COUNCIL OF EUROPE EXPERT REPORT

THE SYSTEM OF FINANCING UKRAINIAN PUBLIC SERVICE BROADCASTER UA:PBC IN LIGHT OF THE COUNCIL OF EUROPE STANDARDS

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The launch in early 2017 of UA:PBC, Ukraine's newly created public service media company, was heralded as a great moment for the country's independent media. Euromaidan Press, an independent news portal written by Ukrainian volunteers, referred to that moment as "a ray of hope." The enthusiasm was unsurprising as UA:PBC appeared at a time when Ukraine's media market was heavily dominated by financial and political groups whose outlets are known as mere promoters of their owners' interests. Objective reporting and quality high-entertainment was and is more needed than ever in Ukraine. UA:PBC was supposed to offer just that.

Only two years later, however, UA:PBC is embroiled in a bitter existential crisis as legal provisions guaranteeing stable, sustainable and predictable funding for the broadcaster are not complied with. In November 2018, only 57% of the funding guaranteed by law for UA:PBC was approved by the Ukrainian Parliament.

The cut, combined with accumulated debts incurred by UA:PBC from unpaid fees to the local broadcast transmission company, leaves the young public service broadcaster with almost no budget for programme production at a time when UA:PBC is supposed to overhaul its operations and substantially boost its audience, and right before two series of elections when access to factual reporting is desperately needed. The financial cuts already had serious consequences. In autumn 2018, the analogue broadcasting of the UA:PBC's flagship channel UA:Pershiy was shut down, affecting an unknown, but, according to estimates from local experts, considerable number of Ukrainians, many of them located in areas affected by the ongoing Russian war against Ukraine.

As a response to this situation, at the request of the Ukrainian Parliament, the Council of Europe has commissioned a report consisting of an analysis of the UA:PBC current funding model and a set of proposals for improving this model (or replacing it with a new one) to allow UA:PBC to fulfil its public service mission.

The inquiry found that the current legal formula to calculate the annual state allocation for UA:PBC (as 0.2% of the expenditure from the general fund of the state budget of previous year) is fitting for today's economic and social circumstances in Ukraine. The nub of the problem lies in implementation: the very legal provisions requiring use of this formula to determine UA:PBC's yearly budget are not implemented as another, rather conflicting, law creates space for authorities (Parliament and the Government) to discretionarily cut the broadcaster's allocation during the annual budgetary process. Experience shows that thus far they have done just that.

The expert analysis found that two scenarios are viable in the current Ukrainian context.

EXECUTIVE SUMMARY

In one, the current financing model of UA:PBC should be preserved, but legal amendments should be enacted to fend off political interference in calculating the budget allocation for UA:PBC. This, by far, would be the easiest and most sustainable solution for a broadcaster that needs stable funding to successfully reform its operations.

A second scenario, building on an alternative model advocated by UA:PBC, foresees introduction of a dedicated source of funding through a special fund of the state budget, generated from fees imposed on users of radio frequencies (such as broadcast companies or telecommunications operators). In spite of various obvious risks primarily related to possible fluctuations in the fee payment or the health of the telecom industry, this model is worth considering. In some respects, in fact, it is likely to be more effective in insulating political intervention as it diversifies the state funding sources, but to be viable it also requires clear legal provisions setting in stone the level of guaranteed funding for UA:PBC.

Elsewhere, there are more adequate funding models for public media that either secure a better connection with the public or effectively insulate the public broadcasters from political interference (or both). Widely used in Europe, they include licence fees (paid by households) or industry levies. Nonetheless, such models will not work in Ukraine today: UA:PBC needs a much better public recognition before asking households to pay for its service and the industry needs to improve much more before being able to support a public service player from market revenue.

Preference thus, according to expert opinion in this report, should be given to one of the two recommended scenarios.

While the onus is on the lawmakers, UA:PBC also bears its own responsibility in the process. The company has made significant progress in revamping its operations within less than two years. But for its long term development into a truly public service broadcaster, the company's management should present a coherent strategy and, more importantly, a detailed work plan anchoring its performance in concrete audience and programming targets as well as its financial needs to achieve those goals.

1. INTRODUCTION

The purpose of this report is twofold: to provide an expert opinion on the existing model of financing the public service broadcaster UA:PBC in Ukraine; and to explore possibilities for creating an alternative financing model that would secure adequate funding for UA:PBC to fulfil its public service mission. The exercise was requested by the Ukrainian Parliament Committee on Freedom of Speech and Information Policy and supported by the UA:PBC Management and Supervisory Board, which developed, with the assistance of the Council of Europe, and approved the concept of a new funding model based on revenue from fees charged for the use of radio frequencies.

For the purpose of the present evaluation, the Council of Europe has established a team, composed of two international experts and a national expert. The experts reviewed the relevant national legislation and met with key stakeholders in the Ukrainian political and media fields during a three-day mission in Kyiv on 4-6 December 2018.

In their inquiry, based on qualitative and quantitative evidence, the experts focused on strengths, weaknesses, opportunities and risks related to the existing and proposed models, and explored other options by taking into account the Council of Europe standards, good European practices, the state of the local market and feedback gathered from the stakeholders.

1.1. OBJECTIVES, SCOPE AND STRUCTURE

The objectives of the report are the following:

- evaluation of strengths and weaknesses of the current financing model of UA:PBC;

- assessment of the alternative model adopted by the UA:PBC Supervisory Board;

- proposal of other actions aimed at improving the financial situation and the funding model of UA:PBC with references to best practices and their relevance for the Ukrainian case;

- analysis of alternative sources of revenues of UA:PBC such as redundant monetisation of assets that UA:PBC inherited from the former state broadcaster.

The scope of the study is thus limited to the analysis of the current and a proposed alternative funding model of UA:PBC, and the study of other options based on the Council of Europe standards and good practices across the EU.

The report is divided into nine chapters organised from general to specific, starting with an overview of the existing funding models, followed by a detailed assessment of the current and suggested funding model, and ending with two recommended scenarios.

1.2. METHODOLOGY

The analysis is based on a mixed method combining legal, documentary and financial analysis of primary and secondary sources gathered through field and desk research. The combination of methods and data sources allowed the experts to identify more accurately critical aspects of the researched areas and provide more reliable findings.

The field research, carried out during the period 4-6 December 2018, consisted of semi-structured interviews with MPs, government and NGO representatives, and members of regulatory authorities as well as industry and international stakeholders. Part of the field research was also a visit of the UA:PBC premises.

The documentary and legal analysis was performed on legal acts and background information provided by the Council of Europe Office in Ukraine and UA:PBC, as well as relevant publicly available documents. The financial analysis included budget requests, state budget expenditures and other available information, such as UA:PBC expenditures and draft plan on the use of requested funds. The details of the reviewed acts are provided in the literature references at the end of the report.

2. CONTEXT

Officially celebrating its second birthday in January 2019, the national public broadcaster in Ukraine UA:PBC (Natsionalna Suspilna Teleradiokompaniya Ukrayiny, National Public Broadcasting Company of Ukraine) is undergoing an exacting process of transition from a state media institution to a public service media company. While trying to restructure its 28 regional branches across the country, cut its staff and fully complete the transition to digital broadcasting, UA:PBC is struggling because of insufficient funding. With one of the smallest public broadcasting budgets in Europe, UA:PBC has not reached for a second consecutive year the legally prescribed funding ratio equivalent to 0.2% of the expenditure of the General Fund of the State Budget of Ukraine for the previous year.

In November 2018, Parliament adopted the Law on State Budget of Ukraine for 2019, which allocated UAH 1.005bn to UA:PBC. That accounts for only 57% of the sum guaranteed by law (i.e. UAH 1.8bn). After paying the accumulated debt from 2018, the company will be left with UAH 805m. This is just slightly more than the 2018 budget, which was worth UAH 776m. But according to UA:PBC's representatives, this budget guarantees only the company's survival as it covers salaries, utilities, taxes and part of the transmission costs, leaving the broadcaster practically without much budget for programme production. UA:PBC is relying on funding from other sources (such as donor funding) to plug this hole.

That is a major problem for a young public service broadcaster that is trying to bolster its audience numbers, increase awareness of its mission and restructure its operations. Moreover, it comes at a time when Ukraine is preparing for presidential and parliamentary elections, slated for March and October 2019, respectively. This political context is ripe for fresh debates about the UA:PBC funding as, on the one hand, political pressures on the public broadcaster are likely to intensify, and, on the other hand, public expectations regarding its impartiality are expected to grow. As parliamentary elections are going to take place in autumn 2019, the current Parliament will still have a decisive say in the approval of the UA:PBC's 2020 budget.

The Supervisory Board of UA:PBC, one of the broadcaster's main governing structures, has tried to fix the problem by developing, with the Council of Europe's support, a new funding model for UA:PBC. The authors of this model proposed allocating 50% of revenues generated from fees for the use of the radio frequency resources to UA:PBC, via the Special Fund of the State Budget. According to the advocates of the new model, by reducing or even completely removing the Government's and Parliament's discretion in calculating the annual budget allocation for UA:PBC, this model would secure a more stable form of financing for the public broadcasting.[1]

As it is now, the state of UA:PBC funding is inadequate. The UA:PBC Management Board is working on adopting measures to reduce the company's operational costs and raise its financial efficiency such as trimming the station's staff in the UA:PBC headquarters in Kyiv, scrapping the costly analogue transmission and introducing more contract-based work (instead of employment-based, taxed contractual agreements). Reduction of costs is essential. However, for a successful transition of a state broadcaster to a fully fledged public service media institution, UA:PBC needs adequate funding to revamp its programming, boost its image among the general public (which lacks awareness of the very concept of public service in the media) and create a lean, efficient operation able to command healthy viewership and public recognition. Such a process, to be successful, can take between five and ten years.

The consequences of inadequate funding are multiple. Apart from long-term effects such as preventing the development of UA:PBC into a modern public service company accepted by the Ukrainian public as a credible source of information and quality entertainment, there are also immediate tangible effects such as the reduction of analogue simulcasting, which is most probably affecting a significant number of households, including people in areas affected by the ongoing Russian war against Ukraine.[2] Due to accumulated debts for the transmission services, the state-owned Broadcasting, Telecommunications and Television Company of Ukraine suspended the analogue distribution of UA:PBC's broadcasting across most of the country.

[1] There is no clarity about who among authorities was responsible for the budget cut.
[2] The exact number of households or people affected by the cut of analogue broadcasting is not known as the UA:PBC's management say that they don't have access to precise and credible audience measurement data.

Both the local stakeholders and international organisations are following the developments at UA:PBC with concern. The EBU (2018a) stressed in its recent release that the deliberate withholding of funds by Parliament to exert pressure on UA:PBC is threatening the existence of the public service broadcaster in Ukraine and warned that “this may jeopardise Ukraine’s EU accession talks and endanger further EU financial help moving forward” (ib.).

UA:PBC has steadily lost support of Ukraine’s politicians mainly because of its independent, critical reporting. Legal provisions[3] allowing UA:PBC not to cover the activities of the authorities, which prompted the broadcaster to bin the allocation of 20 minutes of airtime reserved for MPs to promote themselves or their work on UA:PBC, as well as a slew of investigations into the MPs’ businesses that were carried out by the broadcaster during the past year have estranged many politicians. Their lack of support becomes evident when the UA:PBC budget is discussed.

3. PUBLIC SERVICE MEDIA FUNDING

There is a broad array of funding models for public service media, but generally they can be grouped in three main categories as following:

- Licence fees
- Government budget
- Commercial funding

There are rare cases of public service broadcasters being exclusively funded by advertising revenues. In the European Broadcasting Union (EBU) area the only such case is Malta. According to the latest EBU research, of the 56 markets that make up the EBU area and some neighbouring markets such as Algeria, Egypt and Russia, the majority, 30 countries rely on public (government) funds, 23 on the licence fee and only one on advertising (EBU 2018).[4] In 2017, 78.3% of all public service media (PSM) funding was public (coming from government or licence fee), while commercial sources contributed only 18.7% (ib.).

[3] Article 18 of the Law on Public Broadcasting
[4] For two markets data were not available.

3.1. LICENCE FEES

Funding from the general public has been one of the key sources of funding for the public service media, particularly in Europe. It comes in the form of a licence fee that households are obliged, usually by law, to pay to finance public media.[5] The most common practice in Western European countries has been for years the equipment-based licence fee model where households owning a television or radio set are obliged to pay such a fee.

Rapid technological advances, however, have led to numerous shifts in the rules on licence fee payment. As people are increasingly consuming television via the internet, several countries including Austria, Denmark and the U.K. have moved towards charging households licence fees for public media based on the mode of receiving audiovisual content. For example, in Denmark anybody who has access to internet (and is thus assumed to be able to consume television on various devices other than television sets, including computers, smartphones or tablets) is legally obliged to pay a fee.[6] In a move to prevent similar problems posed by the rise of new technologies, other countries have introduced a universal licence fee model to fund public media. Such an example is Germany where every household, regardless of the type of equipment it owns, has to contribute to financing the nation's public media. This requirement was introduced in 2013.

New technologies, permitting access to audiovisual content via more platforms and devices than ever before, have also led to significant changes in the way people perceive media and are willing to finance it. Faced with a booming offering of free online content, even in Western countries with a long tradition of public service media, people are increasingly questioning the legitimacy of the licence fee model. In Germany, for example, a total of 4.5 million households (or roughly 12% of the total number of households in Germany) were behind with the fee payment at the end of 2014, according to information from the authority in charge of collecting this payment.[7] The following year, the collection authority issued 25 million warnings to household in Germany that failed to pay the fee.

As collection of licence fees becomes a problem, an increasing number of governments in Europe are working on altering the model. For example, Finland began in 2012 to phase out the licence fee payment model used to finance its public service broadcaster YLE to eventually replace it with an income tax that has become known as the YLE tax. This YLE tax was initially calculated as 0.68% of the income earned by every Finnish citizen (with a cap of €140 a year).

Nevertheless, licence fee remains **the main source of financing public service media in Europe**. In the EBU area licence fee accounted for more than 63% of the total public service media expenditure in 2018 (EBU 2018).

[5] Depending on the country, various categories of people, mostly economically disadvantaged groups of people such as pensioners or unemployed, are exempted from paying this fee. For example, in the U.K., people aged 75 or over are not required to pay the fee.
[6] See more about the funding model of the Danish public media at www.dr.dk/om-dr/licens/licens-english (accessed 20 December 2018).
[7] "First person ever jailed over public broadcaster fee", The Local, 4 April 2016, available online at https://www.thelocal.de/20160404/first-person-ever-jailed-for-public-broadcaster-fee.

3.2. GOVERNMENT BUDGET

Another key funding model for public service media is represented by government subsidy. Although it represented only some 15% of the total public service media expenditure in the EBU area in 2018, government subsidies (or "public funds" in the EBU lingo) are the **second largest source of financing after licence fee** (EBU 2018).

Such funding is most widespread in countries where there is no licence fee tradition; it is the dominant source of funding in the Baltic region and eastern Europe and also important in Spain and the Benelux area (ib.).

State budget allocations, usually approved by law-making bodies, are used to finance public media in several Western European countries such as the U.K. (only for the BBC), Spain, Belgium and France, but are also very common across Eastern Europe. Outside Europe, countries such as Australia, Canada, New Zealand and the U.S. use state subsidies to fund public service media.

State budget allocations are seen as the most problematic form of financing public service media as, unlike licence fees, they induce dependence on the government. In Montenegro, for instance, the state contribution to the PSB funding was first fixed at 1.2% share of each year's current state budget and then corrected to 0.3% of the country's GDP. This, however, did not insulate Montenegro's public broadcaster from political pressures. In many Eastern European countries where state grants are the key source of funding for public service media, this very funding mechanism has become an instrument of politicisation and control. In some extreme cases, such as Hungary, where nearly 90% of the public media budget comes from state coffers, the public broadcasters are perceived by the public (and act themselves) as state institutions.

3.3. COMMERCIAL FUNDING

There are various forms of commercial funding that public service media use to finance their operations. Of those, **the most common one is advertising**.

A slew of studies published during the past 20 years have shown that commercial funding has the effect of forcing public media to compete for ratings with private television players that are fully funded through commercial sales. Competition with commercial players leads to programming dumbing-down on public media. Moreover, private television companies have repeatedly pointed out that allowing public service operators to compete for commercial advertising while at the same time receiving euros from the state budget or, coercively, from households, is unfair and, in many cases, it badly distorts the advertising market.

Thus, in a move to build "pure" public service media, free of commercial pressures, there has been a tendency across Europe during the past two decades or so to ban advertising on public media. In 2018, in only one country in the EBU area, Malta, advertising was the main source of financing for public service media.

3.4. OTHER SOURCES OF PUBLIC MEDIA FUNDING

Besides these three main categories of funding, public service media have been experimenting with a raft of other sources of funding, ranging from new forms of advertising in Thailand to new taxation models (such as using part of the revenues from the “sin tax”, on alcohol and gambling, to fund the Thai public service broadcaster) to subscriptions in Latvia to donations or crowdfunding (in countries as different as the U.S. or Moldova).

However, these newly emerging sources of funding only help patch some holes in public media budgets rather than grow into long-term, stable funding models. The one model of all these emergent sources of funding that has grown into a relatively viable source of funding and could serve as inspiration for the future public service funding models is represented by hypothecated **industry levies**, namely taxes imposed on commercial broadcasters and telecommunications companies. Revenues gathered from these levies are used to finance public service broadcasters. Such a model has been gaining ground in countries such as France and Spain.

Table 1: New forms of funding public service media globally

New funding source	Country
Subscription	Bosnia & Herzegovina, Germany, Latvia
Sponsorship	Hungary
New forms of advertising	Thailand
Online pay-per-view	Latvia
Donations/crowdfunding	U.S., Moldova, Netherlands
Public/private partnerships (PPP)	Nigeria, South Africa
E-commerce	Nigeria
New taxation models	Thailand, France
Receiver subsidies	U.K., U.S.*

**during switchover*

Chart: Center for Media, Data & Society (CMDS) Source: Mapping Digital Media, 2009-2016 (overview by Damian Tambini)
Created with Datawrapper

4. TRENDS IN PUBLIC SERVICE MEDIA FUNDING

In the past decade or so, all funding models for public media have come under critical scrutiny. Increasingly, any form of tax or fee imposed on households through law or other forms of regulations is seriously questioned by citizens who find it more appropriate for them to be in control and decide on their own what media content they want to pay for (if they do it at all). The government budget remains an important part of the funding mix, but it becomes extremely problematic when it is the sole or dominant source of funding and when no mechanisms to prevent interference from authorities in deciding the level of funding are in place. Finally, advertising has been wrung out, partially or entirely, from the funding mix of most public service media because of its negative effect on programming or under the pressures of commercial broadcasters (or both).

As stressed by the EBU (2018), when PSMs face budget problems, they may find themselves in a downward spiral that forces them to reduce programme investments, which in the end leads to loss in viewers' interest in their programmes and weakens their position in the market.

But in spite of the backlash from both the general public and many private players, **the need for strong public service media is higher than ever before** as the media sector is affected by polarisation, politicisation and owners' interests. But public service media, to be able to play their role, must have a solid funding model allowing them to produce and air high-quality programming, carry out in-depth reporting and acquire rights in attractive sport events and entertainment.

Such a funding model should be based on four principles as endorsed by the EBU: (1) stable and adequate; (2) independent from political interference; (3) fair and justifiable; and (4) transparent and accountable (EBU 2017). [8] According to the EU state aid rules with regard to PSM (EC 2009) it should also be: (5) proportionate, meaning that the public service compensation should not exceed the net costs of the precisely defined public service. According to the Council of Europe standards, the system of financing public service media should be so designed that it cannot be used to "undermine the operational independence of the public service media" and should be adequate to "meet the agreed role and remit of the public service media" and to offer "sufficient security for the future as to allow reasonable future planning." In the process, according to the Council of Europe standards, the public service media should be "consulted over the level of funding required to meet their mission and purposes, and their views are taken into account when setting the level of funding."[9]

[8] Richard Burnley, "Public funding principles for public service media", EBU, December 2017, available online at https://www.ebu.ch/files/live/sites/ebu/files/Publications/EBU-Legal-Focus-Pub-Fund_EN.pdf
[9] Recommendation CM/Rec(2012)1 of the Committee of Ministers to member States on public service media governance, adopted by the Committee of Ministers on 15 February 2012 at the 1134th meeting of the Ministers' Deputies, available online at https://search.coe.int/cm/Pages/result_details.aspx?ObjectID=09000016805cb4b4

4.1. DIVERSIFICATION OF FUNDING

Attempts to identify alternative sources of funding to finance public service media have proliferated over the course of the past decade in the context of a massive technological disruption that has totally changed the media industry. Even in countries where public media traditionally relied on one main source of funding to cover its expenses as in the case of the Nordic countries, U.K. or Germany, such a model is primed to change.

Due to increased volatility of funding in the media, public service media have to **diversify their sources of funding** to prevent crises that can be caused by unexpected drops in their main source of funding.

Yet, the funding model that is likely to be the most resilient to financial (or political) shocks is one based on one main source of funding (able to cover at least 50% of the total budget) and a spate of other sources, as diverse as possible.

4.2. MORE PUBLIC INVOLVEMENT

The licence fee was seen for a long time as the healthiest form of funding public service media. In countries with a long tradition of independent public service broadcasting, the licence fee was perceived by the public as a contract with their national broadcaster. In the 2000s, British viewers overwhelmingly supported the licence fee, saying that they were willing to make this contribution to the BBC, which gave them in return objective news and high-quality programming that they could not find on commercial channels.

That support has waned in recent years, mostly as free content is flooding people's homes and their mobile devices: some 41% of Brits only said in a 2016 survey that the fee was the best way to fund BBC (Sweney 2016).[10]

With the funding logic in the entire media industry rapidly changing as the audience has more control over what content to support, the role of the citizens in funding public media is very much likely to increase. Either if it's a subsidy from the state budget or a form of taxation or fee imposed by law on households, public service media have to shift the emphasis on its public and clearly communicate its role to its audiences.

[10] Mark Sweney, "Survey shows 29% think BBC licence fee should be scrapped," The Guardian, 16 December 2016, available at https://www.theguardian.com/media/2016/dec/16/bbc-licence-fee-survey

On a long-term, **no public service media will be able to survive without the public's acceptance and support (including financial)**. In a 2017 experiment among 649 Italian citizens, academics Tiziano Bonini and Ivana Pais (2017) found that people are willing to pay for public media (and even pay more than asked to) if they are given some control on where to spend their money. Bonini and Pais hence proposed a "scenario" of reforming the public service media licence model "through the dynamics of civic crowdfunding." They proposed allowing citizens to decide themselves where to "invest" a certain quota of the licence fee (20% in this specific case). [11] This model is not employed anywhere at the moment, but it shows that there is increasing thinking about innovative formats of funding that give the public more say in shaping the programming of the public media.

4.3. THE GOVERNMENT'S ROLE

The government continues to play a significant role in funding the public service media directly or indirectly, either through state subsidies or state advertising. Particularly in Eastern Europe where the reform of the former state broadcasters has generally failed, the government is often stepping in to bail public broadcasters out. In 2018, public funding (defined by EBU as "state budget and grants, taxes on goods and services, and any other public revenue") was the dominant source of income for public media in 30 of the 56 EBU countries. Only a few Western European countries including Spain and countries from the Benelux area rely heavily on state funding. However, in the Baltic states and Eastern Europe, this is the dominant source of public media funding mainly as a result of the weak tradition of licence fee (EBU 2018).

4.4. THE END OF ADVERTISING

The advertising markets have changed dramatically during the past decade mostly as a result of the growing power of technology companies, which control vast parts of the internet advertising markets across Europe. Television broadcasters still retain a solid position in the market thanks to their dominance on the big-event segment or in specific communities where television is still the main medium used to get news and information. However, that is likely to change in the near future as **technology companies aggressively take over the television segment**.

These developments are affecting public service media in many ways. First of all, strict bans on advertising on public media should and are likely to be eased as advertising market logic is changing fast. In a way, public and private broadcasters (content producers) find themselves increasingly on the same side as content distributors are taking an ever larger piece of the pie. This being said, the importance of advertising in the funding mix of the public service media is ebbing. Yet, it remains a viable source of funding for programming targeted at specific communities.

[11] Tiziano Bonini, Ivana Pais, "Hacking Public Service Media Funding: A Scenario for Rethinking the License Fee as a Form of Civic Crowdfunding", in International Journal on Media Management, volume 19, 2017, pp 123-143.

5. WHERE DOES UKRAINE FIT IN PSM FINANCING?

In an increasingly competitive media environment, the result to a great extent of technological development, business models are changing for most of the industry players, be they commercial broadcasters, audio-visual content providers or advertising agencies. Against the background of media markets convergence, the Council of Europe Parliamentary Assembly Recommendation 1878 (2009) on Funding of Public Service Broadcasting highlights the importance of preserving public service broadcasters as a valuable source of unbiased information and diverse political opinions, but at the same time draws attention to the problem of declining public acceptance of funding public service broadcasting in light of increasing audio-visual content available through converging media.

The Council of Europe document suggests the use of different forms of public service media funding that may be achieved through a flat licence fee, state subsidies, subscription fees, taxation, advertising and sponsorship, specialised pay-per-view or other on-demand services, sale of related products (videos, films, etc.) and monetisation of audio-visual archives.

In this regard, public service media may have mixed funding similar to other public cultural institutions such as orchestras, theatres or museums. Each of these forms of funding must enable public service broadcasters to meet the public service requirement of accessibility and affordability for the public at large.

Of all the existing funding models for public service media, **two are clearly unsuitable for UA:PBC in the current context: licence fee and industry levies**. In other countries, both these sources of funding are widely used as they guarantee the broadcaster's independence from politicians and authorities while creating a strong bond with the audience. They could provide sustainable funding for UA:PBC on a long term. However, at the moment UA:PBC lacks the public support and the viewership figures that would allow the broadcaster to introduce licence fees or any forms of viewer payment. Such funding models would be met with public reluctance and thus be counterproductive for UA:PBC reform. Industry levies would also meet strong opposition from the industry and would be hard to be accepted at a time when the Ukrainian market is hardly in a situation to support a public broadcast operation.

Arguably **the most suitable model of financing the Ukrainian public media in today's context is a mixed model** combining both public and commercial resources where the public budget would be the base of the UA:PBC budget.

A good model that Ukraine can draw inspiration from is Lithuania, albeit with caveats related to advertising revenues. As of 2015, Lithuania banned advertising in public broadcasting, making budget allocation the broadcaster's funding pillar. The decision to scrap ads was prompted by evidence that advertising is perceived by viewers as corroding the quality of programming on public media. As licence fee was seen as an unsustainable solution given the small size of the country (with a population of less than 2.9 million and an estimated 1.3 million households), Lithuanian authorities decided to fund the country's public broadcaster LRT through a state budget allocation. To stave off political interference, the value of the budget allocation was defined in legislation as a combination of 1.5% of state income from personal income tax and 1.3% of the income generated through state excise tax (both for the year before last).

Thus, in 2015, the first year of implementation of the new legal provisions on public media funding, the Lithuanian public service broadcaster saw its budget increase by some 4% year-on-year to €25.1m. Nearly 90% of that came from the state budget. The following year, LRT's budget increased by over 31% year-on-year to €32.9m, the state subsidy accounting for over 91% of it. The rest was self-generated by the broadcaster from sources other than commercial advertising. **As the state funding came through two different budget sources, the model is said to prevent big fiscal fluctuations in case of major budgetary crises.**

Several components of this model are useful for Ukraine. They include the clear definition of how the state funding allocation is calculated and the diversification of the sources within the state budget allocation. In the case of Ukraine, however, the elimination of advertising is hardly recommendable. In fact, given the small role UA:PBC plays in the local advertising market at the moment and the scarcity of available funding, limits on advertising on UA:PBC should be relaxed to allow the broadcaster to diversify and increase its budget.[12]

[12] For a more detailed analysis of existing models and proposals for alternatives, see the following chapters.

Table 2: Strengths and weaknesses of PSM funding models

Source of funding	Strengths	Weaknesses	Suitability for UA:PBC	Reasoning
Licence fees	Independence	Public reluctance	No	No tradition and lack of understanding of PSM, rise of tariffs for public services/ utilities, large choice of free TV services
Public budget	Potentially good solution if there is no tradition of licence fees	Politicisation and control	Partly	Provided there are strong safeguards for editorial independence, and for stability and sufficiency of funding
Industry levies	Independence	Industry reluctance	No	Underdeveloped media market, lack of funds, lack of acceptance of the PSM's role in the society
Commercial communications	Independence from the state	Decreasing; reduced future viability	Partly	Alternative, additional source in the mixed source method
Mixed model	Diversification, robustness	The amount can vary	Yes	If the bulk of funding comes from the most stable source or a combination of stable sources

Chart: Center for Media, Data & Society (CMDS) Source: Report's authors Created with Datawrapper

6. UA:PBC CURRENT FUNDING MODEL

This chapter is aimed to critically evaluate the current model of funding the UA:PBC, which was established as a public service broadcaster only in 2017.

Formalising its transition from a state broadcaster to a publicly funded media company serving the people of Ukraine, the UA:PBC was established as a joint-stock company that unites more than 30 television and radio channels operating on the national and local level. On the one hand, UA:PBC has since been faced with a set of usual challenges that other such institutions have had to overcome in new democracies. On the other hand, the transformation of UA:PBC is happening at a time of rapid technological and social evolution, which makes it particularly challenging, especially when it comes to:

- reducing and reorganising its large workforce that had operated under totally different circumstances and ethos;
- securing sufficient and stable state funding while not jeopardising its editorial and managerial autonomy;
- adjusting relationships with authorities, both Government and Parliament, to establish and consolidate its independence;
- developing content that meets public service standards and is attractive to the public.

Before it officially became a public broadcaster, the operation of the Ukrainian state broadcaster had been massively underfunded. UA:PBC inherited the broadcaster's outdated equipment and oversized premises whose maintenance requires significant financial and human resources, leaving only a small percentage of the UA:PBC budget for content production (e.g., 3% in 2016-2017).

6.1. REGULATORY FRAMEWORK

The initial version of the Law on Public Television and Radio Broadcasting of Ukraine (hereafter the PSB Law)[13] stipulated that UA:PBC should be financed from the state budget of Ukraine for a period of four years (2015-2018), and then out of the several sources. [14]

[13] The law no. 1227-VII as of 17 April 2014, hereafter referred to as the Law 1227/2014, available online at http://zakon.rada.gov.ua/laws/show/1227-18

[14] The UA:PBC may be financed, according to legislation, out of the following sources: sales of its own television and radio products, fees for the use of copyright and related rights; state and local budgets; licence fee paid for the services provided by the UA:PBC or other revenues not prohibited by the law.

The PSB Law also set out an explicit provision that the state should provide proper financing of the UA:PBC, which should be envisaged as a separate line in the state budget amounting to **no less than 0.2% of the expenditure in the General Fund of the State Budget for the previous year** (p. 3., Art 14).

The clear definition of the amount of funding that the state should allocate to UA:PBC was expected to prevent political interference in the funding of the public broadcaster. But amendments[15] to the Budget Code[16] adopted in December 2014 created room for authorities to exert such influence. These amendments stipulated that the provisions of Article 14 of the PSB Law should be implemented in the manner and in the amount established by the Cabinet of Ministers of Ukraine, based on the available financial resources of the state and local budgets, and budgets of compulsory state social insurance funds.[17] **Thus, the binding provision to finance UA:PBC at the rate of 0.2% of expenditures of the General Fund of the State Budget for the previous year was actually made ineffective.** The Government instead took the right to determine the level of UA:PBC's financing, regardless of the PSB Law provisions.

6.2. BUDGET APPROVAL PROCEDURE AND PRACTICE

UA:PBC is financed from the General Fund of the State Budget of Ukraine. The amount of financing is now determined on an annual basis by the Law on the State Budget of Ukraine for the relevant year in accordance with a budget request submitted to the Ministry of Finance by the State Committee for Television and Radio Broadcasting of Ukraine (hereafter State Committee), a government body. This budget request is prepared by the State Committee based on information submitted by UA:PBC.

In practice, the calculation of UA:PBC's financing consists of the following steps:

1) The Ministry of Finance sends to the State Committee an instruction about the draft budget request from the State Budget for the following year, in which it informs the State Committee about the amount of maximum level of expenditure for the UA:PBC budget. The State Committee sends this information to UA:PBC to use in drafting its budget for the following year;

2) UA:PBC drafts the budget request for financing for the following three years in accordance with the rules defined by the Ministry of Finance and sends it to the State Committee.[18] At this stage, the State Committee has the authority to change the amount of funding requested by UA:PBC. The State Committee sends this budget request to the Ministry of Finance for inclusion in the State Budget of Ukraine for the following year;

[15] The Law on Amendments to the Budget Code of Ukraine on the Reform of Intergovernmental Fiscal Relations No. 79-VIII as of 28 December 2014, available online at http://zakon.rada.gov.ua/laws/show/79-19#n550
[16] The amendments were made on Chapter VI "Final and Transitional Provisions" of the Budget Code, see more at http://zakon.rada.gov.ua/laws/show/2456-17
[17] According to Chapter VI, clause 26 of the Budget Code.
[18] Under the Budget Code and Ministry of Finance order, the budget request is drawn up for three years (the planned period plus two more years), see more at https://zakon.rada.gov.ua/laws/show/z1057-12#n13

3) The Ministry of Finance holds meetings with all the beneficiaries of the state budget to agree on the expenditures for the following year;

4) The Ministry of Finance drafts the State Budget for the following year and submits it for approval to the Cabinet of Ministers of Ukraine (hereafter the CMU);

5) The CMU approves the Draft State Budget and submits it to the Verkhovna Rada of Ukraine, the country's Parliament, by 15 September of each year;

6) MPs and parliamentary committees in Parliament submit their proposals to the Draft State Budget by 1 October each year;

7) The Parliamentary Committee on Budget reviews the proposals of MPs and parliamentary committees by 15 October each year, and decides which amendments are accepted or rejected, preparing its own conclusions and proposal for the Draft Law of Ukraine on the State Budget;

8) Parliament votes on these conclusions and state budget proposal by 20 October each year (first reading);

9) The Government (namely, the Ministry of Finance) makes amendments to the Draft State Budget according to the Parliament's conclusions, approves them in a meeting and submits them to Parliament by 3 November each year;

10) Parliament approves the Draft State Budget by 1 December each year, which then is signed by the Speaker of the Verkhovna Rada of Ukraine and the President of Ukraine.

6.3. KEY PROBLEMS IN BUDGET PLANNING

Analysis of the budget requests sent by the State Committee to the Ministry of Finance shows that the rule on calculating the UA:PBC funding allocation (as 0.20% of the expenditures in the General State Budget Fund) has not been complied with so far. Moreover, while the expenditure in the General State Budget Fund during the period 2015-2019 has been growing annually by an yearly average of 21%, the amount of funding from this fund for UA:PBC remained nearly flat. As a result, the share of the UA:PBC financing in the state budget was almost halved from 0.17% to 0.10% over the course of the past four years.

Table 3: UA:PBC Expenditure as indicated in State Committee budget requests, 2015-2021

Budget request for the period	2015	2016	2017	2018	2019	2020	2021
2015-2017	661 (0.17%)	727	777	–	–	–	–
2016-2018	–	654 (0.13%)	691	741	–	–	–
2017-2019	–	–	699 (0.11%)	757	805	–	–
2018-2020	–	–	–	776 (0.10%)	1,059	1,125	–
2019-2021	–	–	–	–	1,816 (0.20%)	1,885	1,942

Note: In millions of UAH; the figures in the brackets indicate the expenditure rate for the planned period expressed as a percentage of the General State Budget Fund expenditures for the previous period. According to the Law on Public Television and Radio Broadcasting of Ukraine, this rate should be 0.20%.

Chart: Center for Media, Data & Society (CMDS) Source: State Committee budget requests for relevant years Created with Datawrapper

At the same time, **the calculation by UA:PBC of its total funding needs fails to reflect the influence of the overall economic situation and lacks detail that would help make the case for the UA:PBC funding.**

The funding request by UA:PBC for the company's full-scale operation[19] has hardly changed in the past several years. Moreover, it was much higher than the legally established rate for UA:PBC funding calculation. For example, in 2015, the UA:PBC's request stood at UAH 2.46bn, which was equal to 0.64% of the budget expenditure, three times higher than the rate set by the PSB Law. These calculations did not take into account the significant shifts in the inflation rate[20] and the depreciation of the national currency.[21]

[19] These requests by UA:PBC are listed in the State Committee's official requests.
[20] The Consumer Price Index was 48.7% and 13.9% in 2015 and 2016, respectively; see more at https://bank.gov.ua/control/uk/publish/article?art_id=23487024&cat_id=57896
[21] The exchange rate UAH to €1 was UAH 19.23 (Dec 2014), UAH 26.22 (Dec 2015), UAH 28.42 (Dec 2016), according to the official figures from the Ukraine's National Bank; see more at https://bank.gov.ua/control/uk/curmetal/detail/currency?period=daily

Figure 1: Total requests for funds by UA:PBC, 2015-2019

In billions of UAH

Chart: Center for Media, Data & Society (CMDS) Source: State Committee budget requests for relevant years Created with Datawrapper

According to the UA:PBC's budget request, the company claimed in 2015 that it needed funds as following: UAH 1.9bn (to produce television and radio programmes for public purposes); UAH 328m (to establish and operate the Ukrainian-language version of the international channel Euronews); UAH 238m (to broadcast television and radio programme). In response to our expert's request, UA:PBC's representatives confirmed, via email, that there were no detailed calculations of the company's financial needs in 2019.

Therefore, **an important recommendation in our view for UA:PBC is to improve financial planning by developing a detailed plan of the company's expenditure**. Good financial planning is essential for any company or organisation, including those financed by public funds. It involves setting key project targets and indicators that allow for strategic investment planning and better control of expenditures. A sound financial plan also makes annual reporting easier and more meaningful. For PSM companies that need to justify the use of public funds this is particularly important.[22]

Since 2015, the Government only twice (in 2015 and 2019) implemented the legal provision on UA:PBC funding (at the rate of at least 0.20% of the State Budget) by submitting a Draft State Budget to Parliament in line with this legal provision.

[22] See more in Conclusions and recommendations in this report.

Table 4: General State Budget Fund expenditures for UA:PBC funding, 2015-2021

Document	2015	2016	2017	2018	2019
Draft State Budget	821 (0.21%)	647 (0.13%)	897 (0.14%)	776 (0.10%)	1,816 (0.20%)
The Law on the State Budget	834 (0.21%)	654 (0.13%)	970 (0.15%)	776 (0.10%)	1,005 (0.11%)
Estimated amount of expenditures on the UA:PBC under Article 14 of the Law on Public Television and Radio Broadcasting of Ukraine	769	1,005	1,267	1,479	1,816

In millions of UAH; the figures in the brackets indicate the expenditure rate for the planned period expressed as a percentage of the General State Budget Fund expenditures for the previous period. According to the Law on Public Television and Radio Broadcasting of Ukraine, this rate should be 0.20%.

Chart: Center for Media, Data & Society (CMDS) Source: Verkhovna Rada of Ukraine Created with Datawrapper

6.4. KEY PROBLEMS IN BUDGET ADOPTION

Dzhyhyr and Maynzyuk (2018) calculated that the 2017 UA:PBC budget of UAH 1.09 bn corresponded to 0.6% of revenues from the personal income tax, which was slightly higher than the expenditures of the State Statistics Service of Ukraine and half smaller than the expenditures on the State Service of Ukraine for Food Safety and Consumer Protection. Based on that the authors concluded that allocation of funds for public broadcasting was not so much a question of structural economic reforms as a political decision in favour of strengthened democratic institutions in Ukraine (ib.).

Similarly, our analysis of how the state allocation for UA:PBC was decided in various years revealed that **decisions regarding the UA:PBC financing level were not influenced by economic factors, but were purely political choices**.

The analysis reveals two patterns:

1) one in which the Government submits a draft budget with a lower than legally required state allocation for UA:PBC and Parliament first increases it but then cuts it;

2) another one in which the Government submits a draft budget where the UA:PBC financing allocation is in line with legal levels, but Parliament cuts it. In both cases, the UA:PBC receives a significantly lower budget.

Pattern one. On 15 September 2017, the Government submitted to Parliament a Draft State Budget for 2018 with an allocation of UAH 776m for UA:PBC, which was twice lower than the amount the law guaranteed. On 19 October 2017, Parliament supported an expenditure increase for UA:PBC and sent the request to the Government. On 1 December 2017, the Government submitted to Parliament a revised Draft State Budget for 2018 where the UA:PBC expenditure amounted to UAH 990m. However, on 6-7 December 2017, the Parliamentary Committee on Budget made a recommendation[23] to amend the Draft State Budget for 2018 to reduce the UA:PBC budget allocation by UAH 213.4m.[24] Thus the UA:PBC financial allocation for 2018 stood at UAH 776m.

Pattern two. On 14 September 2018, the Government submitted to Parliament a Draft State Budget for 2019[25] where it nailed down UAH 1.816bn for UA:PBC (equal to 0.20% of the General State Budget Fund expenditures in 2018), complying thus with the legal requirements on UA:PBC funding. Two MPs submitted a proposal to cut UA:PBC's planned funding by UAH 1.04bn arguing that the funding was needed for the healthcare sector. Their proposal was partially supported at the 17-18 October 2018 meetings of the Parliamentary Committee on Budget, leading to a cut of UAH 816m, which was approved by Parliament on 18 October 2018. Following another round of submissions between the Government and Parliament, UA:PBC's budget was set at UAH 1.005bn.

The reduction of the UA:PBC funding has thus become a pattern, which is likely to be perpetuated. According to a three-year budget plan for 2018-2020, presented by the Ministry of Finance of Ukraine, the public broadcasting service will receive only 35% of the prescribed budget in 2020.

Moreover, the risk of the public broadcaster's financial dependence on the Government in the future is evident. Even if the present Government and Parliament demonstrate sufficient political will to give the UA:PBC funding in line with how it is defined in the law, their successors will be able to continue to have a leverage on the UA:PBC thanks to the existing legal provisions that give them the power to scale up or down the financial allocation for UA:PBC from the General Fund of the State Budget.

The lack of a clear methodology determining the amount of financing for the public broadcasting adds to the woes as it further increases the risk of unpredictability and underestimates the public broadcasting budgetary needs, allowing political interests to affect the level of UA:PBC funding. For example, weighing UA:PBC's needs against other needs (healthcare or education) permits populistic outbursts to overshadow the importance of public broadcasting, eventually leading to cuts in its funding.

[23] Conclusion of the Committee d/d 07.12.2017, http://w1.c1.rada.gov.ua/pls/zweb2/webproc4_1?pf3511=62551
[24] See more at http://w1.c1.rada.gov.ua/pls/zweb2/webproc4_1?pf3511=62551
[25] See more at http://w1.c1.rada.gov.ua/pls/zweb2/webproc4_1?pf3511=64598

Table 5: Key components of a functioning model and how they work in the current model

Elements of the functioning model	Low	Medium	High
Sufficiency, stability, sustainability	Y		
Independence, autonomy		Y	
Clear vision and strategy		Y	
Good planning		Y	
Effective cost management		Y	
Optimised organisation and workforce		Y	
Optimised property	Y		
Transparency and accountability		Y	
Diversity of funding sources	Y		
Engagement with audiences	Y		
Presence on new distribution platforms	Y		
Innovative content formats		Y	
Public awareness on the PSM special remit	Y		
Audience measurement and analytics	Y		

Chart: Center for Media, Data & Society (CMDS) Source: Report's authors Created with Datawrapper

7. ALTERNATIVE MODEL ADVOCATED BY UA:PBC

The purpose of this chapter is to critically assess an alternative funding model advocated by the Supervisory Board of the UA:PBC, approved by the Board in 2018. The alternative model has been described in two recent policy papers, one prepared by Yurii Dzhyhyr[26] and Kateryna Maynzyuk[27] and the other one by Vadym Misky[28] in 2018.

The recommended model is based on the following prerequisites:

- Reduction of the Government's and Parliament's discretion in calculating annual UA:PBC budget allocations
- Correlation between expenditures of UA:PBC and economic growth.

According to Misky (ib.), the proposed solution is based on a dedicated Special Fund of the State Budget, fed by fees charged for use of radio frequencies. The model takes into account the widely shared opinion (confirmed by all interviewed stakeholders) that **implementation of any new tax aimed at financing the public broadcaster or a licence fee is unacceptable at the moment in Ukraine.**

The State Budget Law in Ukraine defines the Special Fund of the State Budget[29] as a fund consisting of revenues of the State Budget that have targeted use and expenditures of the State Budget carried out through determined revenues of the Special Fund of the State Budget. The law says that payments by the Special Fund of the State Budget are made from the financing received by the fund for a specific purpose.[30]

The practice of financing certain sectorial expenses through special taxes or fees is already common in Ukraine. It is used, for example, to ensure the financial independence of the judicial system through use of court fees and earnings from the court bails.[31] Another example is funding of state registers, administered by the Ministry of Justice, which is covered by 15% of the fee charged for providing information from the United State Register of Legal Entities and other registers held by the ministry.[32] Similarly, 50% of the environmental tax levied for generation or temporary storage of radioactive waste goes to work related to radioactive waste management, support of safe condition of nuclear units and preparation for decommissioning of the Chernobyl nuclear power plant (Dzhyhyr and Maynzyuk 2018).

[26] As of July 26, 2018, Yuriy Dzhygir has been Deputy Minister of Finance of Ukraine. When the policy paper was written, Yuriy Dzhyhyr acted as a Council of Europe consultant.
[27] Kateryna Maynzyuk is advisor to the Health Minister of Ukraine.
[28] Vadym Misky is currently Secretary of the UA:PBC Supervisory Board.
[29] State Budget law, P. 3, Art. 13
[30] State Budget Law, Para 8, Art. 13
[31] State Budget Law, Para 5, Part 4, Art. 30
[32] State Budget Law, P. 4, Art. 40

Likewise, there is a logical connection between the fees charged for use of radio frequencies by broadcasting companies and telecommunication providers[33] and financial support for UA:PBC. As the radio frequency spectrum is a public resource, based on the benefit principle, part of it could be used for public interest media services, such as the one provided by UA:PBC. In the current arrangement all the revenues from this source go to the General Fund of the State Budget, and hence have no specific spending target.

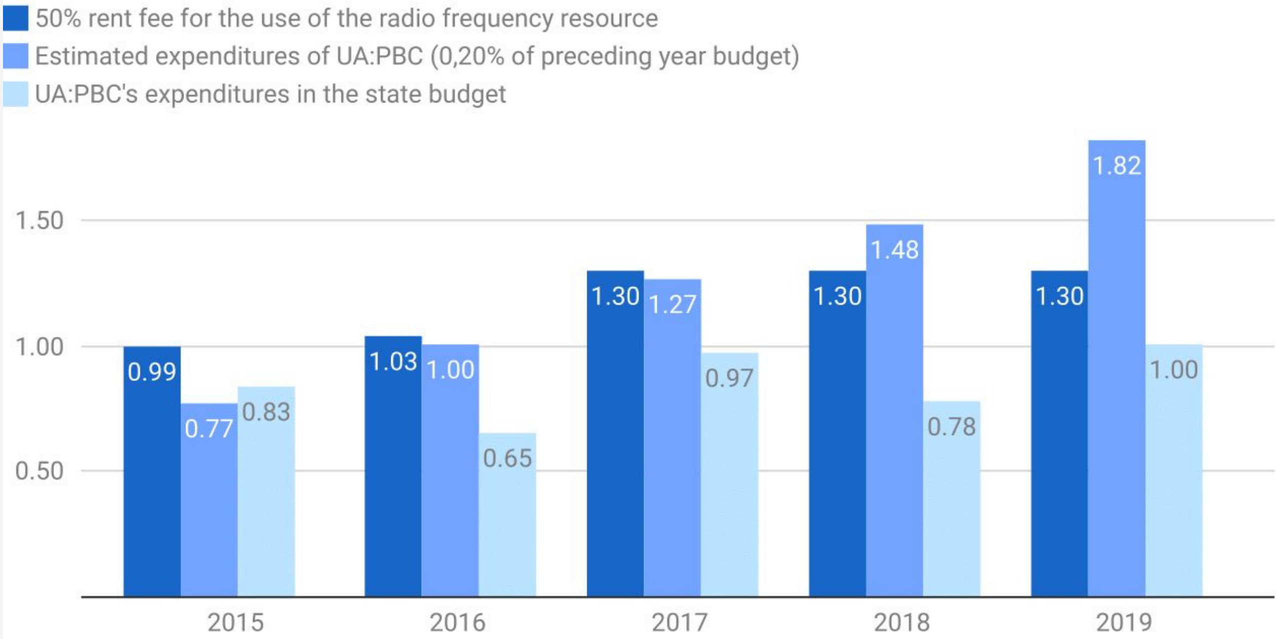
According to the proposed model, there is allegedly sufficient funding in this coffer to fully cover the needs of UA:PBC. The advocates of the model estimated the growth of the public financing of UA:PBC close to the level guaranteed by current model (0.2% of expenditures of General Fund of the State Budget of previous year), but with higher level of guarantee (Miskyi 2018). However, planned revenues from rent in the actual state budget approved by Parliament may differ from the data of the three-year budget resolution. In the last few years it amounted to UAH 2.5bn and, due to its slow growth rate, it is likely to stay at that level in 2019.

The proponents of the model believe that allocation of 50% of the revenues from the frequency use fees to UA:PBC via the Special Fund of the State Budget ensures a more stable financing model for UA:PBC on both short and long term. Important to note however that 1,25 billion UAH is more than the current state funding of the UA:PBC, but less than the legally prescribed amount (equivalent to 0.2% of the expenditure of the General Fund of the State Budget of Ukraine for the previous year). Nevertheless, this model has a potential of reducing the Government's and Parliament's discretion in calculating and deciding the annual UA:PBC allocation from the State Budget. Moreover, by implementing this model, its supporters say, the expenditure of the State Budget for UA:PBC will not see any significant increase.

[33] Para 4, Art. 6 of the Law on the radio frequency resource.

The chart below compares effects of the current funding, the legally prescribed model and estimated revenues of the suggested funding model.

Figure 2: UA:PBC funding: current and new, real and estimated expenditures, 2015-2019



in UAH bn

Chart: Center for Media, Data & Society (CMDS) Source: The State Treasury Service Created with Datawrapper

7.1. ISSUES OF CONCERN

Dzhyhyr and Maynzyuk (2018) point to the fact that the practice of diverting budget revenues to special funds reduces the government's ability to quickly respond to a changing economic context, which makes it rarely used in developed democracies. Nevertheless, this practice is acceptable for countries with less developed democracies where the risks of political interference in the allocation of funding to services that require political autonomy are much higher.

Apart from this, the main pitfalls of the proposed new model have to do with the **fluctuations of the revenue** from the fees charged for radio frequency use. Although figures to date indicate that this revenue has been gradually increasing, major falls can happen any time, depending on many factors, primarily related to developments on the telecommunication and broadcast markets (e.g. switching to digital broadcasting or collapse of big contributors), but also to purely political decisions to decrease the rates.

Also, there seems to be a lack of clarity on the revenues from this source. The policy paper advocating this funding model is presenting different figures than those of the State Treasury Service. The State Fiscal Service did not provide detailed figures to our request claiming they did not have this information. **That makes it imperative not to limit this funding by linking it to a percentage of the total revenue from the frequency rent**.

Secondly, for this model to work, **the buy-in of both the telecom industry and decision-makers should be secured**. Several decision-makers interviewed for this report stated that the money from frequency fees should be invested elsewhere. One of them said that it should be used to establish an alternative digital multiplex, operated by the state, as the Ukrainian digital multiplex market (the companies in charge of digital broadcast programmes) has little competition, all in private hands. The overall impression was that while there was a broad agreement on the need to replace the current funding model, the suggested model did not enjoy a wide support among the decision-makers.

It is important to bear in mind also that **this model is not immune to bypasses similar to those in the current arrangement**. According to its Part 5 of Article 29, "the Law on the State Budget of Ukraine may assign some types of incomes of the General (Special) State Budget Fund of Ukraine, which are specified in part two (third) of this article, or a part thereof, to the relevant budget period, to the Special (General) State Budget Fund of Ukraine." This means that it is legally permissible (and as practice shows also possible) to change the size of the allocation from radio frequency use fees and move parts of it to other purposes, which would thus reduce the UA:PBC cut.

8. CONCLUSIONS AND RECOMMENDATIONS

Based on the aspects discussed above, **two possible financing scenarios** were designed as the most viable and optimal options for UA:PBC in the current political and economic context. Both scenarios are anchored into the long term vision seeing UA:PBC reformed into a truly public service company. Other possible scenarios, based on different financial sources, are not described as there is little opportunity to pursue other sources of financing that would be substantial enough to cover UA:PBC's annual operating costs.

If none of these two scenarios (or some variant of them) is implemented, however, a third, more troubling scenario will likely come to pass: the collapse of the public service broadcaster, with little chance to recover and re-establish itself as a respected provider of credible and engaging high-quality content. Without a meaningful reform, it is this third legacy to which Ukraine will be condemned. That would not only kill the very idea of public service media in Ukraine, but also have catastrophic consequences on the country's media in general. Without a public service media company acting as a bulwark against commercial trends, media freedom standards are likely to be driven further down, affecting the plurality and diversity of Ukraine's media.

Even more importantly, in such a scenario, Ukraine would fail to fulfil a series of important commitments to build an independent public media system. They include the obligations in the Council of Europe PACE Resolution 1466 of 2005 to transform the state broadcasters into public service broadcasting channels[34]; the Council of Europe Action Plan for Ukraine 2018-2021 where continued support to public broadcasting is defined as a key media priority[35]; the EU-Ukraine Association Agenda of 2013 where development of a system of public broadcasting was an agreed priority[36]; the Decree of the President nailing down the terms of cooperation with NATO for 2018 where creation of an effective system of public television and radio is defined as a midterm goal[37]; and the National Human Rights Strategy adopted through presidential decree that recommends revision of law to guarantee the editorial and operational independence of the public media, "in particular regarding the sources of funding."[38]

But before describing the two scenarios that our expert analysis found to be the most appropriate for the current political and economic circumstances, we want to highlight a series of issues (also unveiled by our analysis) that, although not financial in nature, significantly influence the performance of UA:PBC and, thus, indirectly, the choice of the right funding model for UA:PBC.

[34] Parliamentary Assembly, "Honouring of obligations and commitments by Ukraine", Resolution 1466, 5 October 2005, available online at http://assembly.coe.int/nw/xml/XRef/Xref-XML2HTML-EN.asp?fileid=17377&lang=en
[35] Council of Europe, "Action Plan for Ukraine 2018-2021), 21 February 2018, available online at https://rm.coe.int/coe-action-plan-for-ukraine-2018-2021-en/16807b4307
[36] "EU-Ukraine Association Agenda to prepare and facilitate the implementation of the Association Agreement", Luxembourg, 24 June 2013, available online at http://eeas.europa.eu/ukraine/docs/eu_ukr_ass_agenda_24jun2013.pdf
[37] "УКАЗ ПРЕЗИДЕНТА УКРАЇНИ №89/2018. Про затвердження Річної національної програми під егідою Комісії Україна – НАТО на 201 рік" (Decree of the President of Ukraine no 89/2018 on the Adoption of the Annual National Programme of Cooperation of Ukraine and NATO for 2018), 28 March 2018, available online (in Ukrainian) at https://www.president.gov.ua/documents/892018-23882
[38] "Указ Президента України Про затвердження Національної стратегії у сфері прав людини" (Decree of the President of Ukraine on Approval of the National Strategy on Human Rights), Kyiv, 25 August 2015, available online (in Ukrainian) at https://zakon5.rada.gov.ua/laws/show/501/2015

The starting point of any scenario is that **the funding should be sufficient for UA:PBC to carry out its public service mission** and that **predictability and transparency** of this funding should be guaranteed. The funding should not be used as a means of pressure, reward or subordination. There should be reliable, transparent, impactful guarantees behind any forms of financing. Counterbalances should be created to prevent interference both in the process of planning and approval of the amount of allocated funding.

One factor that indirectly influences the choice of funding sources for UA:PBC and, more generally, shapes its overall performance is the general **understanding of the concept and mission of a public service media company**, which seems to be relatively weak in Ukraine. It is partly due to a blurry line between state, public and community media (e.g. suspilnie vs. hromadske). There is a number of state media projects run by Ministry of Information whose image overlaps with the image of the public service media. Alternatively, these services could be moved under the umbrella of the public service broadcaster. Such a move would, on the one hand, guarantee their quality and compliance with journalistic standards, and, on the other hand, divert to UA:PBC a not negligible amount money, now managed by the Ministry.

A separate issue, whose nature exceeds the scope of this report, but that is worth a serious consideration, is **the distribution of UA:PBC services**. The transmission costs owed to the state-owned Broadcasting, Telecommunications and Television Company of Ukraine (the company in charge of distribution of broadcast signal) are difficult for the UA:PBC to cover and are constantly accumulating in substantial debts. The consequential service cut-offs don't only affect the public broadcaster, but restrict accessibility of its services to the general public. All that is likely to have long-term consequences on public access to the broadcaster's services. That happens because legal obligations on universal coverage for the public service broadcaster are lacking; this should be corrected. One option worth a closer examination is to create with state investment a digital distribution multiplex that would be operated by UA:PBC. That would give the public service broadcaster its own transmission capacity as well as the possibility to generate commercial revenues through sale of distribution services to the market. Local experts estimated that such a multiplex could contribute to UA:PBC's long-term stability and bring them additional revenues of UAH 250m a year.

Further benefits could be achieved by **optimisation of local networks**. Although this is not a popular idea among people working for the local branches, reforming the local broadcasters into a national television network that would air packages of local programming is worth a try as it could reduce excessive costs incurred locally and create opportunities for programming synergies.

Additional profits could be generated by **selling or renting redundant property**. Several interviewed stakeholders expressed reservations about this idea, mostly because divestment is forbidden by the PSB Law and changing these legal provisions will be complicated, but also because of the condition of these buildings. It is true that many of the UA:PBC's buildings are oversized and thus unsuitable for many purposes, but some of the real estate properties administered by regional centres are located in areas, usually downtown, with good market value.

By selling or renting out such properties, UA:PBC could not only slash the costs of their maintenance, but also seize the potential of earning revenue that could be invested in renovation of the broadcaster's equipment or in programming. A rough estimate of the revenue that could be generated through the commercialisation of the company's real estate equals 10% of the UA:PBC average budget. Monetisation of the UA:PBC's real estate could also reduce the burden of the huge costs incurred through the so-called "land tax," which in the case of UA:PBC increased thirtyfold to UAH 30m since the transformation of UA:PBC from a state into a joint-stock company.

Our analysis also revealed lack of a **sound methodology for properly assessing UA:PBC budgetary needs** as well as the need for improved transparency of its books (e.g. with regards to the funds from donors' contributions). As this was an area outside our mandate, we will not go into details, but only stress that, generally, the management and administration of the company should be improved through good business practices, solid planning including clear objectives and targets, and an effective system of performance monitoring.

To increase the UA:PBC's reach, a **greater engagement with the audience** is also recommended, both with varied sociodemographic groups and through more targeted communication with strategic stakeholders based on a positive and constructive narrative aimed at building reputation and trust. To survive as a public service broadcaster in an increasingly complex digital market, UA:PBC should gain a stronger competitive edge by creating a distinct product and investing in much better understanding of and engagement with its audiences.

Overall, our analysis has found that there is a clear understanding among all stakeholders of the problems that UA:PBC faces when it comes to its current model of funding. Decades of research into public media shows that state funding is the least recommendable source of funding public media: it gives the government a big say, and thus space for interference and pressures, in the editorial and operational management of the station.

However, in the current economic and political context in Ukraine, state funding is, unfortunately, the sole funding solution for UA:PBC. The existing model is, in fact, one of the most optimal for Ukraine in the existing circumstances, but a few legal obstacles prevent its implementation, giving room to state authorities to interfere every year with the UA:PBC budget. Removing these obstacles would probably be the most efficient fix to the problem, allowing UA:PBC to use stable and predictable funding in the most critical period for the broadcaster's reform. Nevertheless, most of the stakeholders interviewed for this report expressed strong scepticism that such a model will work simply because twisting the law every year to allow authorities to cut the UA:PBC funding is a practice ingrained in the very political culture of the country. There will always be a minor legal amendment that would give MPs or the Government the power to reduce the UA:PBC budget. Therefore, diversifying the government sources of funding would be a more acceptable solution from a political point of view.

Although both scenarios carry big risks, it is one of them that is feasible and we recommend adopting.

They can only work if two conditions are fulfilled:

a). Politicians find the will to commit to investing into a solid, respected public service media system.

b). UA:PBC comes up with a coherent vision for its future including a detailed implementation plan anchored in concrete audience and programming targets (including reliable audience measurement systems, improved presence on new platforms, introduction of new content formats, and improved communication and engagement with the public) and a plan that sees in the current funding model only a temporary solution helping them to grow within the next five to 10 years into a public service media operation fully accountable to and funded by the public.

8.1. FUNDING SCENARIO A

The first proposed scenario builds on the model advocated by the Supervisory Board of the UA:PBC. In order to secure stable and sufficient financing of UA:PBC from the Special Fund, fed by the rental fee for the use of the radio frequencies, the following safeguards are needed:

- Not limiting the funding by linking it to a percentage of the total revenue from frequency rent;
- Giving absolute priority to UA:PBC funding by banning reallocation of the funds for it in the Special Fund to other purposes before UA:PBC funding needs are met.

By introducing the Special Fund (consisting of revenue from frequency use fees) as a new form of state budget contribution, this model is preferable because it diversifies the sources of funding (although they come from the same resource), significantly diluting the leverage of authorities on cutting the state allocation every year. At the same time, financial experts point out that that significant fluctuations in the level of funding generated through this resource could have unexpectedly bad consequences on the public media budget.

Changes needed:

A). The scenario A implies the following amendments to the Budget Code:
- Paragraph 26 of the Final Provisions of the Budget Code of Ukraine to exclude the provision of Article 14 of the PSB Law;
- Change of Part 3 of Article 29, to direct revenue from the rental fee for the use of the radio frequencies a Special State Budget Fund for UA:PBC.

B). Additionally, as in the following scenario, the PSB Law should be changed to allow UA:PBC to monetise (through divestment or rent) its loss-incurring real estate properties.

8.2. FUNDING SCENARIO B

Scenario B is based on the improved version of the current funding model, according to which UA:PBC is financed from the General State Budget Fund. The current legislation guarantees a separate budget line for financing UA:PBC in the budget. However, Article 14 of the PSB Law has not been given full effect and the amount of expenditures for UA:PBC is determined by the Government based on the available state budget funds.

If law is amended to prevent authorities from changing the UA:PBC budget every year, this scenario would be a practical solution. With guaranteed funding worth 0.2% of the expenditure in the General Budget of Ukraine, UA:PBC management would be able to plan its reform including its longer term goal of decoupling financially from the state and relying more on funding from its public (in the form of license fees or a tax or, even, subscriptions).

However, as straightforward as it looks like, this model is hard to implement in reality: experience has so far showed that this model has been from the onset abused for political gains. With the legal changes described below, it could provide the stable and predictable funding that UA:PBC needs for its ongoing development. However, this would work only if political practices and culture would change and it is not likely that this would happen overnight.

Changes needed:

A). In order to ensure a full-scale financing of the UA:PBC from the General State Budget, it is necessary to amend paragraph 26 of the Final Provisions of the Budget Code of Ukraine to exclude the provision of Article 14 of the PSB Law. The amendments should guarantee that the provision on financing the UA:PBC with an amount equivalent of 0.20% of the General Fund of the State Budget for the previous year becomes binding, obliging the Government and Parliament to comply with it.

B). Additionally, we recommend relaxation of legal restrictions regarding the management of the company's real estate and advertising on UA:PBC. We believe that the position of UA:PBC on the market is far from being so dominant to lead to any significant market distortions by carrying advertising. As television advertising spending is also shrinking, we recommend aligning the rules regarding commercial communication on UA:PBC with those of the AVMS Directive.

The tables below show the key risks related to each scenario and indicate their level (probability and/or intensity). As indicated, three high risks are associated with the Scenarios A, while for Scenario B we identified five high risks.

Table 6a: Key risks associated with two proposed funding model scenarios

Scenario A	Low	Medium	High
Sustainability risk		Y	
Inadequacy of amount risk			Y
Government role			Y
Editorial interference risk		Y	
Level of legislative changes needed		Y	
Time for implementation		Y	
Risk of not being accepted			Y

Chart: Center for Media, Data & Society (CMDS) Source: Report's authors Created with Datawrapper

Table 6b: Key risks associated with two proposed funding model scenarios

Scenario B	Low	Medium	High
Sustainability risk			Y
Inadequacy of amount risk			Y
Government role			Y
Editorial interference risk			Y
Level of legislative changes needed	Y		
Time for implementation	Y		
Risk of not being accepted			Y

Chart: Center for Media, Data & Society (CMDS) Source: Report's authors Created with Datawrapper

APPENDIX A: LIST OF STAKEHOLDERS

A complete list of representatives of the most relevant selected stakeholders with whom the experts interacted during the pre-expertise visit, conducted from 4-6 December 2018 in Kyiv, is provided below (listed in the order of meetings).

Table 7: Participants in pre-expertise meetings*

Participant	Title / function	Institution / organisation / company
Mårten Ehnberg	Head of the Council of Europe Office in Ukraine	Council of Europe Office in Ukraine
Zurab Alasania	Head of the Management Board of UA:PBC	National Public Broadcasting Company of Ukraine UA:PBC
Inna Grebeniuk	Member of the Management Board (responsible for legal affairs of UA:PBC)	National Public Broadcasting Company of Ukraine UA:PBC
Rodion Nykonenko	Member of the Management Board (responsible for financial and economic affairs of UA:PBC)	National Public Broadcasting Company of Ukraine UA:PBC
Igor Rozkladay	Media lawyer & expert	NGO "Centre for Democracy and Rule of Law"
Liudmyla Vasylenko	Head of the European Integration Sector	the Ministry of Information Policy of Ukraine
Viktoria Siumar	Head of the Parliamentary Committee on Freedom of Speech and Information Policy	the Verkhovna Rada of Ukraine (Ukrainian Parliament)
Tetyana Lebedyeva	Head of the Supervisory Board	Supervisory Board of UA:PBC
Vadym Miskyi	Secretary of the Supervisory Board	Supervisory Board of UA:PBC
Oksana Romaniuk	Executive Director of NGO "Institute of Mass Information"	NGO "Institute of Mass Information"
Nataliya Lyhachova	Head of NGO "Detektor Media"	NGO "Detektor Media"
Andriy Pavelko	Member of the Parliament, Head of the Parliamentary Committee on Budget	The Verkhovna Rada of Ukraine (Ukrainian Parliament)
Oleh Nalyvaiko	Head of the State Committee for Television and Radio Broadcasting	The State Committee for Television and Radio Broadcasting
Volodymyr Brynzak	Member of the Supervisory Board	National Public Broadcasting Company of Ukraine (UA:PBC)
Ivan Bondarchuk	Director of Department of cooperation with actors of Olympic movement	National Olympic Committee of Ukraine
Nina Umanets	Public activist in the field of sports	
Dmytro Vershynin	Assistant	Assistant to Head of the Parliamentary Committee on Budget
Maksym Dvoroviy	Assistant	Assistant to Head of the Parliamentary Committee on Freedom of Speech and Information Policy

Source: Council of Europe Office in Ukraine

during pre-expertise mission to Kyiv in December 2018

APPENDIX B: AUTHORS' BIOS

The authors are listed in the alphabetical order.

Marius Dragomir is Director of the Center for Media, Data and Society, part of CEU's School of Public Policy in Budapest. He previously worked for the OSF and managed the research and policy portfolio of the Program on Independent Journalism in London. He was one of the main editors for Mapping Digital Media, which covered 56 countries worldwide, and the main writer and editor of OSF's Television Across Europe, a comparative study of broadcast policies in 20 European countries. Marius has spent the past decade in the media research, specializing in media and communication regulation, digital media, governing structures of public service media and broadcasting, spectrum management, and ownership regulation. He has authored expert studies and articles on journalism and media policies that have been published and translated in more than 60 countries. He was commissioned to write expert studies by UNESCO, European Audiovisual Observatory, Council of Europe and OSCE. In 2015, with a group of journalists and researchers, he co-founded MediaPowerMonitor.com, a community of experts in media policy covering trends in regulation, business, and politics that influence journalism.

Tanja Kerševan Smokvina is Associate Partner at Brussels-based consultancy Wagner-Hatfield, specialised in public affairs, policy, regulation and strategy related to the media and digital economy across the EMEA region. In her home Slovenia, she used to work for the converged regulatory authority AKOS and has acted as Member in Expert Group on Law on RTV Slovenia and Media Law; Expert Group on Media Literacy; and currently Expert Committee on public funding of media. Internationally, she has worked with the Council of Europe, the European Audiovisual Observatory, UNESCO, OSCE, OSF and EU funds and instruments. In 2011-2013 she coordinated the EU co-funded transnational project SEE Digi.TV for harmonisation of the digital switchover in 10 countries in the Adriatic region. In 2016 she chaired the ERGA Subgroup developing the Digital European Toolkit (DET) for efficient and flexible regulation. In 2016-2017, she served as Member of the Committee of Experts on Internet Intermediaries (MSI-NET), a sub-committee of the CDMSI, and in 2018-2019 as Member of the Committee of Experts on Artificial Intelligence (MSI-AUT). She holds a PhD in Communication Studies from University of Ljubljana and teaches media related subjects at University of Maribor.

Viktor Maziarchuk is currently head of the Financial and Economic Analysis Office at the Verkhovna Rada of Ukraine where he started in 2016. He received a Master of Science degree in international economic relations from Lviv Commercial Academy. Also, he studied leadership and management at the John F. Kennedy School of Government, Harvard University, and leadership in public finance at the Kyiv School of Economics. He has gained experience in the field of investment consulting and project management working for a number of commercial organizations. Starting from 2010, he worked in the public sector occupying posts of advisor to Ukrainian Economic Development and Trade Minister, deputy director of finance at the Emergency Ministry and deputy head of Project Administration Agency at the Department of National Projects of Ukraine. Mr Maziarchuk was head of Economic Analysis Department at the International Centre for Policy Studies in 2013. Between 2014 and 2016, he was chief expert in the Public Finance group at Reanimation Package of Reforms civic initiative.

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THE SYSTEM OF FINANCING UKRAINIAN PUBLIC SERVICE BROADCASTER UA:PBC IN LIGHT OF THE COUNCIL OF EUROPE STANDARDS

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