Innovative Finance for Mine Action

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Executive summary

The UK FCDO has commissioned Social Finance and the HALO Trust to explore the potential for innovative finance to improve the efficiency and effectiveness of all stages of mine action, from mine/explosive remnants of war (ERW) clearance through to restoration of economic and social activity. After extensive consultations with a broad range of government, NGO and private stakeholders in donor and mine-affected countries, there is a consensus that innovative finance has significant potential to address some of the current obstacles to more effective – and more effectively funded – mine action.

Current challenges

The key challenges that stakeholders identified were:

- Inadequate funding for mine action, partly due to a lack of a shared rationale for funding and prioritising the sector.
- Funding structures that do not incentivise efficient programme implementation.
- Short-term funding commitments leading to difficulties in effective planning.
- Insufficient data to effectively quantify mine action benefits.
- Sometimes weak national ownership and linkages to broader development plans.
- A lack of coordination within and between donor governments.

Three models emerged from our discussions that could help overcome these challenges.

1. Outcomes Finance

Outcomes finance disburses against independently verified results, such as mine clearance and recovery of social and economic activity on land cleared of mines and ERW, rather than against inputs in a log-frame or similar structure. The focus on results provides a powerful tool to incentivise flexible, adaptive implementation, and holds service providers (implementing organisations) to account with rigorous and independently verified data on outcomes. One attractive model is an Outcomes Fund, which makes pooled funding available competitively, so that only the most promising and cost-effective proposals are offered funding against prospective achievement of defined goals, such as restoration of activity on cleared land.

Outcomes funding pays ex-post, so there is a need for a source of working/risk capital to cover the gap between programme funding and (hopefully) payment for results achieved. This capital can come from service providers themselves, or from an Impact Bond, which sources external risk capital from Development Finance Institutions (DFIs) and social investors. Outcomes finance can coalesce different stakeholders behind the common goal of achieving agreed results. Greater national ownership is also encouraged by having progress measured objectively and publicly.

Making payment conditional on objectively measured mine action results – including broader development benefits – could also help bring in new and enlarged donor funding by: (i) de-risking donors sceptical of the cost-effectiveness of mine action compared to other development programmes (since they only pay on success); and (ii) reassuring donors that the benefits of mine action will be measured with rigorous and independently verified metrics.

2. Outcomes-Based Public Private Partnerships (PPP)

A Public Private Partnership is an agreement between a government and private sector company to jointly contribute to deliver a project. They are often used in infrastructure projects or development of public services. In mine action, any significant return of private sector activity to currently mined land will require subsidies, both for mine clearance itself, and also in many cases for the initial investment in economic activity on the cleared land. However, traditional input-based subsidies tend to misallocate resources and create perverse incentives. In contrast, outcome-based subsidies directly reward achievement of a defined result, rather than subsidising inputs that might or might not help achieve that result. An outcomes-based PPP model is designed to support and incentivise both mine clearance and subsequent private sector, for-profit, investment. The foundation of the approach is transfer of land to the private sector conditional on successful mine clearance.

Specifically, the proposal is that governments commit to transferring ownership of part or all of a plot of contaminated land to a private investor upon successful mine clearance financed by that investor, with the extent of subsidy depending on the value of the land and the costs of clearance. The incentive of transfer of ownership of cleared land may be enough on its own to foster not only mine clearance, but also investment on the demined land. Where these incentives are not sufficient, additional subsidised support could be provided through services such as agriculture extension, business and market development services and skills training. Outcomes finance has been shown to support service provision in a way that aligns it much more closely with the needs of beneficiaries and national goals such as income and employment growth.

3. Front-loading funding

A funding mechanism to front-load finance similar to the International Finance Facility for Immunisation (IFFIm) could be used to accelerate funding for mine action programmes. In the case of mine action there would be four elements:

1. Donor governments make long-term pledges of annual funding to mine action.
2. Highly rated bonds are issued securitising the long-term pledges, and thus allowing more rapid results on the ground though accelerated financing.
3. Funds disburse for priority mine clearance programmes.
4. Programme management is governed by an alliance of implementing countries, donors and UN agencies.

The stable multi-year funding, aligned to national completion plans, facilitates the planning of activities and enhances national ownership by giving beneficiary states a seat at the table. It also delivers on Grand Bargain[i] objectives. The front-loading allows more rapid achievement of humanitarian and economic benefits, potentially appealing to donors who cannot, using traditional financing methods, commit to funding individual mine action programmes long-term. While the same result could be achieved by donors supplying all the funding required up-front, IFFIm has proven that donors are willing to make long-term pledges where immediate funding is not available.

The approach could also attract new funders, who would see immediate benefits without a significant immediate call on aid resources. For some donors there is also the potential

[i] The Grand Bargain is an agreement between some of the largest donors and humanitarian organisations to improve the effectiveness and efficiency of humanitarian action. https://interagencystandingcommittee.org/grand-bargain

attraction that it does not involve the complexity of involvement of the private sector, either as investors in an Impact Bond or as partners in a PPP.

Selection of Models

These models will not be applicable universally. To better understand the circumstances under which each model might work best to overcome the identified challenges, we developed three case studies, for Afghanistan, Angola and Cambodia, which have been shared with the national authorities. While each model could also be applied to a wide range of countries, we selected these three countries to represent a range of contexts and they serve as examples for how each model could potentially be applied in similar contexts. We have chosen to show how Outcomes-Based Finance could be applied in Angola and Afghanistan, Outcomes-based Public Private Partnerships in Angola and Cambodia, and Front-Loaded Financial Commitments in Cambodia.