Investments are approved by MDIF's Investment Committee, which is composed of five members of MDIF's management team: the chief executive officer, the deputy chief executive officer, the chief operating officer, the chief investment officer, and the secretary and general counsel.

MMF and EMOF I were established as separate legal entities:

- MMF: MMF I and II were established as SPV loan funds, wholly owned subsidiaries of and managed by MDIF. MDIF supports the Funds' activities with its in-house and external network of media management expertise. Investment candidates are approved by the MDIF Board of Directors as mission-aligned, with investment decisions then approved and carried out by MDIF's Investment Committee.
- EMOF: EMOF I was established as a limited partnership. MDIF established a wholly owned subsidiary, MDIF Equities, LLC, to serve as the GP. MDIF Equities then delegated the Fund's management and administration functions back to MDIF, as the Investment Manager, and other service providers as applicable. MDIF Equities is responsible for the management and control of the Fund's business. An advisory committee consisting of representatives of the three LPs with the largest commitments was established for EMOF I. This committee reviews and approves material changes to the Fund's investment objectives and other governance matters (e.g., conflicts of interest, fair market value) and meets quarterly to review and discuss the Fund's investment activities. The LPs also have a right to nominate an independent member to the EMOF Investment Committee.

OPERATIONS

INVESTMENT CRITERIA

MDIF provides financing to organizations that have a reputation for contributing to the provision of unique, credible, and independent news, information, or debate in the public interest. MDIF currently focuses on companies that are: (i) leveraging digital media to capture large audiences where legacy media lacks independence, (ii) developing new business models for journalism, (iii) delivering information in new, more effective ways (e.g., via mobile phone), (iv) delivering reliable, high quality TV and radio broadcast news to under-served markets, including captured mainstream markets and remote or marginalized communities, or (v) transitioning from traditional to digital media (i.e., existing print clients). MDIF primarily invests in online and broadcast news businesses, with a few geographical exceptions where print still has growth potential (e.g., Myanmar).

MDIF targets media companies that have established a reputation for fostering democratic practices and institutions. A significant portion of content produced must be news and information that provides a range of political opinions, free from influence of government, or other interest groups. No part of a target company may be owned by government, foreign legal entities, or specific political or economic interests. The company must demonstrate that it could not obtain adequate financing from commercial sources on an economically feasible basis or that it could do so only under conditions that would threaten its editorial independence.

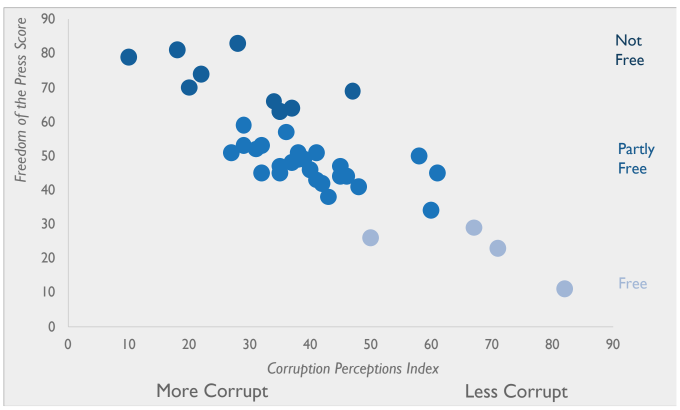

Figure 4: Eligible countries by Corruption Perceptions Index (CPI) and Freedom of the Press (FOTP) scores.

MDIF only provides financing to companies in countries that have been approved by its Board of Directors. MDIF prioritizes countries that do not have access to independent media or where independent media is under threat – categorized as "partly" free and "not free" by Freedom House / Reporters Without Borders. This includes countries that (i) have a history of media oppression or ownership concentration, (ii) are in a state of democratic transition, or (iii) suffer from a lack of free, available public information. There are currently 40 countries approved by the Board, which span Africa (e.g., Botswana, Lesotho), Asia (e.g., Cambodia, India), Europe (e.g., Montenegro, Hungary), and Latin America (e.g., Peru, Brazil). MDIF also invests in international projects with global reach. While MDIF favours locally-owned or -based companies, it will consider others on a case-by-case basis.

In addition to MDIF's core investment criteria, MMF I and II and EMOF have specific criteria:

- MMF I and II: MMF provides debt financing to SMEs that are in need of financing for capital projects or working capital for expansion or short-term cash flow. MMF works exclusively in OECD-DAC countries, such as the Philippines, Malawi, and Ukraine. MMF loans are denominated in US dollars.
- EMOF I: EMOF I provides equity or quasi-equity financing to companies leveraging digital acceleration in media, including disruptive digital media organizations, TV and radio broadcasters. Relative to MDIF's core focus on established media companies, EMOF I targets early- to mid-stage growth firms.
- MMF and EMOF will not commit more than 20% of their total fund size in a single investment.

MDIF General Fund's loans and financing are denominated primarily in US dollars or Euros. The interest rate is below in-country commercial interest rates on loans to SMEs and will depend on, among other things, the nature of the project and the prevailing interest rates in the client's country.

INVESTMENT PROCESS

MDIF employs an open application process for its potential clients. MDIF also draws on its extensive network to source pipeline, which includes independent media companies, international media support organizations, and impact investors. In countries where MDIF has already established a reputation (e.g., through its investment history and/or presence of a regional director), there tends to be a higher volume of direct applications from potential investees. In countries where it has a less established presence, MDIF depends more heavily on its network. MDIF deploys a consistent investment process across its funds (i.e., General Fund, MMF, and EMOF), with minor adjustments as required.

There are five stages in MDIF's investment process:

- Preliminary Screening: Regional staff and the MDIF Investment Committee both review and assess potential candidates for eligibility and good fit with MDIF qualification criteria before submitting for board approval.
- Board Approval: MDIF's Board of Directors determines if a potential investee meets the baseline mission criteria outlined above, namely (i) country need, (ii) content quality, (iii) editorial values, and (iv) independent ownership. All potential investees must receive approval from the Board of Directors in order to qualify for the next stage of due diligence. The Board of Directors may allow exceptions to one or more criteria in cases where potential investee satisfies MDIF's overarching investment mandate.

- Due Diligence and Business Planning: MDIF employs a multi-disciplinary diligence approach. This involves multiple on-site visits and a review of the company's independent ownership, governance, licensing, assets, and liabilities. During this phase, the potential investee must prepare a detailed business plan to be reviewed by the MDIF Investment Committee.
- Approval and Terms of Financing: Following due diligence and business planning, the Investment Committee – comprised of senior MDIF management and General Counsel – is responsible for approving all investments and their terms. Once approved, the terms of financing and protective measures for the lenders are negotiated.
- Monitoring: Post investment, MDIF remains closely involved in strategic planning and in oversight of operational decisions. All investees are monitored monthly based on their financial performance and quarterly assessments of their risk is conducted based on MDIF's ten factor risk rating (*see Impact Metrics*).

INVESTMENT ACTIVITY TO-DATE

Since 1995, MDIF has provided $148.2 million in loans and equity ($172.5 million in total financing including technical assistance) to 359 projects for 115 clients across 40 countries that are partly free or not free societies. The average investment size is $650,000, with many investments less than $500,000, although most clients have received multiple rounds of funding. In 2017, MDIF provided $3.7 million in loans and equity (and $1.9 million in technical assistance), approving 11 investments made from across MDIF's investment vehicles, including the MDIF General Fund (29%), MMF I (13%), and EMOF I (58%). The total number of new investments has decreased over time and currently more than 80% of total clients are existing clients.

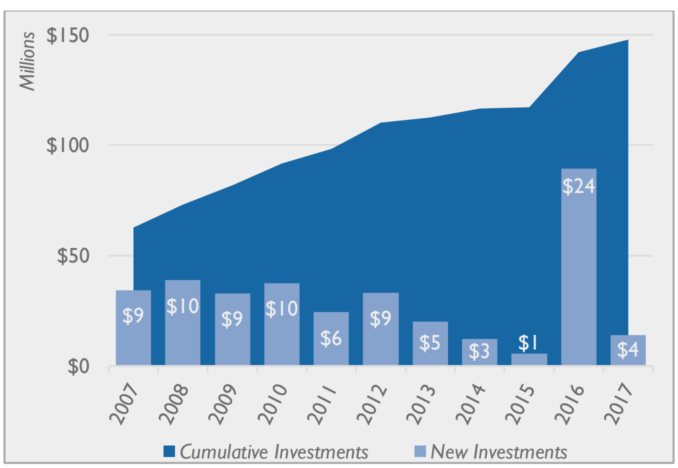

Figure 5: Investments over time (2007-2017)

At the end of 2017, 91.8% of MDIF's outstanding investments were in partly free or not free countries – categorized as "problematic", and "bad" and "very bad" by the World Press Freedom Index published by Reporters Without Borders – up 3.8 percentage points from the previous year. The largest share of MDIF's current portfolio remains in Southeast and Eastern Europe (53.9%), but with a sizeable portfolio in Africa (19%), Asia (11%), and Latin America (8%). The largest share of MDIF investments has been allocated to print and digital media, followed by television broadcasters, digital outlets, and radio. MDIF's current portfolio supports the work of over 4,700 journalists, managers and other media workers worldwide, of which 47% are women.

LOS TIEMPOS BOLIVIA

Background: Los Tiempos is a general interest newspaper and website based in Cochabamba, Bolivia, notable for its non-partisan election coverage, social and environmental reporting, and investigative journalism. In 2007, Los Tiempos sought capital to purchase newsprint, but the rates at local banks were too expensive.

Role of MDIF: Since that first loan, MDIF has provided over $3 million in financing and technical assistance to Los Tiempos over 10 years to restructure the company and its debt, and grow their business and readership. MDIF has also supported Los Tiempos with a range of technical assistance, including digital strategy training, project management tools, and financial management support. Los Tiempos has benefitted from MDIF's network, building strategic relationships with media companies in South America and globally. The company fully repaid the last in a series of MDIF loans in 2016.

Impact: Los Tiempos has reported on elections and held Bolivian government officials accountable, launching a news website for the presidential elections in 2014, and exposing corruption and environmental violations in 2014 and 2015. As part of its investigative reporting, Los Tiempos also participated as the Bolivian partner in the Panama Papers investigations, exposing connections between Bolivia and the offshore world.

Box 1: Los Tiempos Case Study

MDIF has also established an impressive track record of financial sustainability, collecting more than $72.3 million in recovered principal invested and earning over $41.8 million in interest, dividends, and capital gains. MDIF has returned $47.6 million to its investors, with a current portfolio of $51.7 million in outstanding loans and investments. MDIF faces considerable investment risk and at the end of December 2018 had written off 10.8% of the total invested.

IMPACT METRICS

Since 2005, MDIF has produced the Media Development Impact Dashboard, a comprehensive annual impact report that outlines MDIF's activities and impact to date. MDIF collects data for the Dashboard through monthly monitoring reports submitted by investees and on-site visits conducted by MDIF staff, in addition to an annual Dashboard survey. MDIF also uses third-party data sources (e.g., Transparency International) to get an accurate picture of investee impact. MDIF measures impact according to two impact levels: client sustainability and impact on society (e.g., press freedoms, political transparency) (See Table 1).

	INDICATOR	EXAMPLE METRIC
CLIENT SUSTAINABILITY	Client reach	Cumulative reach; year-on-year (YoY) change
	Client sales	Cumulative sales; YoY change
	Client viability	Client risk rating
IMPACT ON SOCIETY	Corruption and accountability	% of clients reporting on corruption and accountability
	Social issues	% of clients reporting on social issues (e.g., gender, environment, ethnicity)
	Elections	# of clients reporting on elections (when occuring)

Table 1: Overview of MDIF Impact Dashboard Metrics

Client sustainability is measured by (i) reach (i.e., number of readers / viewers / listeners), (ii) sales (i.e., revenue) and (iii) viability (i.e., risk level), tracked over the course of each client's involvement with MDIF. In 2017, MDIF's clients reached a record high of 93.7 million people, and increased their sales by an average of 204% over a five-year period.

To track viability, clients are ranked according to the MDIF Dashboard's seven factor risk-rating scale, a subset of MDIF's 10 factor risk-rating scale used for its monitoring activities, and includes factors such as (i) earnings / operating cash flow trends, (ii) asset / liability value, (iii) industry segment health, and (iv) management and controls. Risk is ranked according to a nine point scale where a rating of seven or above is considered high risk, between seven and five is moderate risk, and below five is low risk. In 2017, MDIF's median risk rating on its loan portfolio was 5.71, demonstrating MDIF's commitment to operate in fragile contexts. 72% of clients had maintained or lowered their risk rating during the year.

Second, MDIF's measures impact on society, based on reporting from its clients in three areas: accountability and corruption, social issues, and elections. In 2017, 86% of MDIF clients produced reporting that covered corruption scandals, with 96% in countries that scored poorly (>50) in Transparency International's Corruption Perceptions Index. In addition, 64% of MDIF clients published stories that had impact, covering social issues like the environment, gender, ethnicity and LGBT. Finally, clients reported on elections in 13 countries in which MDIF is operational.

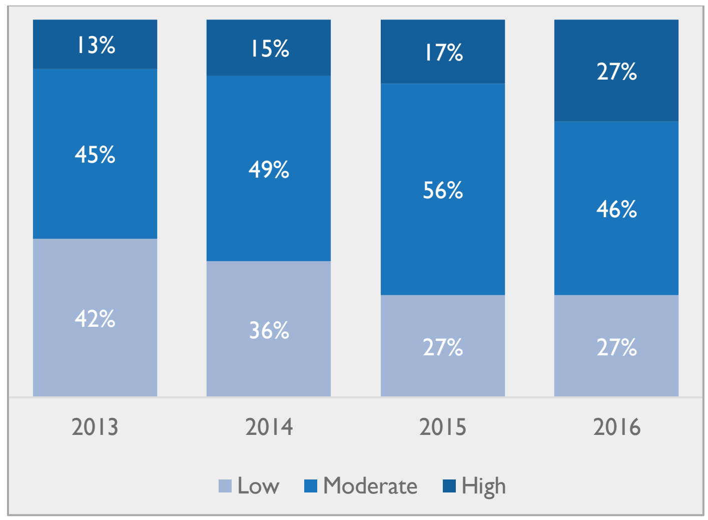

Figure 6: Portfolio breakdown by 'viability' score

In addition to the core metrics, investees of EMOF I are evaluated according to specific metrics used to determine MDIF's carried interest rate. Developed in partnership with the DOEN Foundation, an investor in EMOF I, the framework was designed to bolster impact alignment by tying compensation to social impact outcomes. Accordingly, MDIF's carry on EMOF I is assessed according to five metrics: country mission, investee mission, increased reach, impact evaluation, and sustainable exit. The carry is adjusted downwards in direct proportion to the total impact score achieved: each metric represents 20% of carry earned (4% each towards the total potential 20%). EMOF is a unique example of a fund that takes the mission-aligned exit into account as part of the final carry compensation.

FOLLOW-ON STRUCTURE

In the short-term, MDIF will continue to focus on scaling its new funds, MMF I and EMOF I, and achieving final close of MMF II. MDIF will continue to look for investments that support the evolving media landscape, including new forms of digital media and disruptive models. Going forward, MDIF will continue to explore innovative vehicles that can attract commercial investors on a greater scale, as well as expand its geographic remit to new and frontier markets. With freedom of the press declining around the world – 2018 marked the 13th consecutive year of decline in global press freedom – MDIF also anticipates investing in countries facing new threats that previously did not need MDIF's services.

KEY INSIGHTS

MDIF provides several useful insights for others looking to create or invest in blended finance vehicles focused on the media sector – or other sectors that face significant investment barriers.

- While blended finance is not a panacea for financing the SDGs, it can still support private sector development for less commonly targeted SDGs: Blended finance transactions to date have demonstrated stronger alignment with some goals (e.g., Goal 7) compared to others (e.g., Goal 16). While less than 1% of blended finance transactions have been aligned with Goal 16 (*Peace, Justice, and Strong Institutions*), MDIF identified a niche opportunity to mobilize additional financing for independent media companies to promote free and thriving societies. Moreover, MDIF has a demonstrated track record of achieving measurable development impact and stable financial returns. Development finance practitioners should continue to consider where blended finance approaches could be deployed for private sector activities for additional sectors, geographies, or impact themes. There should also be greater focus on scaling vehicles that have developed a niche and track record.

- Fit-for-purpose vehicles can be used to unlock specific pools of investment capital: To mobilize additional sources of capital to grow its activities, MDIF has launched multiple investment products and vehicles. These products and vehicles have been tailored to the investment requirements and return expectations of specific investor segments. First, MDIF launched two types of structured debt notes (Voncert and FPIN) that targeted individual investors in specific jurisdictions. For the first Voncert, the exposure to MDIF's portfolio was limited to 20% and benefited from a 100% guarantee to ensure good fit with Bank Vontobel's clientele. Building on strong track record of Voncert I, Voncerts II and III could be accepted by Vontobel clients with full exposure to MDIF's portfolio and a partial (two-thirds) guarantee. More recently, MDIF has launched a debt fund and an equity fund, which are fit-for-purpose vehicles that allow specific types of investors to participate in the relevant parts of MDIF's investment activities. Blended finance practitioners should carefully consider their target investor group(s) and develop blended finance solutions that fit those needs and preferences.

- It can be challenging for 'first-time fund managers' to raise commercial capital – even those with a strong track record: MDIF has built a strong portfolio of independent media companies and demonstrated a solid track record of both measurable impact outcomes and stable financial returns, including multiple successful loan repayments and equity exits. Nevertheless, MDIF's first equity fund, EMOF I, reached final close short of its target size – despite the use of first-loss capital. Now, it is certainly important to recognize that a central challenge for MDIF was the low appetite for investing in the media sector globally. Nonetheless, first-time fund managers across sectors and impact themes should be aware of the challenges of raising funds, even those with a long track record of investment activities.

- The larger ticket sizes required to attract investors can be challenging to reconcile with impactful investment sizes: On the one hand, MDIF has established itself as an important source of financing for SMEs in the media sector, with an average loan size of $650,000. On the other hand, its target investors – such as impact arms of private institutional investors and development finance institutions – often require larger fund sizes (e.g., $100 million). Institutional investors generally prefer a minimum ticket size of $10-15 million and for their investment to be no more than 20% of total fund commitments. To offer larger ticket sizes to investors, fund managers must either (i) increase the average investment size or (ii) originate a larger number of small investments. The ability to increase the number of investments depends on the size of the potential pipeline as well as transaction costs. This mismatch in deal size is an important consideration for blended finance solutions targeting less developed sectors or markets.

- Blended finance offers a unique opportunity to align incentives for development impact and financial returns: MDIF provides a strong example of how blended finance transactions can be structured to focus on development impact and financial performance. MDIF has developed a thorough impact assessment program as well as clear financial controls and risk management systems. MDIF's continued commitment to impact has been a key draw for its mission-driven investors to date. More recently, MDIF is pioneering a pay-for-performance carry model on its new private equity fund, EMOF I, which explicitly ties its financial compensation to the achievement of pre-determined impact outcomes. Practitioners should consider tools and approaches, such as pay-for-performance models, for embedding development impact and financial performance expectations.

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ABOUT CONVERGENCE

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