

# **PRIVATE NEWSPAPERS IN BHUTAN:**

## Proposed Strategy to Overcome the Crisis

November 2014

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## ACKNOWLEDGMENT

This report is the result of an assignment carried out for the Swiss Agency for Development and Cooperation (SDC) and the Department of Information and Media, Ministry of Information and Communications in Bhutan. The assignment falls under the DG+ Democratic Governance Programme (2013 - 2016) which is the main vehicle of Swiss-Bhutanese Cooperation towards consolidation of democratic institutions and practices in Bhutan hereunder the strengthening of media and civil society engagement.

The assignment has been conducted by International Media Support (IMS) and QED Consulting Group in Bhutan under the supervision and expert guidance of senior media business specialist, Sasa Vucinic, who has also authored the report and its recommendations.



**International Media Support (IMS)** is a non-profit organisation working with media in countries affected by armed conflict, human insecurity and political transition. Across four continents, IMS helps to strengthen professional practices and ensure that media can operate under challenging circumstances.

Learn more about International Media Support (IMS): <http://www.mediasupport.org>

# Introduction

The objective of the assignment which resulted in this report was two-fold: the first part was “to study and identify causes of the challenges faced by private media, and to suggest and recommend measures to address the causes identified in a comprehensive manner.”

The second part of the assignment, which before we arrived in Bhutan appeared to be more urgent, was “to assess the possibility to enhance the reach and sustainability of private media through the provision of soft loans, and recommend the appropriate amount of funds to be set aside for that purpose and a clear set of criteria for use and recovery of funds.”

*It is not an exaggeration to say that the financial crisis is of a magnitude that threatens the survival of all private newspapers in Bhutan. If left unattended, it may result in Bhutan being left without any private newspapers.*

Interestingly, in the meetings we had with local bankers on the first day of our visit, it became obvious that the idea that soft loans could play a significant role in the solution to the dramatic crisis in Bhutan’s private newspaper market is actually an illusion. The bankers we met had several important messages for us: newspapers not only had access to fairly-priced credit facilities from local banks, they were also drawing down credit extensively and are now finding themselves buried under loans too big to service. As the private newspaper crisis was widening while their revenues were shrinking, publishers were finding it harder and harder to service those oversized loans. To provide them with new loans, we were told, would eventually make the problem larger. In the second part of this report we explain this conclusion in detail.

During our numerous meetings with media owners, journalists (current and former), media foundations, regulators and government officials, not one person we spoke with thought the idea of soft loans could be helpful in this stage of the crisis. The newspaper crisis was too fast and too wide, making it too late for soft loans to play a meaningful role in solving it.

Therefore our mission and this report narrowed and focused on the remaining part of the assignment: understanding the real causes of the obvious and dramatic crisis private newspapers are struggling with, and – more importantly – proposing practical and actionable measures which, if applied properly and in a timely manner, would end the crisis and pave the way for private newspapers to financial sustainability.

As a result, this report consists of two parts. The first part will attempt to analyze and describe the causes of the crisis. In this part we deliberately tried to be as scientific as possible. Our goal was to discover and analyze hard facts and numbers, percentages and financial trends so our conclusions can serve as a reliable foundation for the recommendations we make in this report.

In our attempt to discover financial trends to establish reliable financial projections, probably the most difficult task was to measure and define the size of the advertising market in Bhutan. Estimating this accurately is incredibly important: knowing it allows publishers to clearly understand the size of the playing field on which they compete with peers and make rational business decisions based on that knowledge. Although we did not uncover the ultimate number, our estimate of the advertising market as presented in this report is closer to that ultimate number than any other previous estimate.

We made another attempt to initiate collection of important industry data: in an effort to get a complete picture of the consequences of the financial crisis, we initiated and conducted a survey of private newspapers regarding their business and financial performance. (Private Newspaper Survey, 2014). We promised that we would not disclose any of the information provided to us, and that we will use data in an aggregated form only. Although we did not receive enough responses to claim that these answers present the “true state” of the industry, they present a very valuable “X ray” type of view into the financial operations of the most important private newspapers in the country. We use answers from this Survey to illustrate different points and to explain some issues that would be impossible to understand without this “inside information”.

***While finding a solution to this crisis will not be an easy task, it is not an impossible task either.***

Finally, in the second part of this report we propose a strategy for solving the private newspaper crisis in Bhutan. It is not an exaggeration to say that the financial crisis is of a magnitude that threatens the survival of all private newspapers in Bhutan. If left unattended, it may result in Bhutan being left without any private newspapers. While finding a solution to this crisis will not be an easy task, it is not an impossible task either.

In this report we propose and explain a set of comprehensive, practical and actionable measures that will revive the private newspaper market, and if implemented in coordinated and well-timed manner, create an ecosystem in which private newspapers can be financially sustainable.

# PART ONE: ESTABLISHING FACTS

## 1 Advertising market

There are some countries in which the government is a big, sometimes even dominant, advertiser, but we are not sure if there is another country in which the funds that the government dedicates to public announcements and advertising practically REPRESENT advertising market.

From the perspective of individual private newspapers, government advertising (and advertising by government linked legal entities) represents anything between 85% to 90% of their total revenues, with that number growing up to 95% in cases of some less diversified newspapers. (Source: Private Newspaper Survey, 2014).

In other words, and to be completely realistic – for private newspaper publishers, at this time and under current market conditions, no other revenue source matters at all. Therefore, private newspapers live or die based on one criterion only – how successful they can be in attracting government advertising.

*Private newspapers live or die based on one criterion only - how successful they can be in attracting government advertising.*

Hence, for the private publishers, the two undoubtedly most important issues in conducting their business are: how much will the government spend on public announcements and advertising in the current fiscal year (to determine the size of their market), and – what is the criteria and decision-making process by which the Government allocates its advertising budget among different media outlets, as that determines competitiveness of their business environment and their chances for business survival.

Private companies in Bhutan apparently do not have a strong need to advertise, mostly because the predominant nature of private business in the country is business-to-business, not business-to-consumer. And that is not likely to change any time soon.

So, how big is the advertising market in Bhutan, or - how much does the government spend on public announcements and advertising?

It was exceptionally hard to come up with an accurate estimation of this number. There are two main reasons for that:

*The decline in government spending on advertising, just between the last two consecutive fiscal years, amounts to a staggering 32%.*

1. The current system of distributing advertising funds is so de-centralized and un-coordinated that no one can fully monitor, let alone measure it. Each government entity is responsible for allocating their own advertising budget to the media outlet they deem best fit to meet specific advertising goals of the specific advertising campaign. This un-coordinated process of awarding many individual and small contracts practically – at the time of preparing this report - without general criteria, makes this distribution system appear convoluted, non-transparent and exposed to possible abuse.

2. While the Ministry of Finance tracks down and reports all budgeted and spent funds under the budget line “advertising”, in the real life many government advertisements are ordered and then charged directly to projects and are therefore not reflected in the final Ministry reports as ad spend. So, it is safe to assume that government spending on advertising is higher than the numbers provided to us by the Ministry of Finance, which we present in this report. How much higher – we were not able to determine with any certainty. We can only provide one illustration of a possible difference between government reported ad spend numbers: in the fiscal 2011 – 2012, the government reported spending Nu. 59.34 million for advertising. For that same fiscal year, nine newspapers in operation at that time (including Kuensel) reported receiving Nu. 124.3 million in government and private advertising. So – this difference is obviously very significant.

According to government data, the total amount spent for this purpose during the following, fiscal 2012-2013 year, was Nu. 64.56 million (the fiscal year in Bhutan covers from July 1 to June 30 of the following year).

For fiscal year 2013 – 2014, a smaller amount of Nu. 54 million was budgeted

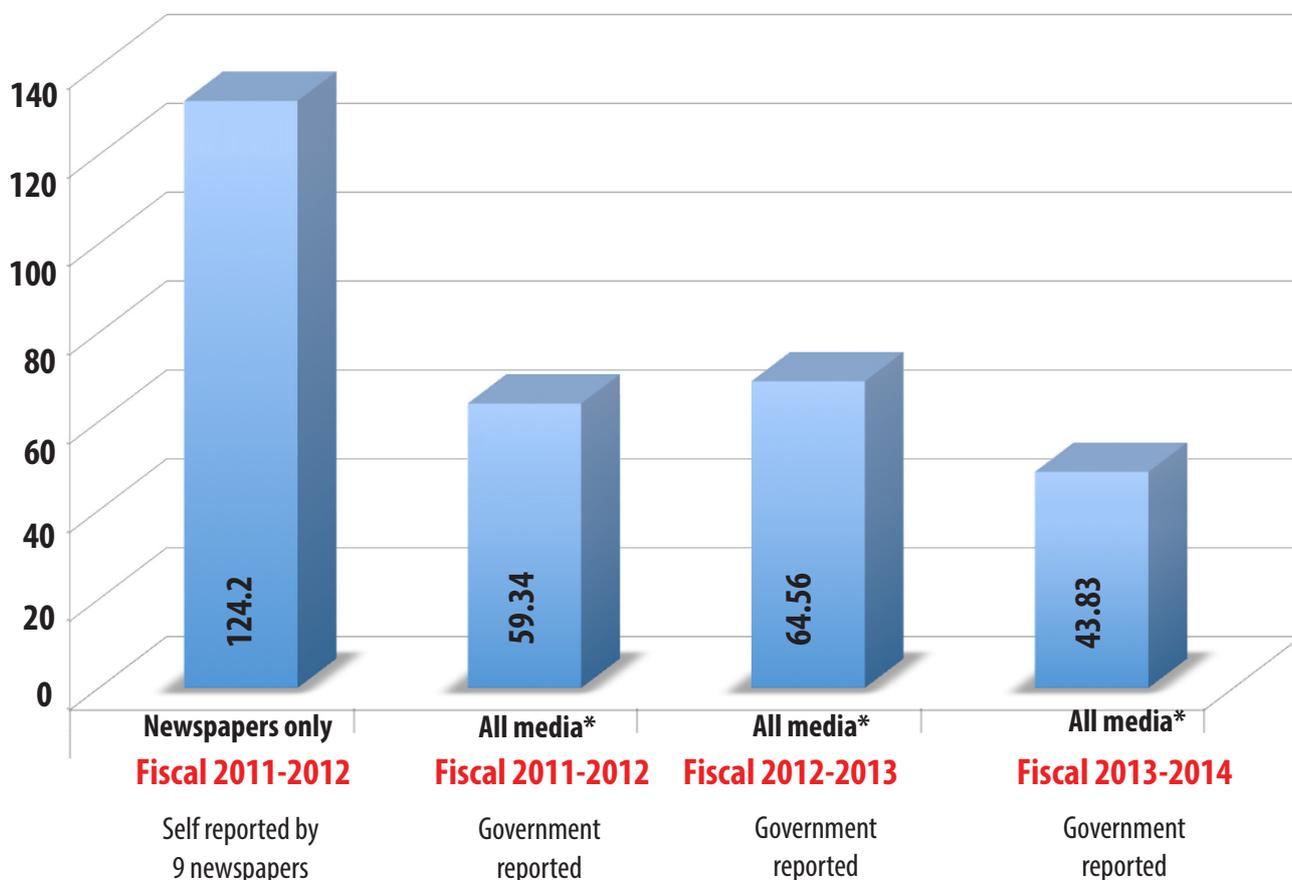
for expenditure, but only Nu. 43.8 million was actually spent. So, the decline in government reported spending on advertising, between these two consecutive fiscal years, amounts to a staggering 32%.

The above quoted numbers include the government's advertising expenditures on all types of media: BBS (state TV operating two TV channels) and state radio, private radio stations and all newspapers, both privately owned and government owned Kuensel.

(For a detailed list of government entities and their spending amounts in fiscal year 2012-2013 and 2013-2014, please see Appendix A of this report).

These numbers provide a hard-to-dispute explanation of the magnitude of the financial crisis threatening private newspapers in Bhutan.

### Government spending on advertising (Nu. million)



\* All media: TV + Radio + Newspapers

## 2 Kuensel

Kuensel is the newspaper of record in Bhutan. It was founded in 1967 as an internal government bulletin, and since 1986 has been published as the only weekly newspaper in the country. In 1992 it was de-linked from the government by royal edict and stopped receiving government subsidies in 1998.

Until 2006, Kuensel enjoyed a monopoly position. In April 2006 the first privately owned newspaper – Bhutan Times - was published for the first time, followed by Bhutan Observer that June.

*Kuensel, founded in 1967, has the highest circulation and is the newspaper of record in Bhutan.*

That same year, Kuensel sold 49% of its shares to the general public. So, while it is listed on the Bhutan Stock Exchange and its shares can be traded, the government remains the majority owner of the corporation.

There is no doubt that Kuensel provides high quality content for its audience, in two language editions: English and Dzongkha. It also launched the first national newspaper's on-line edition, in April 2001.

Kuensel also has the highest circulation because it has the best newspaper distribution network and it owns the highest quality printing press, not only in the nation's capital Thimphu, but also in Kanglung in eastern Bhutan. Operating a printing machine in the eastern part of the country allows Kuensel to distribute its paper to all districts of the country on the day of the publication, an ability no other newspaper can match.

Kuensel did not purchase any of its printing presses - it received them as a grant from Danida together with the know-how on how to operate them and training for its technicians. The Royal Government of Bhutan provided, for free, the land on which the facility was built.

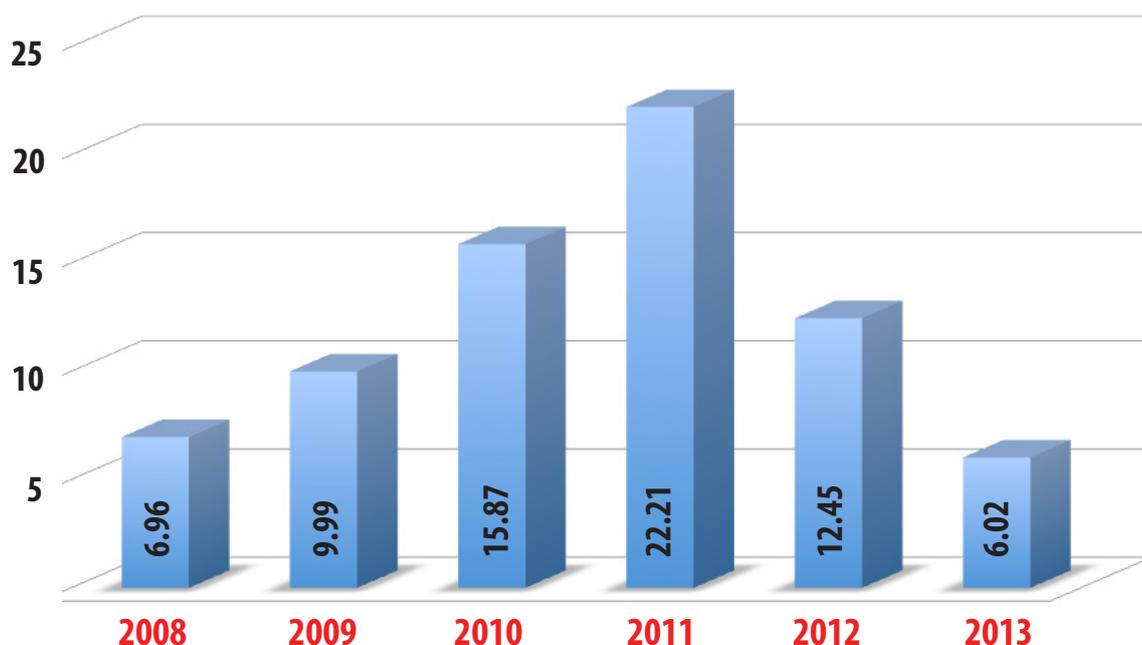
*It is not surprising that private publishers are quick to point out that Kuensel enjoys a privileged position on the market.*

The reality of operating a printing business in Bhutan is that Kuensel, as owner of the highest quality printing facility in the country, is in a position to indirectly set the “standard price” of printing for all newspapers in the country. By setting a price for its own services, Kuensel in effect sets an “upper price benchmark”. All the other printers in the country, operating on inferior equipment, will set their price by simply approving a discount of 10% or 20% on the price quoted by Kuensel. So, by setting its prices higher, Kuensel has the ability to “drag” other prices up. The outcome of this situation is that printing costs for all private newspapers in Bhutan are inflated, which adds yet another layer of difficulty for private newspapers.

It is thus not surprising that private publishers are quick to point out that Kuensel has a privileged position on the market.

During our meeting with the corporation’s top management, we learned that Kuensel too feels the effects of the current newspaper crisis. In their view, real financial difficulties started three years ago, and since then Kuensel’s revenues (generally in the range of Nu. 80 million a year) are decreasing slightly as well. We were told that both types of revenues

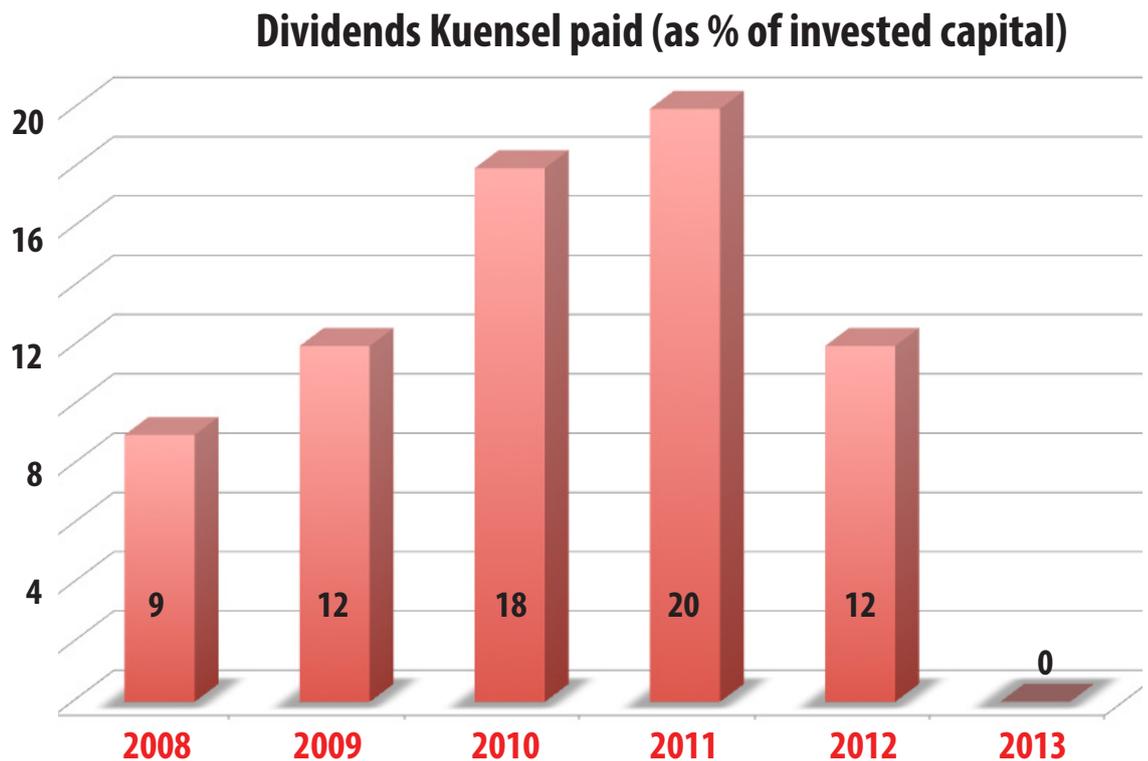
### **Kuensel’s Net Profit (Nu. million)**



that really matter to them, evenly split between advertising and printing services, are either flat or slightly declining.

But, looking at financial reports that Kuensel as a publicly traded corporation must file with the Royal Securities Exchange of Bhutan, the corporation's financial situation does not look that difficult at all. (See graph below).

This report shows that since 2008 Kuensel has made profit every year, including in 2013. It also declared and paid out dividends every year since 2008 (the highest in 2011 at 20%), except in 2013.



### 3 Exodus of top talent from journalism

As one of the most obvious consequences of the crisis, the last several years saw a significant exodus of the top professionals from the private newspaper sector. Top journalism professionals are actively seeking - and finding - jobs in other industries. Massive departures of top talent and trained professionals leaves newspapers with junior and inexperienced staff in charge, and that further negatively affects quality of the newspapers and content they create.

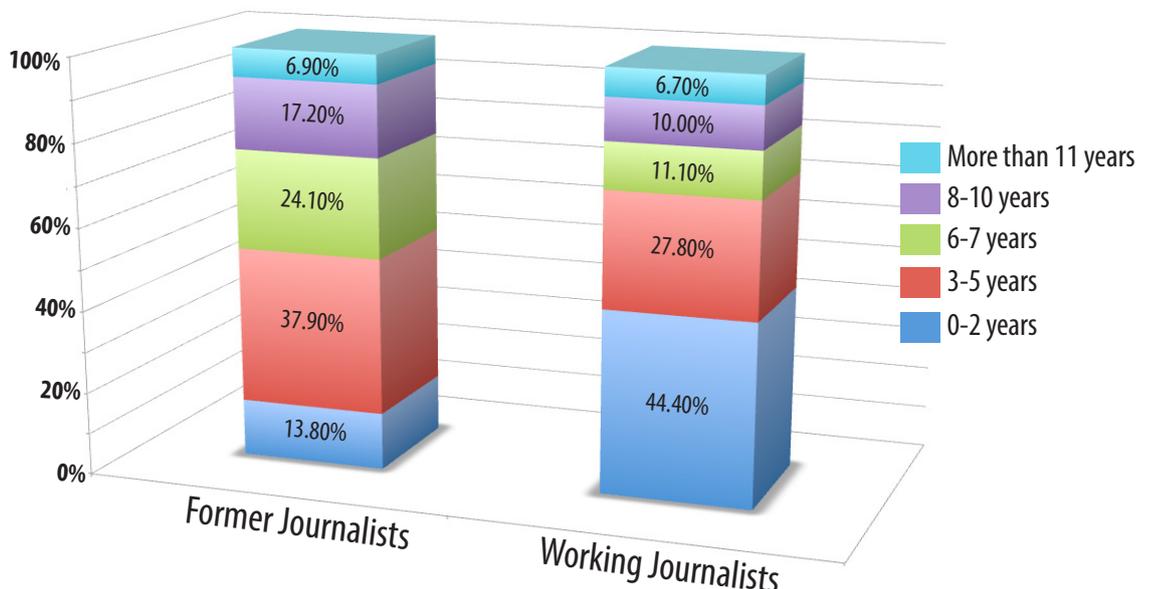
*Almost half of all working journalists have less than two years of work experience.*

A good illustration of how unattractive the journalism profession has become over the past several years can be found in the latest report prepared by the Journalists Association of Bhutan (JAB): 71% of working journalists who responded to JAB's survey said that the journalism profession had become unattractive, citing low salary packages, professional hazards and lack of public recognition of the profession as the main reason for lack of appeal. Those who already left the profession added a few more reasons to the list of issues that made them leave: long working hours, threats and censorship.

The really significant issue at hand here is - what are the consequences of the exodus of the top professional talent from the industry? Here is, in our view, the most striking: among the former journalists, those who left profession (and took part in the JAB survey), 48.2% had more than 6 years of work experience.

Among all currently working journalists (those who are at this time in charge of the media industry) only 27.8% have the equivalent of 6 years or more work experience. Approximately 44.4% of currently working journalists have less than two years of work experience.

**Years of work experience**

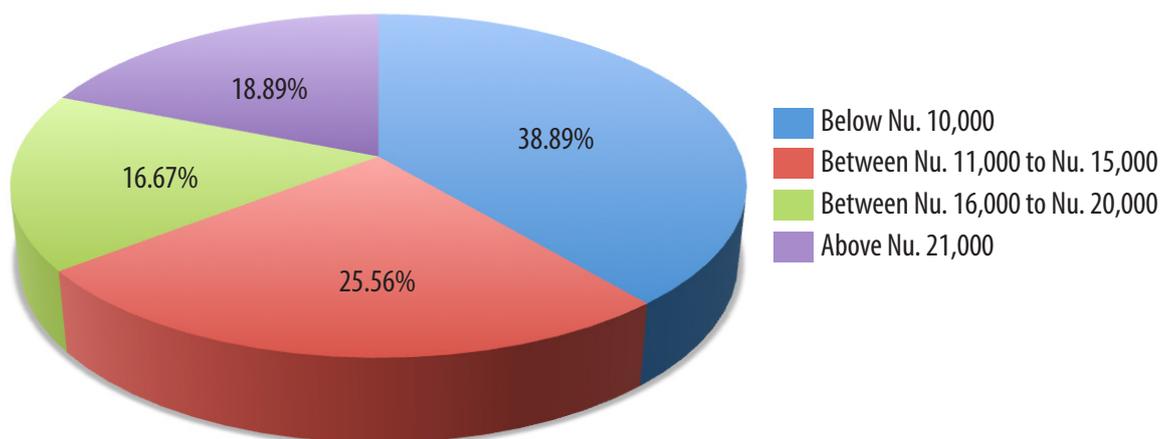


The number of employed journalists per private newspaper could also be a strong indicator of the decline of the industry. The dramatic fall of the number of practicing journalists in newspapers (with one paper recording a decline from more than 100 during its peak to less than 5 journalists now), especially among the top and most experienced professionals, can be nothing but a reason for alarm.

So, as a consequence, while 73% of respondents reported that their newsrooms have their own independent editorial policy, 8 respondents said that the media organization they work for does not have an editorial policy to speak of, while 16 respondents said that they do not know if their editorial team has an editorial policy to follow.

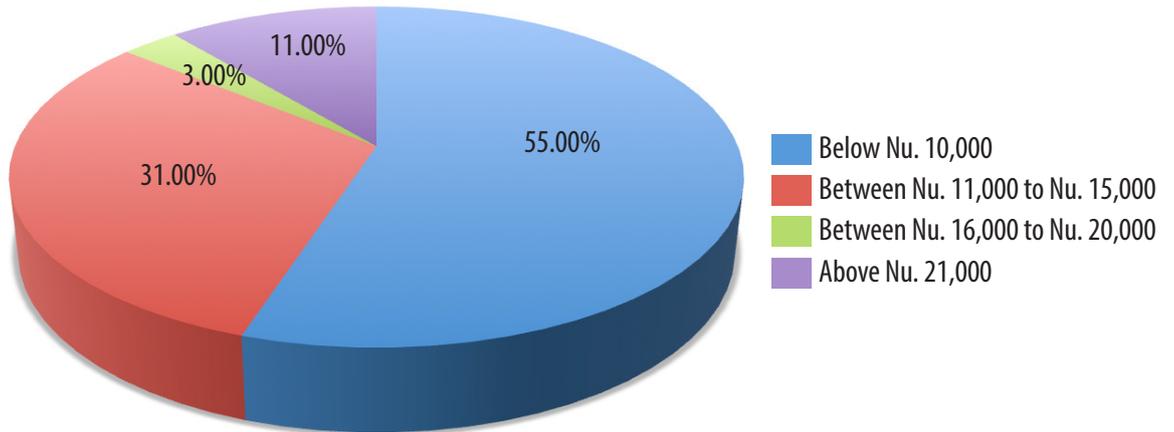
This sad picture is completed once we add remuneration data. Almost 40% of current journalists earn less than Nu. 10,000, compared with former journalists who all earned more than Nu. 15,000. Another 25% of current journalists earn between Nu. 11,000 and Nu. 15,000.

### Salary range of respondents



Journalists working for private media earn far less than their colleagues working for state owned media organizations. Private media companies pay 55% of their journalists less than Nu. 10,000. To make things worse, about 40% of journalists working for private media reported that they do not receive their salaries on time.

### Salary range of respondents in private media



To make this picture truly worrisome, in the Private Newspaper Survey 2014 we conducted, only 2 in 7 newspapers reported spending ANY funds to train their staff. One of those two papers reported spending 2% of their revenue on training, while the other one reported spending 5% of revenue for this purpose.

## 4 Are loans a solution?

Loans to media companies prove to be an extremely efficient financial tool in two specific situations:

1) Loans are an excellent financial tool if used to fund the media company's growth by funding investment projects (most commonly some form of a capital expenditure, like the printing press for the newspaper, etc.). The economic logic in these cases is clear: as long as the increase in revenues created by the investment is higher than the interest due on the loan and the installments to repay it, in financial terms, the loan will serve the intended purpose to fund company's growth. In our experience, there is no better way to accelerate development of a media company than to provide affordable loans to it.

2) Loans also work very well if they are used to overcome a situation of significant disruption on the media market, like a financial or currency crisis that causes the advertising market to temporarily shrink or even collapse. Under those circumstances loans are used as a "financial bridge", allowing media companies to fund their operations until the crisis is over. Financial calculations in these cases are a bit more complicated and contain a much higher degree of uncertainty: as long as lenders are confident that the market will recover and eventually go back to "pre-crisis levels", lenders are comfortable to lend to media companies as they assume that future advertising and sales revenues will be sufficient to allow repayment of the loan.

But in the current media environment in Bhutan, neither of these two situations is present.

*The advertising market is shrinking without a predictable likelihood that it will ever go back to "old levels".*

The major problem with the media market for private newspapers in Bhutan is that the advertising market is shrinking without a predictable likelihood that it will ever go back to the "old levels" which allow private newspapers to reach at least the break-even point. The current and much smaller advertising market is more likely to be the new reality of private newspapers in Bhutan and within this new reality it is market mechanisms that need to be restored and enhanced to put financial sustainability within reach of private newspapers.

To make things more complicated, there are a few additional issues that challenge the logic of introducing the loan program as a solution for the current crisis.

The first is that most media companies we spoke with are already in a serious debt with substantial assets, mostly real estate, pledged to banks as guarantee for loan repayments. It is becoming increasingly difficult for banks to collect repayments of these “newspaper loans”, as some newspapers are nowadays able to pay only interest on amounts they borrowed. (Being able to pay only the interest on borrowed funds is a classical “pre-default” symptom).

In other words, newspapers are now caught in a vicious cycle: as long as they still operate as a business, even if those operations generate nothing but additional losses, banks are not likely to seize assets pledged as guarantees for their loans. The alternative publishers have is not very tempting: they could declare bankruptcy and leave this complicated business altogether, but if they do that banks will have to seize assets pledged to guarantee loan repayments. Having to choose between these two options, publishers select to, although economically irrational, keep their businesses operational even though those operations create nothing but additional losses.

Apparently, lenders are completely aware of this situation. As one banker told us in a private conversation: “If there is a business which you wish not to have to close for defaulting on a loan, it is a newspaper. Any newspaper”.

***Finance is not magic: once new loans are spent to cover current losses, it would be just a matter of time before, eventually, this system of providing new credit to service older credit would collapse.***

In a financial environment with these characteristics, no experienced and professional banker would prescribe a new round of loans as a cure to improve the environment. A new round of loans would simply, for a limited period, extend the financial lifeline to the newspapers, providing temporary financial relief. But, finance is not magic: once new loans are spent to cover current losses, it would be just a matter of time before, eventually, this system of providing new credit to service older credit would collapse, ending in the default on both the previous and the new loans.

For all these reasons we think that establishing a loan facility to extend credit to private newspapers at this time cannot be recommended.

# WHAT THE FACTS TELL US

## CONCLUSIONS

- 1** In its current shape, the private newspaper market in Bhutan is completely paralyzed and flawed. It does not serve its intended purpose to facilitate and promote economically rational behavior of market participants. Instead, it generates a set of structural problems for the private newspapers media sector.
- 2** The direct consequence of the paralysis of the private newspaper market is an obvious, serious and on-going financial crisis gripping all private newspapers. It is not an exaggeration to say that the financial crisis is of a magnitude that threatens the survival of all private newspapers in Bhutan. If left unattended, it may result in Bhutan being left without any private newspapers. Having said that, it is important to also state that finding a solution to this crisis will not be an easy task, but it won't be impossible either. Arriving at the solution will require a comprehensive set of measures that will revive the private newspaper market by restoring basic market rules and addressing the specific causes of this crisis in a coordinated and well-timed manner.
- 3** It is important to note that The Royal Government of Bhutan does not have an obligation to assure that ALL private newspapers currently on the market shall survive. But, the existence of a vibrant, diverse, well-regulated, fair and competitive private newspaper market, which allows and promotes the existence of quite a few distinct and responsible media voices producing fact-based and high quality journalism content, is in the best interest of Bhutanese society. The Royal Government should create legal conditions and the economic environment for such a market to thrive.
- 4** The direct cause and, on the surface of the issue, the direct culprit for the current paralysis of the private newspaper market is the dramatic drop in the amount of advertising available to private newspapers. As explained earlier in this report, since 2011, the total amount of advertising funds available to private newspapers went down dramatically (Please see graph on page 8). There is no doubt that this is what ignited the current financial crisis among the newspapers. But, deeper analysis will show that this market also suffered – for years and practically since inception – from four serious structural weaknesses, which together accelerated the negative cumulative effect on the industry, practically “incubating” this financial crisis and greatly contributing to it.

**A** The first structural problem is the size of the potential readership that private newspapers are competing for. In a country with a bit over 700,000 inhabitants, 70% of whom live in rural areas, and with literacy rate of 59,5%, the total number of potential newspaper readers is extremely low by any standard. That alone would make economics of newspapers business extremely challenging, even in the best of economic times, and even if we leave aside all other structural difficulties this market has to live with.

**B** The second structural problem is that the geography of the country – mountainous and difficult to reach terrain and lack of roads - makes efficient newspaper distribution extremely challenging and notoriously difficult. As a consequence, private publishers have to face extremely high prices for delivering each copy of the newspaper outside of Thimphu and Paro. Most of the publishers we spoke with told us that the final price of printing and delivery of the newspaper outside of two big centers is higher than the price that publishers sell their newspapers for, thus creating the situation that every copy sold makes loss. Alternatively, private publishers have to tolerate delivery of their newspapers with few days of delay, which then negatively affects the number of newspapers sold outside of the two big centers.

**C** The third structural problem is the generally high cost of printing services in the country. As explained earlier in this document, this structural problem has its roots in the history of the media landscape of the country. Kuensel, which was the government owned newspaper monopoly until partly privatized in 2006 and listed on the local stock exchange, owns the best printing facility in the country. Kuensel did not purchase this printing press - it received the press as a grant from Danida (together with know-how on how to operate it and training for its technicians). The Royal Government of Bhutan provided, for free, the land on which facility was built.

Being the owner of the highest quality printing facility in the country (and the only one to have additional printing facility in the eastern part of the country), Kuensel is in a position to indirectly set the “standard price” of the printing for all newspapers in the country. By setting a price for its own services, Kuensel in effects sets an “upper price benchmark”. All the other printers in the country, operating on inferior equipment, will set their price by simply approving discount of 10% or 20% on the price quoted by Kuensel. So, by setting its prices higher, Kuensel has ability to “drag” the other prices up. The outcome of this situation is that printing costs for all private newspapers in Bhutan are inflated.

**D** But the most important and the most peculiar structural problem for the private newspaper market is that the government hugely dominates the advertising market. On the balance sheet of a typical Bhutanese private publisher, the revenue line showing the government's advertising spend will most likely end up being between 90 and 95 percent of the publisher's total revenue for the year. In other words, and to be completely realistic – for private newspaper publishers, no other revenue source matters at all. Therefore, private newspapers live or die based on one criterion only – how successful they are in competing for government advertising.

Private companies in Bhutan have neither an obvious need nor financial capacity to advertise, mostly because the predominant nature of private business in the country is business-to-business, not business-to-consumer. As that is not likely to change any time soon, the importance of how the government acts as the biggest advertiser in the country will only grow.

Looking at these four structural problems of the private newspaper market in Bhutan, and knowing how fast and to what extent the advertising market shrank in the last three years, it is not surprising that all the private newspapers are at the edge of bankruptcy. Adding to their troubles, as explained in earlier in this document, is the high current level of indebtedness.

Apparently, lenders are completely aware of this situation. As one banker told us in a private conversation: "If there is a business which you wish not to have to close for defaulting on a loan, it is a newspaper. Any newspaper".

There are a few other ways in which the current market "promotes" economically irrational behavior. Here is just the most obvious example: in order to win government advertising, newspapers have to show that they have significant reach, which practically mandates that they have to be distributed outside of two main centers (Thimphu and Paro). But, at the end of the day, when publishers do the math and pricing calculations - several of them told us - the cost of printing and distributing one copy of the newspapers in the provinces typically cost them between Nu. 12 and Nu. 15. At the same time, the selling price of that same copy is Nu. 10, which means that every sold copy creates a loss of Nu. 2 to Nu. 5. More newspapers sold - bigger the loss for the publishers. (Disclaimer: publishers did not allow us access to their books to independently confirm this calculation).

Would a rational businessperson continue selling newspapers under these pricing conditions? Not really. Why then do Bhutanese publishers do it? Because, unless newspapers can show that they have significant "reach", which means they are sold outside of two main city centers, they do not qualify to receive government ads and announcements.

With government advertising the most important revenue line in their business models, accounting for up to 95% of all revenues, publishers have no choice but to lose money on printing and distributing newspapers in rural areas, hoping that government advertising income will offset this loss. So, their economic reality is not to sell as many copies as they can, but instead to sell as few copies as they can, while at the same time meeting government's standard of "reach" to qualify for its announcements and ads.

One has to be a financial wizard to successfully navigate this economic and market environment and to survive in it, and this is proving to be more difficult by the day.

It is now clear to everyone that this small and flawed private newspaper market is not able, and will not be able in the future, to support the 11 private newspapers currently fighting to stay alive in it.

# CRISIS AND THE MEDIA ECOSYSTEM

How did all these structural problems and issues change the media ecosystem in the country? What were the consequences of this crisis on the relationship between the Bhutanese media and the society? How did this set of unresolved problems affect the role newspapers are expected to play in the society in transition to democracy?

The very first and the most important casualty of the crisis in the private newspaper market was the quality of the content they were able to provide.

Clearly – private newspapers caught in the massive financial crisis that threatens their survival are not able to produce content of the quality that Bhutan, in its crucial years of transition to democracy, needs.

There are two different ways in which one can show the decline in the quality of the newspapers over the last two years. First – by pointing to the obvious decrease in the number of pages printed, and concluding that the dramatic decrease in the amount of content must mean that many important topics and issues significant for the society are not covered at all. That, inevitably, means lower quality of coverage.

The same argument can be extended by pointing to the decreased frequency of publication of many private newspapers. (Sadly, we were told that some newspapers are published only at times when funds collected as advertising revenues cover the printing and distribution costs).

*The very first and the most important casualty of the crisis was the quality of content private newspapers were producing.*

It should not be surprising that the private newspaper ecosystem defined by the financial crisis, the exodus of the top talent, and ever decreasing quality of content has produced over the years a decrease of public trust in media. (BIMIS 2013)

And that is how we come to the most important question: Is the content currently created by private newspapers and offered to the Bhutanese society at the correct level to satisfy the information needs of a country in transition to democracy and its citizens? If not – what needs to be done to assist private newspapers to reclaim their rightful place in the media ecosystem of Bhutan, and to start meeting their intended social role in it?



# PART TWO:

## MEASURES TO IMPROVE MARKET CONDITIONS

### 1 Strategic Goals

The below proposed measures for intervention to revive the private newspaper market and restore its functionality and the basic economic rules governing it all have the following strategic underlying goals:

- a)** To quickly break the vicious downward spiral in which the difficult economic environment forces newspapers to cut costs, eliminate jobs, reduce the quantity (and thus also a quality) of content, which further creates a new wave of exodus of the remaining top professionals in the sector and so further erodes public trust in the newspapers. When highly indebted newspapers reach this low point, they must engage in yet another cost cutting exercise, and this vicious spiral makes one more round.
- b)** To encourage private newspapers to reasonably quickly move in the direction of digital and on-line future of newspaper business. Not only is “going digital” proven to be the future of newspapers in all other countries, but in the context of Bhutan, going digital has added benefits as it will allow newspapers to avoid two of the biggest difficulties in the market: complicated and expensive delivery to readers outside Thimphu and Paro, and high printing costs.
- c)** To create a media system that would introduce measures to stimulate the creation of socially relevant content in the newspapers, and make practicing fact-based and professional journalism a more attractive profession for the next generation of young and educated Bhutanese. In other words, if left to market forces only, the quality of newspapers will erode to the point where they fight for survival. Measures need to be introduced that will reward high-quality media and journalistic professionalism.

## 2 Reviving private newspapers

We propose several specific measures that would, if implemented in a coordinated and timely manner, revive the private newspaper market, re-institute economically rational behavior and dramatically improve conditions in the private newspaper market.

We propose the following measures:

### A. Re-engineering distribution of government advertising funds

As explained earlier in this report, government announcements and advertising represent between 85% and 90% of total revenues of a typical private newspaper, with that number growing to 95% in cases of some less diversified newspapers. (Source: Newspaper Industry Survey, 2014). So, the importance of eligibility, criteria and decision-making process in which the government allocates its advertising budget among different media outlets cannot be overstated.

According to government data, the total amount of funds spent for this purpose in fiscal 2012-2013 was Nu. 64.56 million. Interestingly, for the following fiscal year, 2013 – 2014, significantly less – Nu. 54 million was budgeted for expenditure, but only Nu. 43.8 million was actually spent. So, the decline in government spending on advertising amounts to a staggering 32%. These numbers include government advertising expenditures on all types of media: BBS (state TV with two channels), radio stations and all newspapers, both privately owned and the government owned Kuensel.

(For a detailed list of government entities and their spending amounts in fiscal 2012-2013 and 2013–2014, please see Appendix A. Also, please see graph on page 8).

We did not have enough data to estimate what percentage of government-related advertising is allocated to Kuensel, and what percentage is allocated to all other private newspapers together, but a relatively simple financial analysis could determine these very important numbers, once newspapers decide to disclose their revenue data.

The current system of distributing advertising funds is so de-centralised and un-coordinated that no one can fully monitor, let alone measure it. Each government entity is responsible for allocating their own advertising budget to the media outlet they deem best fit to meet the specific advertising goals of each advertising campaign. This un-coordinated process of awarding many individual and small contracts, practically without general criteria in place, makes this distribution system appear convoluted, non-transparent and exposed to possible abuse.

In fact, on at least two occasions during the term of the previous government, specific newspapers had a justified reason to claim that this advertising distribution system was deliberately bent in order to avoid awarding advertising contacts to them.

Reinventing the system of allocation of the government's advertising contracts, with the goal of making it completely transparent, coordinated and based on clear and consistently applied criteria, would create a dramatic change in the media industry. Transparency would assure both media the companies competing for funds and the general public that the government has a fair and even-handed approach to all participants on the media market, and wants this process to provide equal opportunity to all media outlets in the country.

This is how we suggest the new advertising allocation system could operate:

### **a) Advertising Placement Board (APB)**

The government would appoint an inter-governmental Advertising Placement Board (APB) endowed with the authority to make all ad-placement decisions on behalf of all government (and government-linked) entities.

The Board would have two types of members:

- Permanent members - three media specialists (government employees) who would provide knowledge of media companies, their histories, audiences and reach; and
- Ad-hoc members (two representatives of the specific government entity placing the ad). Participation of ad-hoc members in the decision making process is very important, as it would ensure active participation of the government's advertising entity, thus making sure that intended advertising goals of that specific government entity are met.

Example: if the Ministry of Economic Affairs wants to place an ad in media, two representatives of this Ministry would join three APB Permanent members to decide in which specific media outlet(s) ads would be placed.

The APB would meet regularly, on pre-determined dates (first day of the week or, alternatively on the first and 15th day of the month) and would be authorized to make all placement decisions for all advertising needs of the Royal Government of Bhutan and its related entities.

All of APB's allocation decisions would be published on APB's website: from the list of all media companies awarded advertising contracts on each specific meeting, to the number of ads that media companies were awarded to publish or broadcast, and the amounts of funds awarded to each media entity.

APB's website would also have a section in which APB will regularly announce its "advertising needs" in advance, thus informing all media companies in the country of the government's advertising demand and allowing any newspaper in the country to bid to publish those ads.

The site will also contain a section in which all the criteria for allocating the government's advertising budget will be listed and explained. It is expected that over time allocation criteria will have to be fine-tuned and refined and all these possible changes would be announced and explained on the APB's website.

Finally, APB would, once a year, publish a report on government spending on advertising and public announcements, specifying amounts allocated to specific types of media (TV versus radio versus newspapers), as well as to specific media outlets.

In other words, APB's website would serve as a clearinghouse for all information about government-related advertising: from demand for ads, to criteria and awarding decisions.

One of the permanent members of APB would serve as its Chairperson and would have the authority to invite up to two representatives of media – on a rotational basis – to attend individual APB meetings as guest-observers, thus further increasing transparency of the new decision making process. Observers could be representatives of individual media companies, but could also be representatives of Journalists Association of Bhutan (JAB), or other media industry-related institutions (Bhutan Media Foundation, for example).

## **b) Pre-allocation of advertising funds**

There is no doubt that the purpose of publishing government announcements in different media outlets is NOT intended to be a financial vehicle which should provide financial lifeline or any form of subsidies to newspapers. On the other hand, the government understands that the advertising funds it spends represent 90% of the country's advertising market and it takes seriously the responsibility to allocate these funds in a fair, efficient and transparent manner.

As the government intends to allocate its advertising funds in a way that creates conditions to revive the private newspaper market and reestablish economically rational behavior, the government – we suggest - should make known to the media industry the total amount of funds that it has available to spend on advertising in each fiscal year, thus practically announcing the size of the advertising market in Bhutan for that fiscal year.

Following this “general decision” which will establish the total amount that will be spent in the country on all government advertising needs, the next one – we suggest - would be for APB to decide on “pre-allocation” of these funds, deciding what percentage of available funds should be pre-allocated to electronic media (BBS and other broadcasters), versus all print media (which means all the private newspapers AND Kuensel).

As explained in detail in the previous part of this report, Kuensel has a special place on the media scene of Bhutan. Being majority owned by the government and by far the biggest player on the newspaper market; being the owner of highest quality printing facilities and distribution network that gives it reach no one in the industry can possibly match, Kuensel, we suggest, should be limited in the total amount of funds it can receive for government advertising. To be very precise: we propose that the amount of funds allocated for advertising in print media should be divided into the “maximum amount” which can be allocated to Kuensel, and “the amount reserved for private newspapers” for which all private publishers can compete.

The precise allocation of funds between Kuensel on one side and all private newspapers on the other side should be decided after very careful financial analysis, and in this report we make no suggestions in regard to this allocation. But we do suggest that this allocation should be prepared very carefully and with the following policy goal in mind: to stabilize the private newspaper market by making sure that at least a part of the total government's advertising expenditures (pre-allocated funds) will be “reserved” for the private newspapers, thus bringing predictability and stability to the market.

We also suggest that a specific amount of the government's advertising funds be pre-allocated for “on-line only” media companies, with the clear intention that, over time, this “on-line only” pre-allocation be slowly but consistently increased.

### **c) Criteria for allocation of government's ads and announcements**

We think that it is necessary that the government establish clear criteria for placing ads in different media outlets, based on which APB will be making its decisions.

We are aware that there is a document, known as "Government Advertising Guidelines", currently making its way through the government approval process, and which could, if there is political will, be presented to the government for adoption reasonably soon. We are also aware that this document met fierce resistance by practically all private publishers who fear that criteria proposed in this document unfairly favors Kuensel.

But, if our above explained proposals are approved, and if the government indeed creates centralized ad allocation decision making process by creating APB, and if it pre-allocates fund for private newspapers thus protecting part of these funds from Kuensel, then private newspapers are likely to abandon their opposition to the proposed criteria.

No matter if the government decides to create a new document that would define criteria and eligibility for publishing ads, or if it decides to just revise already prepared document, we suggest that – as a minimum - the following "technical conditions" must be set:

- i) Only newspapers which are subject to the circulation audit should be eligible to compete for the government's advertising funds.
  
- ii) Only newspapers that publish in regular and pre-determined frequency are eligible to compete for government advertising funds.

## B. Expected Market Reaction

We believe that the measures proposed above will very quickly create conditions for the market of private newspapers to recover its economic rationale.

Once private newspapers are informed how much in a specific fiscal year the government has available to spend on advertising, and what portion of those funds will be pre-allocated (and thus – reserved) for private newspapers to compete for, market stability will be reinstated. Creating a centralized advertising allocation mechanism with a competent and evenhanded Advertising Placement Board at its center, and defining clear and enforceable criteria for placing government advertising, will create a transparent, fair and predictable system which will establish a level playing field among private newspapers and create conditions for fair competition among them. It will also provide them with the assurances that Kuensel, although government owned, will not be granted unfair advantages in this process. This placement mechanism will be efficient, transparent and fair.

*The new mechanism will address and eliminate all the objections that private newspapers hold against the current system of advertising allocation.*

Once in place, this mechanism will address and eliminate all the objections that private newspapers hold against the current system of advertising allocation. Each one of the publishers will be able to determine the size of the advertising market in Bhutan and how will it operate. They will – most importantly - also gain a clear picture how those funds will be allocated and this will force them to consider how competitive their own newspapers are and what their chances are to reach financial sustainability while competing with their peers for government advertising funds.

It is reasonable to expect that once these new market conditions are created, the focus of private publishers will shift from demanding that the current system be changed (and requesting government support to survive the financial crisis), to increasing the quality of their product to better compete on the market.

An additional consequence of establishing these mechanisms would be that the government would have a powerful device to fine-tune its media policy and - if used in a deliberate, patient and sophisticated way - a wonderfully efficient tool to direct developments in the media sector.

For example: the government may decide to increase the amount of funds pre-allocated for on-line publications by 15% in each of the following 3 years. As a result of that hypothetical policy decision (provided that it is implemented in a sophisticated manner) private newspapers would be likely to focus on the development of their on-line editions and put their own resources towards the newspaper's on-line operations and presence, as that is where the advertising revenues will grow the fastest. So, this hypothetical policy decision, designed to encourage development of on-line media, will as a response trigger economically rational behavior among the publishers – to speed up development of their on-line publications.

We can think of many other possible uses of this tool to encourage desired behavior in market participants. (Another example: encouraging Kuensel to diversify its revenue streams by increasing its annual pre-allocated advertising budget at a slower pace - by a smaller percentage - then increasing pre-allocation for the private newspapers. And, this can also be used to influence behavior of electronic media, not only newspapers).

***Not all private newspapers currently on the market will be able to survive this financial crisis.***

But, one thing needs to be said clearly: not all private newspapers currently on the market will be able to survive this financial crisis, even if all these proposed measures to revive the market are implemented spotlessly. It would be an illusion to think that the Bhutanese market, as small as it is, and with all other unavoidable structural problems burdening it, can possibly support all 10 newspapers that are currently operating on that market. No one can tell how many will find their place on this market and still be in it five years from now, but many can tell that the number will be much smaller than 10.

By implementing the above-proposed measures, the government will make sure that it does not interfere in the process of selecting winners on the Bhutanese private newspaper market. These measures – if introduced - will create a level playing field and the conditions for fair competition among private newspapers and only their own abilities and competitiveness will decide if they can reach financial sustainability in the conditions of fair market competition against their peers.

We also strongly suggest that the implementation of these measures and the market's reaction to them be very carefully monitored. We suggest that a quick study of the state on the private newspapers market (including a survey of all private newspapers), be conducted 6 months after the implementation of these measures. Some modifications may be implemented at that time if the study shows that they are needed.

# 3 Non-Market Measures To Improve Media Environment

No media environment operating solely on free market principles will ever develop to be as sophisticated and as diverse as it needs to be to fully meet the information needs of its audience. This is especially true in markets as small as Bhutan's and in countries with "special information needs" like countries in political transition such as Bhutan.

Obviously, structural problems burdening the media market in Bhutan are not going to disappear. The country's population is not going to increase dramatically in the next several years, nor will it become easier to distribute newspapers throughout the country's difficult geography in the near future, so newspapers will continue to operate in this very difficult market environment.

Being mindful of these structural problems, which are here to stay, we think that simply reviving the private newspaper market will not be enough to establish a sophisticated, responsible and high-quality media environment in the country.

Even if the measures we proposed above (which aim to revive the private newspaper market) start to bring the first signs of success, we suggest that at the same time a set of complimentary and carefully calibrated measures be put in place, aiming to enrich and augment the media ecosystem in the country.

The measures we propose are:

## A. Subsidizing High Quality Content Creation:

We suggest creation of a separate "Content Creation Funding Facility" (CCFF). The purpose of CCFF would be to provide financial subsidies or substantial co-financing for creation of high quality and highly specialized journalism content.

International donors could establish and contribute the majority of funding for CCFF. The Royal Government could decide to contribute as well.

CCFF would be managed by its Board of Directors, comprised of the representatives of Journalists Association of Bhutan (JAB), Bhutan Media Foundation, prominent intellectuals and representatives of civil society, prominent former Bhutanese journalists, and possibly international media experts.

The basic logic behind the idea to establish CCFF is this: in any country in transition, the speed and success of the transition depends on the support of the general public. This makes it imperative for the media in the country to provide timely, professional and sophisticated content to inform and educate citizens on the most important issues at the top of the nation's agenda.

In many cases in countries in transition, even though the media understand their role and need to produce high quality socially relevant content, a lack of funds in the sector or lack of expertise and professional knowledge limits their ability to play this role. And it is in such situations that entities like CCFF are established to financially assist media to produce the content needed by the society at those sensitive and important times.

This is how we propose CCFF would work:

The Board of CCFF would select, define and publicly announce a list of topics it deems important to be covered by media and thus enter public debate. The Board of CCFF would announce a public invitation to newspapers to propose how would they cover those selected topics.

In other words - the Board of CCFF would, publicly, on its web site, announce competition for creation of specific media content. Every registered private newspaper in the country which qualifies to win government advertising contracts would be eligible to compete for these funds, proposing a specific way to cover selected topics (series of articles or commentaries, or round table discussions which would be captured and afterwards published in the newspapers, or a series of interviews, or combination of all the above).

Topics CCFF could select could be either general, such “What kind of education Bhutan needs for the next decade” initiating broader discussion among different segments of society on this “evergreen” topic. Or, the topics could also be much more specific, like: “Social entrepreneurship in Bhutan”. In short – selected topics could cover anything from a campaign to increase literacy, to a series of long-form articles describing experiences in political transition in other countries relevant to Bhutan. CCFF could decide to subsidize the creation of specialized business coverage of international markets and international trade and their influence on Bhutan, or a more general international topic like: likelihood that the next oil crisis is close. Setting eyes on the domestic media scene, CCFF could award grants for extensive coverage of rural population and major issues they have to face.

The common thread between all these topics would be that Bhutanese society would be served well if these topics were discussed, explained or just discovered by the Bhutanese newspaper readership.

Out of all submitted proposals for covering selected topics, the Board of CCFF would select the best and the most likely to be the most effectively executed as proposed, and would decide on the amount of subsidy it would grant to the specific media company to create the specific topic. These subsidies (grants) could have different forms: from a straightforward and simple grant to the newspaper, to covering part or the whole salary for an editor of the series of articles, or for a few reporters providing coverage.

Not only would the Content Creation Funding Facility assist private newspapers to produce high quality content they are not able to produce on their own in the midst of the financial crisis, but if deployed in a sophisticated manner, it could also allow newspapers to address some of their obvious weaknesses, like their unbalanced, urban-centric media coverage.

The Board of CCFF could run these competitions three to four times a year.

## **B. Subsidizing Digital Transition**

For the long-term sustainability of private newspapers it is extremely important that a proper way be found to at least partially subsidize their transition from newspapers to digital publications. Transition to digital will be neither smooth nor fast if knowledge and expertise, as well as some form of financial assistance, is not provided to local newspapers.

What we suggest to be subsidized could be training courses on web design and user experience, digital marketing, mobile and digital advertising and other kinds of specialized expertise on how to create, manage and make successful on-line publications.

The best host of a program of this kind would be a local media assistance foundation.

## **C. Creating Enabling Market Environment**

Finally, we suggest some measures that will, in our view, create a significantly better and more enabling market environment. All market participants will benefit equally from these measures.

We suggest the following:

### **a) Addressing the issue of high printing costs**

The printing facility granted to Kuensel by Danida when Kuensel was the only newspaper in the country gives it a significant market advantage and allows it to indirectly set the standard price for printing services. Before private newspapers can achieve full sustainability, they will have to resolve this structural issue by finding some way to pool resources together and create an alternative printing facility of the same quality as Kuensel's which will allow them to lower their printing costs. While we recognize that this issue has to eventually be addressed and this problem has to eventually be resolved, we suggest that this problem be put on the agenda six months after the above proposed measures to revive newspaper market are initiated, and after it becomes known how many newspapers will remain on the market.

## **b) Addressing the issue of high distribution costs**

One more structural problem – high distribution cost burdening private publishers – could be easily resolved as the solution is straightforward and obvious: we suggest that the government simply decide to subsidize costs of delivering newspapers outside of Thimphu and Paro, thus allowing its population in the remote areas of the country to receive all private newspapers on time.

## **c) Addressing the issue of mandatory Dzongkha language issues of newspapers**

While we could not agree more that Bhutan should protect its cultural heritage and language, we think that making it mandatory for private newspapers to prepare, print and deliver issues of their publications in Dzongkha is not the most efficient and sophisticated way to achieve that goal. Content created in English language and for the English language audience may not be interesting or useful for the Dzongkha speaking audience. Therefore, we suggest that this mandatory requirement be lifted, and private newspapers not be mandated to prepare, print and deliver their publications in Dzongkha. At the same time, and in order to offset possible negative effects of this decision, we suggest that special additional subsidies be provided to those newspapers that are being published in Dzongkha only, either as a special program of CCFF (see the explanation above) subsidizing their content production, or as a regular annual grant distributed directly to the newspapers.

## **d) Conducting Private Newspaper Survey annually**

We suggest that a regular annual survey of private newspapers be conducted, as we believe that it can prove to be very useful tool for the government to measure the state of health of the private newspaper market and also an efficient way for the private media sector to communicate its needs, ideas and expectations to the government.

# APPENDIX A

## Advertisement Expenditure Report for Government Agencies (FY 2012-13 & 2013-14)

Sl. No	Agencies		Expenditure	Budget	Expenditure
			2012-13	2013-14	2013-14
1	Ministries	Ministry of Home and Cultural Affairs	2.423	1.568	1.302
2		Ministry of Finance	1.690	2.415	2.057
3		Ministry of Foreign Affairs	0.372	0.447	0.277
4		Ministry of Agriculture and Forest	5.920	8.106	6.058
5		Ministry of Economic Affairs	1.821	2.652	1.852
6		Ministry of Work and Human Settlement	1.184	0.983	0.839
7		Ministry of Information & Communication	1.167	2.287	1.387
8		Ministry of Health	4.726	6.423	5.454
9		Ministry of Education	1.114	1.109	0.818
10		Ministry of Labour & Human Resources	2.000	2.418	2.187
Judiciary			1.140	2.217	1.898
1	Constitutional Bodies	Royal Civil Service Commission	0.598	0.900	0.900
2		Anti-Corruption Commission	0.283	0.410	0.362
3		Election Commission of Bhutan	24.090	3.547	3.206
4		Royal Audit Authority	0.163	0.230	0.120
1	Autonomous Agencies	HM Secretariat	0.045	0.080	0.000
2		National Assembly of Bhutan	0.530	0.670	0.597
3		National Council of Bhutan	0.191	0.280	0.251
4		Council for religious affairs	0.227	0.249	0.214
5		Cabinet Secretariat	0.238	0.183	0.181
6		Office of Attorney General	0.126	0.140	0.115
7		Bhutan Olympic Committee	0.075	0.600	0.581
8		Dzongkha Development Commission	0.200	0.267	0.262
9		National Land Commission	0.664	2.343	2.129
10		Centre for Bhutanese Studies	0.300	0.310	0.301
11		Gross National Happiness Commission	0.105	0.125	0.063
12		National Environment Commission	0.228	0.445	0.061
13		Royal Institute of Management	0.343	0.845	0.441

Sl. No	Agencies	Expenditure	Budget	Expenditure	
		2012-13	2013-14	2013-14	
15	Autonomous Agencies	Bhutan Narcotic Control Agency	0.474	0.306	0.261
16		Bhutan Info Com and Media Authority	0.221	0.160	0.144
17		Thromdeys	0.163	0.440	0.177
18		Drug Regulatory Authority	0.095	0.105	0.093
19		Tourism Council of Bhutan	1.231	0.930	0.831
20		National Commission for Women and Child	0.336	0.493	0.119
21		Royal Education Council	0.300	0.150	0.132
22		Bhutan Council for School Examination & Assessment	0.092	0.180	0.170
23		Royal Privy Council	0.007	0.108	0.084
24		Bhutan Standard Bureau	0.262	0.191	0.191
		University of Medical Sciences of Bhutan	-	0.745	0.741
		Royal Institute of Law	-	0.087	0.027
1		Dzongkhag Administrations	Chhukha	0.784	0.736
2	Haa		0.533	0.403	0.272
3	Paro		0.462	0.662	0.553
4	Samtse		0.499	0.436	0.415
5	Tsirang		0.296	0.514	0.351
6	Dagana		0.231	0.178	0.179
7	Punakha		0.237	0.306	0.239
8	Wangdue Phodrang		0.437	0.327	0.320
9	Bumthang		0.498	0.193	0.194
10	Sarpang		0.303	0.336	0.335
11	Zhemgang		0.290	0.281	0.254
12	Trongsa		0.650	0.451	0.372
13	Lhuentse		0.374	0.230	0.230
14	Mongar		0.252	0.251	0.251
15	Pema Gatshel		0.445	0.378	0.368
16	S/Jongkhar		0.425	0.324	0.310
17	Trashigang		0.518	0.611	0.551
18	Thimphu		0.296	0.438	0.329
19	Gasa		0.276	0.221	0.219
20	Trashie Yangtse		0.248	0.410	0.397
<b>TOTAL</b>			<b>63.198</b>	<b>53.830</b>	<b>43.725</b>

