STATE-MEDIA FINANCIAL RELATIONS
IN THE COUNTRIES OF SOUTH EAST EUROPE

FINANCIAL ENGINEERING FOR STATE AND MEDIA CAPTURE

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INTRODUCTION

The concept of media integrity helps us understand and explain the workings of the economy of influence, in which media are one of the strongest trade currencies. In the realm of the media and their operations, corruption must be explored as an abuse of power and as a violation of the public interest for private gain; moreover it must be explored precisely where the information is most difficult to find: in relation to money. How are the media financed? Who are the biggest advertisers? Who profits from the enormous sums intended for state advertising? Who pays, or doesn't pay, taxes and employment benefits? These are key questions that help us understand why the journalistic profession is increasingly precarious, why content commercialisation is rampant, and why professional standards in the media are in steep decline. The public seems to be least informed when it comes to the activities of its (supposed) informers.

The demand for transparency of media ownership and revenue, which we have addressed in our research, and for which the grounds should be self-evident, has nevertheless proven an almost insoluble problem. Even if one is successful in following monetary flows, one can never be sure of the identity of the final recipient. Very few journalists systematically explore the paths that money takes between the media and the state. However, the issue of transparency of media ownership and funding is merely the tip of the iceberg. At the heart of the problem lies a densely interwoven network of alliances between economic and political elites – one and the same in many of the countries under analysis – alliances that result in an invisible but distinctly potent influence on trading. In most countries, the media are instrumentalised for political purposes, while the media market is merely a euphemism for state-oriented advertising.

The mantra promulgated for decades by the political elites (left- as well as right-wing) in all the given countries, namely that everything is subject to unrestrained market operations and that the state has lost the means to address economic issues, has proven to be in direct opposition to reality. The "invisible hand" is clearly visible. Public funds are channelled to the private sector in a variety of ways. Ostensibly private companies rely on public funding in a parasitic, clientelist manner, and are privileged and protected by the state. This applies especially to the media. The weak and small markets in the states under discussion have been devastated by the economic crisis that began in 2008. Thus, state budgets have become the most significant revenue source for private companies. This is the focus of these reports. We attempt to follow the public money in the media.

We should note that identifying the actual names of media owners is secondary: in recent years, owners have developed a range of incredibly creative methods to conceal both ownership connections and their ties to ruling political parties (whose actions are closely emulated by opposition parties hoping to take power eventually). It has been more important to reveal the various mechanisms that have established a system of corrupt relationships, wherein the money flowing through the media is directly connected to the money in many other, more profitable industries controlled by the same owners. Over the last two decades, media privatisation, initially represented in public discourse as the withdrawal of the state from media ownership, has shown that what has been termed the "market economy" is little more than a disguise for state-directed, state-led, or state-hijacked attempts at regaining influence over media outlets. The state has never really "withdrawn" from the media, while markets have been extensively rigged through covert or overt state intervention in the areas of frequency assignment and allocation of state funds.

Advertising markets lack transparency, while certain media (and their owners) receive preferential treatment in a variety of types of programming funding. Donor money merits mention here, since it has had a considerable impact and has helped to establish a "parallel" media system quite independent of state influence. However, once this money either runs out or is redirected to other countries, this tends to further destabilise the media landscape. The arrival of foreign owners has not lived up to its promise. It was supposed to introduce new media practices, a politically independent system of functioning, and stable financing sources; however, in acquiring the media, foreign owners tended to follow the practices established in local media milieus. The acquisitions were non-transparent, the buyers' business models vague, and their political ties highly dubious.

Analysis of the financial operations of the media in individual countries points to a new dimension of financial engineering, which binds the issue of accountability in the functioning of media directly to the state. The state and its institutions, utilized by ruling political elites, are becoming the most significant factor in how corrupt relationships are shaped and protected. We do examine the media as economic organisations creating profit for their owners, yet we should not disregard the fact that media are not merely empty vessels, into which content is poured from outside. One of the most damaging results of corrosive practices is how they affect the situation of journalists and other

ANALYSIS OF THE FINANCIAL OPERATIONS OF THE MEDIA IN INDIVIDUAL COUNTRIES POINTS TO A NEW DIMENSION OF FINANCIAL ENGINEERING, WHICH BINDS THE ISSUE OF ACCOUNTABILITY IN THE FUNCTIONING OF MEDIA DIRECTLY TO THE STATE. THE STATE AND ITS INSTITUTIONS, UTILIZED BY RULING POLITICAL ELITES, ARE BECOMING THE MOST SIGNIFICANT FACTOR IN HOW CORRUPT RELATIONSHIPS ARE SHAPED AND PROTECTED.

media workers. A special form of negative selection is taking place in the hiring of these workers.

Editorial boards and editors have taken on the role of inserting the interests of owners and major advertisers into the media content, which has led to a dangerous de-professionalisation of journalism, reducing it to a money-making enterprise rather than a service to public interest. An important shift in perspective on the predicament in which the media find themselves is to be found in the concept of media integrity. The journalistic community plays a key role in the protection of media integrity, regardless of the systemic difficulties that plague the media industry, including the nearly institutionalised economy of influence through financing, where state advertising and advertising of state-controlled companies dominate. Herein lies the main challenge to public policy-making in this area.

In attempting to define public interest, however, we arrive at the most slippery, elusive and ideologically encumbered question of media policy. The orthodox historical examinations of the creation of free press relate its freedom, and consequently the prohibition of censorship, to its emancipation from the state, as well as to an almost natural attachment to the market and to financing through advertising. A simple thesis follows: increasing profits in media, i.e. their economic success, are directly related to their economic independence from the state. However, as James Curran and Jean Seaton show in their book Power without Responsibility, things are far more complex. Independence from the state has given way to a much harsher dependence on advertising. No longer "licensed" by the state, the media have been "licensed" by advertising.[1] The decline of the progressive British press in the early 20th century is a clear example of how this system works. Despite its faithful readership and an evident interest in its continued existence, the progressive press disintegrated because it was systematically rejected by advertisers. The consequences? *"One of four things happened to national radical papers that failed to meet the requirements of advertisers. They either closed down; accommodated to advertising pressure by moving up-market; stayed in a small audience ghetto with manageable losses; or accepted an alternative source of institutional patronage."*[2]

THE JOURNALISTIC COMMUNITY PLAYS A KEY ROLE IN THE PROTECTION OF MEDIA INTEGRITY, REGARDLESS OF THE SYSTEMIC DIFFICULTIES THAT PLAGUE THE MEDIA INDUSTRY, INCLUDING THE NEARLY INSTITUTIONALISED ECONOMY OF INFLUENCE THROUGH FINANCING, WHERE STATE ADVERTISING AND ADVERTISING OF STATE-CONTROLLED COMPANIES DOMINATE. HEREIN LIES THE MAIN CHALLENGE TO PUBLIC POLICY-MAKING IN THIS AREA.

The common view, often reinforced and taken for granted in political speech, that deregulation, i.e. diminished presence of the state in the media, is a fundamental characteristic of the media industry, is simply mistaken. State presence is strongest in the least expected of places – in the area of subsidies and co-funding.[3] The state supports media directly or indirectly in most countries and in many different forms: through the funding of public media; through lower tax rates; through special tax deductions meant to cover postal or communication

1 Curran and Seaton. p. 33, 1997.

2 Ibid, p. 37.

3 For an excellent overview of the role of the state in the creation of information empires, see Wu, 2010.

expenses; by advertising public authorities in the media; through direct assistance for individual media industries (press); through the financing of particular content (co-funding for programming); by granting minorities communication rights; or by subsidizing local radio and television outlets.

Apart from the funding allocated to public broadcasters, the extent of other financing is difficult to gauge. A study of public support for the media in six selected countries, published by the Reuters Institute for the Study of Journalism, presents three dominant models of redistribution of public funds. The dual model of state support allocation, favoured by Finland, Germany and the UK, is based on a high share of state-provided funds in the financing of the public broadcasting service, as well as substantial, direct financial support for privately owned print media. The mixed model, utilized in Italy and France, is characterised by a somewhat lower share of public funds intended for the public broadcaster, and a wide-range of direct and indirect state support for private media (newspapers, local radio and television outlets), and for the promotion of reading habits among the "digital natives" generation. The third model, minimalist and characteristic of the United States, provides significantly less support for the functioning of both the public media system and private media.[4]

In most countries, the state supports the media. We are not interested here in debating whether state support is necessary, or whose interests it serves, or whether any state funding of the media is potentially harmful to journalistic autonomy and freedom of expression in the media. We believe that the state has an obligation to guarantee and protect people's communication rights. The funds spent to this end are public funds. State support for the media should be aimed at protecting the public communication space, not at regulating a dysfunctional media market. Sadly, however, no research or analysis indicates to what extent state support for the media has caused the media field to shift in favour of the public interest.

WE BELIEVE THAT THE STATE HAS AN OBLIGATION TO GUARANTEE AND PROTECT PEOPLE'S COMMUNICATION RIGHTS. THE FUNDS SPENT TO THIS END ARE PUBLIC FUNDS. STATE SUPPORT FOR THE MEDIA SHOULD BE AIMED AT PROTECTING THE PUBLIC COMMUNICATION SPACE, NOT AT REGULATING A DYSFUNCTIONAL MEDIA MARKET.

Many countries have actively supported the media for decades, if not for an entire century where public media, tax policies or the indirect coverage of postal expenses are concerned, and in many cases this has come to be taken for granted. Attempts to allocate at least a portion of the support to online media, to the funding of journalistic work (as is the case in the Netherlands), to media literacy projects, or to investigative journalism, are often met with violent reactions and lobbying pressure on the part of the traditional media.

The EU is increasingly relegating its media policy to the realm of economic competition as opposed to the protection of basic human rights, and has plainly demonstrated this in its guidelines on the allocation of state support to media

4 Nielsen and Linnebank, *Public Support for the Media: A Six-Country Overview of Direct and Indirect Subsidies*, August 2011. Available at: http://reutersinstitute.politics.ox.ac.uk/sites/default/files/Public%20support%20for%20Media_0.pdf. Accessed 12 March 2016. For a much more detailed analysis of the scope of state support for the American media, see McChesney, 2013.

financing. Pressed by large media companies and their lobbying organisations, supposedly concerned over the curtailment of competition in media markets by the entry of public broadcasters onto the internet and mobile communications platforms, in 2009 the EU adopted the *Communication on state aid for the funding of public service broadcasters*.[5] While the text recognizes the significance of public broadcasters for the development of democratic media space, a number of articles attempt to limit the operation of public broadcasters with regard to the financing of certain kinds of programming, and to restrict the channelling of public funds to commercial activities.[6] The state may only co-finance the media where their operations relate to serving the public interest, and insofar as they provide content that the market either cannot provide, or cannot adequately provide. Even though the definition of public interest is left to each individual nation state, it is the *Communication* that is presented as "the European standard" to countries applying for membership in the EU.

The analysis of the monetary flow between the state and the media that we present in this regional overview[7] demonstrates how the misuse of public funds for private, clientelist purposes can become systemic.

It is impossible to establish the share of public funds funnelled in non-transparent ways to selected media. What we can definitely claim, though, is that state funds, transmitted via a number of paths, have become an important revenue source for all media. Paradoxically, most countries covered herein have privatised their media, but have simultaneously privatised the public funds by which privately owned media are financed. Furthermore, the ruling political elites have privatised the state, along with its institutions and functions.

The cases of the countries included in this analysis should not be seen as deviations from an otherwise well-functioning system. The problems we examine are, by nature, characteristic of every media system. In a way, these systems are products of "the West" – of its inefficient and essentially un-democratic policy of uncompromisingly adopting models which themselves require serious modification. Rather, the countries analysed are specific in how radically they have interpreted the idea of state support. The state aids those media that are prepared to serve its interests, and does so with public money.

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5 See http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=URISERV%3Acc0014. Accessed 12 March 2016.

6 A consistent application of the "spirit" of the *Communication* as a standard for assessing all forms of state support would reveal that most of the direct and indirect forms of state aid to private media which are in place today run counter to the aim of serving the public interest.

7 The regional overview is based on the SEE Media Observatory research reports on media finances and state-media financial relations in seven countries of South East Europe. The reports are available at http://mediaobservatory.net/media-integrity-reports-2015. Accessed 12 March 2016.

1
STATE-MEDIA FINANCIAL RELATIONS – A REGIONAL OVERVIEW

Our research in the countries of South East Europe, conducted in the second half of 2015,[8] has shown that, in our region, financial relations between the state and the media are highly complex and difficult to discern. A number of financial mechanisms operate between the state and the media, and new ones – some more sophisticated, some less so – are constantly being formed and invented. Owing to a situation of chronic non-transparency, the entire scope of state-media financial relations is impossible to grasp. Regardless of its complexity and huge extent, this area has never been systematically organised or sufficiently regulated to enable systemic control and enforcement. The reverse is true: there is a clearly evident system in place to ensure that information is concealed, and to prevent scrutiny of these mechanisms. Consequently, the media in South East Europe depend on their financial relations with the state, i.e., with either national or local financial mechanisms. In many of the countries we have studied, e.g. Bosnia and Herzegovina, Macedonia and Serbia, we have found the state to be the most powerful financial player in the media market, especially since the onset of the economic crisis.

The key actors in state-media financial relations, as well as in the misuse of these relations, include political leaders and parties, state and local officials, media and advertising agency owners, tax agencies, public companies, primarily the wealthy telecommunications public companies and state lotteries. In these areas, the public procurement systems are either broken or abused, as the case of Turkey exemplifies.

In Bosnia and Herzegovina, state institutions do not disclose information about public funds transferred to the media, either proactively or to comply with the law on the access to public information, while mainly public companies declare this data a trade secret. In Macedonia, certain information on state financing of the media is classified, and security clearance is required for its disclosure. Access to information on expenditures by state authorities and public companies on advertising and political campaigns in the media is therefore highly restricted. It is a murky pond for investigative journalists and researchers to navigate while attempting to assemble a comprehensive picture and to decipher the system of monetary flows.

Their critical analyses, taken into account by the EU assessments of the media and democracy in these countries, have made sufficient impact in some

THE MEDIA IN SOUTH EAST EUROPE DEPEND ON THEIR FINANCIAL RELATIONS WITH THE STATE, I.E., WITH EITHER NATIONAL OR LOCAL FINANCIAL MECHANISMS. IN MANY OF THE COUNTRIES WE HAVE STUDIED, E.G. BOSNIA AND HERZEGOVINA, MACEDONIA AND SERBIA, WE HAVE FOUND THE STATE TO BE THE MOST POWERFUL FINANCIAL PLAYER IN THE MEDIA MARKET, ESPECIALLY SINCE THE ONSET OF THE ECONOMIC CRISIS.

8 The SEE Media Observatory researchers from Albania, Bosnia and Herzegovina, Macedonia and Serbia have examined state-media financial relations in detail. The researchers from countries that only began contributing to the SEE Media Observatory in 2015, i.e. Montenegro, Kosovo and Turkey, touched upon the issue in the context of more general studies of media ownership and financing that were conducted during the same period.

places for mechanisms to be established which provide at least an appearance of transparency, or for partial disclosure of information. Yet, at the same time, new financial mechanisms and money channels are created that simply escape public attention.

It is now possible in Albania to follow all state treasury transactions through an online database, updated daily by the treasurer. Non-governmental organisations, such as Open Data Albania, attempt to reorganise the data to be more useful, but the information is difficult to follow, since the purpose of transfers is disguised by variant terminology or not clearly stated. Also, money is transferred to the media through intermediaries, primarily money intended for advertising, transactions in which advertising agencies play an important role. An agency will create a number of other agencies, thereby seemingly dispersing the funds. From that point on, it is impossible to determine how much state advertising money is received from advertising agencies, and which media receive it, since advertising agencies are private companies, not bound to disclose information.

In 2014, the Macedonian government revealed in a one-time disclosure how it had, over two-and-a-half years, spent approximately 18 million euro on media advertising campaigns. However, the data did not reveal the criteria used for the distribution of the funds. Also unavailable are the data concerning the most recent financial mechanism in Macedonia, aimed at financing the domestic production of television feature films and documentaries. Whenever researchers acquire the data under the legal provisions on the access to public information, it does not offer a comprehensive insight into the financial mechanism or its decision-making system.

In Serbia, the Anti-Corruption Council of the Government of the Republic of Serbia has done most to reveal the scope and nature of state-media financial relations. The Council utilizes its position within the system to acquire information from state authorities and public services. It presents the information in an intelligible form, and analyses it to the best of its abilities. In the topics they cover and in what they reveal, the reports of the Anti-Corruption Council are the most explicit and, in a way, subversive demonstration of why financial transactions between the media and the state are kept hidden from the public. The reports include the following: 2011: *Report on Pressure & Control of Media in Serbia*, with sections on media ownership, financial influence of state institutions through budget payments, and the public service broadcaster, *RTS*;[9] February 2015: *Report on Ownership Structure and Control Over Media in Serbia*, with sections on non-transparency of media ownership, non-transparency of financing, economic influence through budget, tax relief and other indirect forms of public funding, media privatisation, censorship and

9 See http://www.antikorupcija-savet.gov.rs/Storage/Global/Documents/mediji/IZVESTAJ%20O%20MEDIJIMA%20PRECISCEN%20ENG..pdf. Accessed 12 March 2016.

self-censorship, and tabloidisation;[10] and December 2015: *Report on the Possible Impact of Public Sector Institutions on Media, through Financing of Advertising and Marketing Services.*[11]

In various countries in the region, there have been notable legislative measures that could contribute to greater transparency in media financing and in state-media financial relations. Serbia's new media legislation, adopted in 2014, requires state authorities, institutions and companies to report the allocation of state funds to the media. Doubtless this is a systemic step towards improving transparency in this area; yet, at the time of our study's conclusion the realisation and effects of this provision have not materialised. In her recommendations, our researcher also stresses the need to task the media companies with reporting or disclosing information about revenue gained from the state, state authorities, state institutions and state-owned companies.

In Montenegro, the Tax Administration, as part of its campaign against the grey economy, has begun publishing companies', including media companies', financial reports. On the one hand, this has contributed to greater transparency, while on the other, it has revealed the poor economic performance in the media sector, including among the biggest media players. This data gives rise to doubt about the regularity of the existence of numerous media outlets with such poor business results. The Law on the prevention of illegal business of 2013 requires the Montenegrin media to maintain a register of advertising slots that have been sold, and to report the data to the Tax Administration. However, our research reveals that only a few media outlets follow these provisions, while others ignore it with impunity.

In 2015, Albania adopted the requirement that all companies, including the media, submit their annual balance sheets to the National Registration Center, which subsequently publishes them. It remains to be seen how this will work in practice. At the same time, however, the Agency of Public Procurement is no longer required to publish tenders on its website, which diminishes the availability of information about the use of public funds for state advertising.

IN VARIOUS COUNTRIES IN THE REGION, THERE HAVE BEEN NOTABLE LEGISLATIVE MEASURES THAT COULD CONTRIBUTE TO GREATER TRANSPARENCY IN MEDIA FINANCING AND IN STATE-MEDIA FINANCIAL RELATIONS.

All of the these instances further demonstrate the need for monitoring and control to ensure effective enforcement of the recently adopted requirements related to the legality and transparency of media ownership and funding, especially to state-media financial relations. On the other hand, one might consider the absence of systemic solutions to the issues of control and enforcement of legal provisions regarding transparency and legality as a case of deliberately inefficient legislation, whose purpose is to create a misleading appearance

10 See http://www.antikorupcija-savet.gov.rs/en-GB/reports/cid1028-2751/presentation-of-report-on-ownership-structure-and-control-over-media-in-serbia. Accessed 12 March 2016.

11 See http://www.antikorupcija-savet.gov.rs/Storage/Global/Documents/mediji/Izvestaj%20Saveta%20-%20eng%20%20final%2003.03.%20(Repaired)%20final.pdf. Accessed 12 March 2016.

of progress in the areas of financial and regulatory transparency in the media (particularly that of state-media financial relations).

Media regulators point out that they lack both the authority and the capacity to exercise control over media ownership and financing. In Montenegro, for instance, the electronic media regulator has been stripped of the authority to conduct inspections, a task which subsequently has not been assigned to any other state agency.

2
STATE ADVERTISING

Our research confirms that state advertising and the running of media campaigns are among the key mechanisms by which public funds are transferred, in a corrupt and clientelist manner, from state authorities, state institutions and state-owned companies to the media. This pattern is discernible in all countries covered by our study. Furthermore, while the amount of the funds, certainly large, cannot be definitively ascertained, it is utterly impossible to establish what criteria the states use to determine how much advertising to place, and with which media to place it.

The bulk of advertising is done through advertising agencies that buy up space in the media. In Serbia, it is estimated that two-thirds to three-quarters of all advertisements are sold to media buying agencies connected to political groups. According to estimates, in Montenegro up to 80 percent of advertising is distributed through agencies. Consistent with this, the state and public funds intended for advertising and media campaigns are mostly distributed through intermediary agencies rather than directly.

STATE ADVERTISING AND THE RUNNING OF MEDIA CAMPAIGNS ARE AMONG THE KEY MECHANISMS BY WHICH PUBLIC FUNDS ARE TRANSFERRED, IN A CORRUPT AND CLIENTELIST MANNER, FROM STATE AUTHORITIES, STATE INSTITUTIONS AND STATE-OWNED COMPANIES TO THE MEDIA.

The intermediary role of the media buying agencies is one of the key mechanisms by which the ruling political groups control and misuse the media and advertising industries to pillage public funds. These groups control the largest advertising agencies, which act as intermediaries in the placement of state advertising campaigns in the media, including the advertising of publicly owned business companies. As governments come and go, so do the advertising agencies engaged in the wholesale placement of state advertising. In Serbia, under the government headed by Prime Minister Aleksandar Vučić, this is done by an advertising agency founded by a high-ranking official of Vučić's party. During the previous term, the ruling party was different but the situation was identical. In Albania, not even minimal data on media market indicators are available, yet the country has seen an acceleration of the advertising agencies' involvement in the business of state advertising. There, too, every change of government precipitates a takeover of the lion's share of the state advertising business by a different set of advertising agencies.

In Macedonia, interviewees from the advertising industry who wish to remain anonymous (which in itself speaks volumes about the situation) admit a tendency to self-censorship in their business operations. They now automatically include only pro-government media in their plans for state advertising, since on numerous occasions in the past, the plans including media with a greater audience reach, but critical of the government, were returned to them from within government circles with the names of these outlets crossed out.

For the media in many South East European countries, the revenue generated by state advertising makes the difference between survival and bankruptcy. Meanwhile, the control that the ruling political groups exert over the flow of these funds is critical both to controlling the media, and to the monetary enrichment of political parties and their representatives. A story related by our Macedonian researcher is especially telling. An attendee of a training course for young journalists enquired what was most important to ensure the successful development of a media outlet. The answer was as follows: "To secure state advertising."

The Kosovo report points out that advertising is a means of supporting pro-government media, while the denial of advertising serves to punish the obstinate. The report stresses the importance of publicly owned companies, whose executive employees are installed by ruling parties. The law on public procurement does not cover these companies. In Serbia, the state-owned Lutrija (Lottery) is in the habit of paying for a year's worth of advertising, in advance, to *Pink TV*, a commercial television broadcaster with a pro-government editorial stance. In Macedonia, the data on the distribution, over two-and-a-half years, of the sums intended to fund the government's campaign for "informing the public" demonstrates a disregard for the usual viewership criteria. Despite reaching a mere 3 percent audience share, *Alfa TV* received the bulk of the advertising funds. In 2013, this broadcaster aired 5,295 state ads, while the remaining four commercial broadcasters aired 3,874 ads combined. *Sitel TV*, the broadcaster with the largest audience share (28 percent in that year), received the least state advertising business during this period. *Alfa TV* began prospering in May of 2013; significantly, this coincided with the shift in the broadcaster's editorial policy and political attitudes, which had become supportive of the government.

IN MANY SOUTH EAST EUROPEAN COUNTRIES, THE REVENUE GENERATED BY STATE ADVERTISING MAKES THE DIFFERENCE BETWEEN SURVIVAL AND BANKRUPTCY.

In Albania, an overview of the transfer of funds from the state budget to media companies to cover the costs of advertising and notifications during 2012, 2013, and 2014 has shown that state advertising revenue constitutes a significant source of financing primarily for daily newspapers. The media conglomerates that own dailies receive the most revenue from state advertising. There is a trend towards serious delays in paying for the publication of the ads. Albania's ruling party changed in 2013, and the effects of the change in relation to the distribution of public funds for state advertising became apparent in 2014. The data shows that state advertising primarily benefits those media groups with pro-government editorial policies. Some, e.g. Panorama and Focus Groups, profit greatly on a constant basis, while certain major recipients of state advertising funds under the previous government, e.g. Aleksandër Frangaj's media companies, in spite of their significant presence in the media market, ceased altogether to appear among the beneficiaries of public advertising funds in 2014. The data from 2015 shows that particular groups are heavily favoured, such as Top Media, a group tied closely to the current Prime Minister even during his time in the opposition.

In this area, regulation is seriously inadequate. Albania's law on public procurement, for example, does not apply to state advertising in the media. In Serbia, not even the 2015 Law on advertising has addressed these issues. The Macedonian authorities did declare a moratorium on state advertising in 2015, but the public broadcaster continued to run state advertising campaigns.

Critical examination and reporting on the part of investigative journalists, augmented in Serbia by the work of the Anti-Corruption Council, reveal quite clearly the forms and proportions that the undermining of media integrity achieves by its use of financial instruments to channel state advertising, political campaigns and other governmental announcements. However, other financial mechanisms are in place between the state and the media, which we need to consider since these, too, are used to control the media, and to encroach on their independence and integrity. Some of these mechanisms operate almost imperceptibly, overlooked by researchers and international organisations who, at present, focus primarily on how state funds are misused to corrode the media and advertising industries. Only when we examine the entirety of the financial mechanisms observable within the area of state-media financial relations does the horrifying picture of dependence and potential systemic corruption in this field begin to emerge.

ONLY WHEN WE EXAMINE THE ENTIRETY OF THE FINANCIAL MECHANISMS OBSERVABLE WITHIN THE AREA OF STATE-MEDIA FINANCIAL RELATIONS DOES THE HORRIFYING PICTURE OF DEPENDENCE AND POTENTIAL SYSTEMIC CORRUPTION IN THIS FIELD BEGIN TO EMERGE.

3 FINANCIAL DEPENDENCE OF PUBLIC MEDIA

A significant and firmly established mechanism, involving substantial sums of money, forms the link between the state and the public media, primarily national, and in the case of Bosnia and Herzegovina also local, public broadcasters. In the region covered by this study as well as by other SEE Media Observatory studies during the last three years, public broadcasters depend quite overtly on the state for their financial well-being. In Kosovo and Montenegro, they are funded directly from the state budget. In Kosovo, 2015 saw the expiration of the legal provision on "transitional" funding from the budget in the amount of 0.7 percent of the fiscal revenue. The solution to and model for further financing depended on political negotiation. In Montenegro since 2009, the public broadcaster has been funded to the tune of 1.2 percent of the state budget.

In 2013, this income represented 82.5 percent of the public broadcaster's entire budget. In 2014, the Kosovo public broadcaster received 9.348 million euro from the state budget, while in 2013, the Montenegrin broadcaster received 7.4 million. Until 2016, both public broadcasters in Serbia were funded in this manner. The Macedonian public broadcaster also receives significant funding, through various mechanisms, from the state budget, in addition to the funds collected via licence fees from citizens. In 2014, MRT received 3.89 million euro from the state budget, apart from the 1.6 million euro received for the purposes of digitalisation from the Electronic Communications Agency, as well as smaller sums from other state sources. In Bosnia and Herzegovina, the fate of the television licence fees collection model is uncertain. The previous model, involving collection through telecom operators, expired at the end of 2015. RTRS, the public broadcaster of Republika Srpska within Bosnia and Herzegovina, is permitted to receive direct funding from the state budget in case other sources are not sufficient for its functioning. The decision on the amount is left to the discretion of the government of Republika Srpska. In 2015, RTRS received around 153,000 euro from budget reserves. In Serbia, the public broadcaster experienced a measure of uncertainty regarding the rate of the newly instituted television licence fees, which caused friction between government representatives and the public broadcaster's management. This underscored the difficulties inherent in the financial relations between public broadcasters and the state, and in the dependence of public broadcasters on arbitrary decisions by political leaders. The monthly television licence fee has been set at 150 dinars (approximately 1.2 euro), making Serbia's and Albania's rates the lowest in the region.

Public broadcasters also receive revenue from state advertising and political campaigns. To boot, in Macedonia the public broadcaster was among the leading tax violators in 2014, having failed to pay 1.5 million euro in taxes.

THE PUBLIC BROADCASTERS' FINANCIAL VULNERABILITY AND THEIR DEPENDENCE ON FINANCIAL RELATIONS DICTATED BY THE STATE SERVE TO ENSURE THEIR POLITICAL OBEDIENCE, AND FUNCTION AS LEVERAGE IN THE APPOINTMENT OF THE BROADCASTERS' MANAGEMENT.

The public broadcasters' financial vulnerability and their dependence on financial relations dictated by the state serve to ensure their political obedience, and function as leverage in the appointment of the broadcasters' management. How significant these broadcasters are for democracy, and how the state covets control over their finances and employees, are exemplified by the fact that in 2015 and early 2016, the situation and control of public broadcasters were subject to pre-electoral negotiation between the ruling and opposition parties in Macedonia and Montenegro. In Macedonia this was conducted under international mediation.

State-owned press agencies must also contend with state funding. In Bosnia and Herzegovina, two such agencies benefit considerably. In the Federation, *Fena* has received annually (in 2014 and 2015) a little over 1 million euro, while in Republika Srpska, *Srna* has been granted around 870,000 euro.

4
PUBLIC MONEY IN LOCAL MEDIA

In some countries, media owned by local authorities receive state budget funds in the form of direct subsidies, while in all countries covered by our research, various local media are funded through advertising from and campaigns by local services and state-owned companies. These monetary flows, as well as the criteria for funding, lack transparency. According to the Albanian report, political affiliations and good relationships with mayors are key in securing these advertising and campaign funds. The same report finds that a local authority will prefer to advertise almost exclusively with a single selected local outlet, without regard either for any known criteria, or for any scrutiny. Meanwhile, the overview of financial transactions between Albanian local authorities and local media indicates that funds are routinely spent on commissioned stories and reports, which local television broadcasters disguise as regular journalistic content. Clearly, this is a case of misleading the public and an abuse of journalistic and media integrity. Why do the local media do this? According to them, they depend almost entirely on this kind of funding, and are in no position to refuse these commissions.

At the local level in Bosnia and Herzegovina, 12 television and 61 radio stations have never been privatised. They remain publicly owned, and as such receive funds directly from the budgets of local communities and cantons. Annually, these local outlets benefit from up to 8 million euro in subsidies from local budgets. The 12 television outlets alone received over 4.2 million euro in 2013, with annual subsidies ranging from 57,000 to 1.95 million euro per single outlet. The very people whom the media are supposed to oversee determine the amounts of the subsidies, and it is therefore widely held that these outlets are simply local mouthpieces of the ruling parties. As it is the mayors and cantonal government leaders who propose local government budgets, the amounts of media subsidies are entirely up to their good will. Since you depend on the cantonal budget, an interviewee in the Bosnia and Herzegovina report states, *"you have to be submissive."* Yet at the same time, the presence of these local outlets in the destitute media market of Bosnia and Herzegovina is the sole guarantee that the local population will have any media at all. Still, no mechanism exists to minimize the influence of politics on these media, nor do the debates on the media policy in the country address the issue. Lastly, no one is inquiring whether the content aired by these outlets actually relates to local communities, and whether it is impartial.

AS IT IS THE MAYORS AND CANTONAL GOVERNMENT LEADERS WHO PROPOSE LOCAL GOVERNMENT BUDGETS, THE AMOUNTS OF MEDIA SUBSIDIES ARE ENTIRELY UP TO THEIR GOOD WILL.

In Serbia, on the other hand, the privatisation of media, including local and regional media, which is long overdue in Bosnia and Herzegovina, took place in 2015. Seventy-two media outlets were extracted from state ownership and began the process of privatisation. The process itself was not entirely transparent. Privatisation caused some media to cease operations, owing to a lack of demand. In a notable case, a single new owner, the entrepreneur Radoica Milosavljević, acquired eight local media outlets for less than 300,000 euro. The impact of media privatisation in Serbia during 2015, which included a number of local media, will have to be thoroughly analysed in order to assess how, if at all, the process contributed to the goals of informing the public and of upholding media integrity and freedom.

In addition to media privatisation, Serbia introduced a new model in 2015, focused on the co-funding of the production of media content. The funds from state and local budgets will be distributed through public calls for tenders. This is a new mechanism for transferring funds between the state and the media, both national and local, and has brought a number of challenges. The most significant development has been that the evaluation of projects submitted by media who apply for funds is no longer the responsibility of ministers or mayors, but of expert committees.

In Macedonia, the potential for pillage public funds through the placement of enormous amounts of advertising with particularly servile media outlets has expanded in 2014 and now includes local and regional broadcasters. Upon registering as regional instead of local broadcasters, and switching ownership, a dozen television stations began receiving hundreds more in state advertisements than the competition. Certain regional television stations registered in this fashion aired the Explore Macedonia campaign on 1,139 occasions, compared to those who, having not modified their status and ownership, aired the advertisement in question from 33 to 140 times.

For a number of years in Macedonia, a mechanism enabled media donations to political parties. As late as the parliamentary election season in 2014, local and regional broadcasters were donating discounts for political advertisements. Forty broadcasters donated these discounts to the ruling VMPRO DPMNE, while six donated to SDSM, an opposition party. The existing legislation limited the amount a single media outlet could donate to an electoral campaign to 50,000 euro. Then, in 2015, the Law on elections was changed, prohibiting this form of financial relationship between the media and political parties.

THE IMPACT OF MEDIA PRIVATISATION IN SERBIA DURING 2015, WHICH INCLUDED A NUMBER OF LOCAL MEDIA, WILL HAVE TO BE THOROUGHLY ANALYSED IN ORDER TO ASSESS HOW, IF AT ALL, THE PROCESS CONTRIBUTED TO THE GOALS OF INFORMING THE PUBLIC AND OF UPHOLDING MEDIA INTEGRITY AND FREEDOM.

5 PROGRAMMING SUBSIDIES

In 2014, Macedonia and Serbia instituted subsidies for specific media programming, which the state allocates on the basis of public calls for tenders. Macedonia adopted a financial support mechanism for domestic film and documentary programming. The mechanism is open to commercial television outlets and the public broadcaster, already the wealthiest media in the country. In 2014, about 530,000 euro were distributed to five national commercial television broadcasters, mostly to *Alfa* and *Telma*. MRT, the public broadcaster, did not apply for these funds and failed to meet the prescribed quota for the production of domestic film and documentary programming.

The mechanism makes it difficult to ensure quality of content, since production deadlines are short, while many broadcasters apply for funds to produce similar content, or for types of content already produced and available to the audience.

The transparency levels of the procedures involved are controversial. There are issues with selection criteria and justification, as well as with the structure, independence and expertise of the selection committee. Namely, the committee is exclusively composed of representatives of ministries and other institutions controlled by, and operating under the auspices of the government.

In Serbia, calls for tenders for the funding of public interest programming were first published in 2015, at both the national and the local levels. The amount of state funding is set at 80 percent, and the necessary funds are supposed to be reserved within the annual budget of the Ministry of Culture, as well as in local budgets. On the basis of the initial call for tenders, the Ministry distributed around 1 million euro to electronic and print media, to finance 161 projects. The amounts of individual subsidies ranged from 600 to 35,650 euro. The allocated sums were generally smaller than those the media requested in their applications.

Apart from the media having to complete their projects with levels of support lower than expected, a number of other issues arise: primarily, the concept of public interest implied by the methodology of project assessment, and the structure of committees charged with deciding which projects the state should fund. The committees are composed of industry representatives, i.e. members of journalistic or media associations, which the state no longer controls. However, the question arises whether these representatives are qualified for the job, and consequently the need to train them in project assessment, as well as to ensure that they grasp the concept of public interest.

There is also the issue of monitoring each selection proceeding in order to prevent irregularities, and of evaluating whether the goals outlined in the calls for tenders have been met. A coalition of media and journalistic organisations is charged with this, but the task is so demanding in scope and content that it would be better entrusted to professional assessors working with appropriate methodology. Our Serbian researcher points out that feedback on the process and effects of funding allocation should serve as the basis for subsequent calls for tenders.

The entire system, including the requirement to assess a call for tenders before the next one is published, has been in place for a number of years in Slovenia, an EU Member State whose media regulation is often copied by EU candidate countries. The subsidy of media programming through project financing in Slovenia has failed to produce the desired results, even if Serbia seems to have adopted it. The system has not ensured the creation of media programming that serves public interest and which, without such state funding, would be unavailable to the audience, nor has it provided transparency and critical assessment of individual calls for tenders, on which any subsequent calls would be based. In Slovenia, this mechanism has proven very successful in funnelling funds to the media, especially if one adds up the funds received by certain media over the years, or the public funds distributed annually for this purpose. However, it adds little value to the available media content in terms of how it benefits the public interest and the needs of citizens. The Serbian commentators concur that in their country the mechanism for content funding acts as a form of social security for media in times of crisis. Our researcher calls for a shift of mind-set, both within the media community and within state authorities, regarding the concept of public interest, and regarding the use of the new funding mechanism. The shift has yet to occur, and how to achieve it remains an open question.

At a regional conference organised in February of 2016 by the Council of Europe and the Parliament of Montenegro, the editor-in-chief of one of Serbia's most renowned weekly newspapers related a story that demonstrates the overall inability to approach the mechanism of state support for public interest programming in ingenious and independent ways. The editor ran into the Mayor of Belgrade. The Mayor suggested that it would be a good idea for the weekly to investigate and present to the public the features of public-private partnerships in the performance of certain functions and services within the city. The weekly subsequently responded to a call for tenders for co-funding of media content production, proposing the suggested topic in its application. The expert committee turned down the application. To the editor, this demonstrated how poorly the new mechanism was functioning. Yet, this in itself is a demonstration of how poorly he understands the mechanism and of how utterly urgent it is to redirect the overall mind-set towards the awareness that media content intended to serve the public interest is not determined and created through informal conversations between politicians and media officials.

OUR RESEARCHER CALLS FOR A SHIFT OF MIND-SET, BOTH WITHIN THE MEDIA COMMUNITY AND WITHIN STATE AUTHORITIES IN SERBIA, REGARDING THE CONCEPT OF PUBLIC INTEREST.

6 TAX POLICY INSTRUMENTS

In the countries of South East Europe, only those media who refuse to serve the government and the ruling parties are penalised for non-payment of their taxes. In Turkey, a frequent target of such penalties is the Doğan Group, the publisher of the daily *Hürriyet* and the broadcaster of *CNN Türk*, which, like all major media conglomerates in Turkey, is involved with many other industries, e.g. energy, retail, tourism, etc.

Years ago in Macedonia, non-payment of taxes caused the shutdown of *A1*, a major independent television broadcaster, whose owner remains in prison.

Conversely, as already stated, in 2014 the Macedonian public broadcaster failed to pay 1.5 million euro in taxes and was deemed one of the worst tax violators in the country; yet, far from being penalised, it received 4 million euros' worth of state support for its operations during the same year. In Serbia, *Kikindske*, a small local newspaper critical of the government had its accounts blocked and its continued operation threatened over a clerical error that amounted to a difference of 5000 euro in the amount of tax owing. Meanwhile *Pink*, the largest commercial television broadcaster, owes millions to the Tax Administration, continually disregards the agreed-upon reprogramming conditions and liberally reinterprets the terms of payment.

A February 2015 report of the Anti-Corruption Council of the Government of the Republic of Serbia[12] revealed the extent of *Pink's* tax debt, along with the debts of other major media companies whose transgressions are casually tolerated. Among other things, the report revealed that the *Večernje novosti* media publisher explained its disregard for the terms of payment of its huge outstanding debts to the tax authority by referring to an agreement with the Prime Minister. Additionally, the media owe broadcasting fees to regulators, as well as various amounts to the state-owned distribution companies. The Anti-Corruption Council estimates their outstanding debt at approximately 26 million euro. The regulator, for its part, allows some broadcasters to delay payment, while blocking or shutting down others, which it did in 2012 to the television broadcaster *Avala*.

Whether or not a particular media outlet receives favourable treatment upon failing to meet its financial obligations depends on who its owners are, and on its editorial policy towards the government or the ruling party. The closer the relationship between the outlet and the ruling politicians, the greater the leniency regarding its obligations to the state treasury. This finding of the Anti-Corruption Council in Serbia certainly applies to the rest of the region.

WHETHER OR NOT A PARTICULAR MEDIA OUTLET RECEIVES FAVOURABLE TREATMENT UPON FAILING TO MEET ITS FINANCIAL OBLIGATIONS DEPENDS ON WHO ITS OWNERS ARE, AND ON ITS EDITORIAL POLICY TOWARDS THE GOVERNMENT OR THE RULING PARTY.

In Montenegro, too, broadcasters can owe licence fees to the regulator without having to suffer any consequences. In Albania, tax debts of the major media are rarely reported, save for an occasional bit of information revealed by their competition. The Tax Administration is clearly lenient towards large media conglomerates, while being highly stringent with smaller companies. Sending the tax police to the headquarters of certain media as a means of exerting pressure has been an established practice.

Throughout the region, blatant violations of labour laws in media companies are tolerated and unpunished. As a financial concession, the state allows

12 See http://www.antikorupcija-savet.gov.rs/en-GB/reports/cid1028-2751/presentation-of-report-on-ownership-structure-and-control-over-media-in-serbia. See also the complete report in Serbian at: http://www.antikorupcija-savet.gov.rs/Storage/Global/Documents/izvestaji/izvestaj%20mediji%2026%2002.pdf. Raw data available at: http://www.antikorupcija-savet.gov.rs/Storage/Global/Documents/izvestaji/tabela%20mediji%20dopisi%20i%20odgovori%202014%2015%20pdf.pdf. All hyperlinks accessed 12 March 2016.

the media and their owners to operate without appropriate employment contracts, and without paying taxes and social contributions, thus harming the employees and violating their social security as well as their ability to work in an autonomous manner. In Albania, 98 percent of the media do not report their employees' actual salaries. Only minimum salaries are reported, whereby employers avoid paying the appropriate social contributions, and rob their employees of social security. Payment delays are the rule. Of 23 newspapers, only four pay their employees on time. Of 72 television stations, only ten do so. And of the 71 radio stations, 63 are highly delinquent in paying their employees.

Labour inspectors visited a small number of media but did not check for employment contracts. Even the Social Insurance Institution stays out of this area. It is as if they were concerned that, should they dare to touch the media, a backlash would result in the form of negative reporting. A simple principle applies: "Leave the media business alone."

In summary, financial relations have planted a thriving field of inscrutable irregularity, of abuse and public resource theft between the media and the state, or rather between media owners and ruling political parties. All this comes at the expense of journalism and the public. In the present situation, some media are systematically failing to fulfil their considerable financial obligations to the state but are continuing to operate, or even to receive enormous public funds for their operations, and in exchange for advertising. Some of the biggest tax debtors among the media in Serbia are receiving advance payments for advertising from state-owned companies or loans from the state export credit and insurance agency. Meanwhile, they are charging children money for the privilege of appearing in their commercial programmes, and spouting the most brutal propaganda for whichever politicians happen to be in power. Are they even still media? Furthermore, is this even still a state? Or have both the media and the state been hijacked by professional thieves and looters whom we, blinded by the expectation that media and democracy will eventually adhere to norms and standards, continue to call media owners and political leaders?

FINANCIAL RELATIONS HAVE PLANTED A THRIVING FIELD OF INSCRUTABLE IRREGULARITY, OF ABUSE AND PUBLIC RESOURCE THEFT BETWEEN THE MEDIA AND THE STATE, OR RATHER BETWEEN MEDIA OWNERS AND RULING POLITICAL PARTIES. ALL THIS COMES AT THE EXPENSE OF JOURNALISM AND THE PUBLIC.

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CONCLUSIONS: MEDIA REFORM – PUBLIC FUNDS UNDER PUBLIC SCRUTINY

We have analysed the corrosive activities and the risk of corruption with regard to the functioning of media, using various indicators directly or indirectly related to media funding. In following the money, we have attempted to address five fundamental issues that shape all journalistic reporting: who received public funds, as well as when, where, how and why they received them. So far, our analyses have shown that the chain of influence begins with the non-transparency of media ownership,[13] that it continues with the non-transparency of funding sources, and that this is followed by the economic (financial) influence of state institutions on media operations through various forms of unrestrained redistribution and allocation of public resources. The basis for this is a lack of regard for proper procedure and for the rules of public procurement. The risk of corruption keeps spiralling out until its conclusion, the utter hijacking of the state and its institutions. The most significant risk factor is the media's increasing dependence on state funds. Various state and public institutions (here we include ministries, local communities, public agencies and state-owned companies) spend a large portion of public funds on advertising and promotion. State advertising and promotion are the connecting tissue of mediatised politics as described by Manuel Castells (2009).[14] The term mediatised politics does not merely imply the fusion of media and politics. Rather, it is a process wherein media are politicised and politics is mediatised. Citizens have been mediatised as much as politics. Politics has become a business – a business of trading in information, in explanations and in visibility, that has made the gatekeepers to the public, i.e. the media, equal negotiating partners in power acquisition. This enormous and profitable business is, to a large degree, publicly funded, and media and their owners are the end recipients of these funds. This process has done away with any independent mechanism for public control over public authorities. We are living in the world of the "democratic Leviathan" (John Keane), where there is no formal censorship, but there are myriad mechanisms that curtail freedom of expression – what some researchers have dubbed "soft censorship". The cynicism of this entire process is easily described. Citizens themselves fund the media to produce media content, which serves the private interests of the media owners and their political and economic partners.

CITIZENS THEMSELVES FUND THE MEDIA TO PRODUCE MEDIA CONTENT, WHICH SERVES THE PRIVATE INTERESTS OF THE MEDIA OWNERS AND THEIR POLITICAL AND ECONOMIC PARTNERS.

The case analyses in the countries covered by our research display a few clearly discernible patterns of financial influence over the media:

1. The allocation of direct state support in the form of subsidies for various types of programming, which the state supposedly considers to be in the public interest. Because these countries have no media policy to speak of, and have not defined what constitutes public interest in the media field, the subsidies are granted to individual media on the basis of political similarity. Normally, the amount of the allocated state funds is proportionate to the recipient's political proximity to the dominant centres of political power.
2. Hiring advertising and public relations agencies, usually through package deals, to inform the public of the public institutions' activities. The process of funding allocation involves all the players in the "business": from

13 See http://mediaobservatory.net/radar/media-integrity-matters-—-book-see-media-observatory. Accessed 12 March 2016.

14 Castells, 2009.

agencies to the media, and the actual content producers. Thus, the commissioned information includes various forms of state advertising: from information of supposedly public importance (various awareness and information campaigns), to employment notices, to advertisements for state-owned companies, or calls for application for various state-funded projects. Changes in government usually precipitate changes in the selection of the agencies and media that receive the funds.

3. Because of their considerable size (number of employees) and the amount of state funds available to them, public broadcasters are often prone to the risk of corruption and exposed to financial pressure. In addition to direct political pressure, exerted through the appointments of politically appropriate management and oversight personnel, public procurements are also problematic – the funds spent on the products of independent and external producers, on copyright fees, on the purchase of programming content, as well as on the acquisition of broadcasting rights and the rights to market advertising space. The lack of public oversight, the non-transparency of business operations and political dependence – these are the major obstacles to the establishment of a culture of public accountability. Public broadcasters in particular should become the guardians of media integrity in the media system of each individual country.
4. The existence of various tax alleviations for certain types of media, ostensibly to enable additional employment for journalists. Usually, these tax alleviations serve to bolster the media owners' profits. Meanwhile, the tax procedures reveal that the state selectively allows certain owners to avoid fulfilling their tax obligations. The selective utilisation of tax inspections and frequent financial audits constitute popular methods of exerting pressure on independent media.
5. Shoddy labour laws are characteristic of most countries and force most journalists into precarious forms of employment. The issues related to the maintenance of this employment situation include irregular payment of salaries and authorship fees, non-payment of social contributions, and the signing of work contracts containing annexes that relegate the legal accountability for the journalistic work to the journalists themselves. The culture of social fear prevalent in the journalistic profession curtails freedom of expression in a number of ways: journalists self-censor and report on some people and events, while keeping quiet about others. Owing to their symbiotic relationship with the state, to which they are bound by monetary flows, most media are in constant conflict of interest. The media and journalists, who should be serving the public interest, instead guard the private interests of their owners.

Thorough media reform would require a systematic, determined and definitive break from the patterns of state-media financial relations that enable systemic corruption and political clientelism, the theft of public funds, the destruction of the integrity of both media and journalism, and consequently of democracy and society as a whole.

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STATE-MEDIA FINANCIAL RELATIONS IN THE COUNTRIES OF SOUTH EAST EUROPE

FINANCIAL ENGINEERING FOR STATE AND MEDIA CAPTURE