Promising instruments for EOD financing in Ukraine

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Mine action in Ukraine has become one of the biggest humanitarian challenges in Europe since the Second World War.

The World Bank estimates that the demining of Ukrainian land and infrastructure will require more than USD 37 billion and decades of painstaking work.

Moreover, Ukraine is the first country with a developed economy, high social and legal standards, and active business processes to be so heavily mined.

This situation necessitates a revision of traditional approaches in all areas of explosive ordnance disposal (EOD), and especially in financing.

1. Shortcomings of traditional EOD funding in Ukraine

The mine action sector remains heavily dependent on institutional donor funding, primarily from a small number of specialised government donors, in particular: The USA, Japan, Norway, the UK, as well as the EU and several of its member states.

Funding from private and philanthropic sources for mine action is still limited.

Such funding is highly dependent on political priorities. E.g., while mine action funding has returned to Syria in the years since the fight against ISIS, some major donors to the sector have de-prioritised regions such as Lebanon, Iraq, and Yemen.

Withdrawal of a major donor from a country or territory could have a significant impact on the ability of EOD operators to sustain their programmes. Given the EOD market and the large number of local operators, this could mean their bankruptcy and withdrawal from the demining process.

Global experience shows that donor funding for EOD is characterised by significant fluctuations. The surge in funding for mine action in Ukraine in February 2022, which was sustained throughout 2023-2024, may be short-lived due to competing funding priorities and new emergencies.

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Politicians and donors often quickly shift their attention to new crises, which creates an unfavourable environment for long-term planning.

Donor organisations are forced to work under conditions of limited interaction with local operators and national authorities, in particular due to:

- different national approaches to financing;
- discrepancies in the definition of the financial year;
- different funding strategies;
- limited capacity of national EOD operators;
- inconsistent mine action standards;
- bureaucracy and gaps in national legislation.

In this context, intergovernmental agreements do not solve the problem of timely and sufficient funding.

In summary, funding for mine action from international assistance, donors, state budgets, and charitable contributions has its limitations:

- volatility of funding: the scope of assistance depends on the political situation and donor priorities;
- limited resources: needs exceed available resources, leading to delays in project implementation;
- competing causes: mine action competes with other humanitarian initiatives.

2. Ukraine's unique situation

The demining situation in Ukraine is unique. For the first time in history, mine contamination not only poses a humanitarian threat, but also negatively affects economic processes on a global scale.

The global economy cannot afford for Ukraine, as one of the world's largest food producers, to be excluded from these processes for decades.

Furthermore, unlike, for example, Afghanistan, Iraq, Sri Lanka, or even the Balkan countries, Ukraine has all the prerequisites for creating an EOD market operating under its own laws. According to these laws, market participants cannot be completely dependent on donor funding.

The lack of a predictable outlook based on objective needs rather than donor priorities makes long-term planning for mine action almost impossible.

Mine action is very capital-intensive and requires extensive training of large numbers of personnel. In the absence of clear prospects, operators cannot invest in their development or even in launching operations.

A very important difference is that most of the mined areas and facilities in Ukraine have economic value and can generate income. This factor allows for the possibility of introducing new financial mechanisms into the mine action sector.

3. Innovative financial mechanisms for demining

To overcome the above challenges, it is necessary to introduce innovative financial mechanisms that will attract additional resources and ensure stable funding for mine action.

Thematic bonds

Thematic bonds are financial instruments that attract funds from investors seeking to support demining and recovery projects.

How it works:

- Bond issue: a government or an international organisation issues bonds, the proceeds of which are used to fund demining projects;
- Return on investment: investors receive a fixed income over a specified period.

Advantages:

- Attracting private capital: attracting additional resources from private investors;
- Long-term financing: providing stable funding for a long period of time;
- Social impact: support for humanitarian initiatives and the restoration of affected areas in the short term, which helps to reduce social tensions and stabilise the political situation.

An example of such thematic bonds could be agricultural bonds. This mechanism can simultaneously address the issues of demining and economic recovery of agricultural areas.

The agricultural bonds mechanism:

- Raising funds through bonds: the government or an international organisation issues bonds, the proceeds of which are used to finance the demining of agricultural land;
- Demining: the attracted resources are used for demining, including hiring specialists, purchasing equipment and performing works;
- Use of the cleared land: after demining, the territories are transferred to agricultural companies or farmers for growing crops;
- Return on investment: part of the income from agricultural activities is used to pay bond investors.

Advantages:

- Supporting economic development: returning land into use, attracting investment in agriculture, preserving jobs, improving food security and increasing exports;
- Efficient resource use: integration of demining with further use of the cleared areas;
- Attractiveness for investors: investors enjoy both financial benefits and social impact.

Front-end funding

Front-end funding involves raising significant funds at the initial stage of the project and then repaying them with future revenues, including from donors.

How it works:

- Raising funds: obtaining loans or issuing bonds guaranteed by future revenues;
- Project implementation: use of funds to finance demining activities;
- Repayment of liabilities: repayment of funds from future revenues from economic activities and donor guarantors.

Advantages:

- Quick start: the ability to implement projects without delays caused by the funding search;
- Efficiency: securing funding at the initial stage to optimise costs;
- Long-term outlook: allows for long-term contracts with operators, and for operators to invest in expanding their activities without concern;
- Lower burden on donor budgets: spreading the obligations over time will allow donors acting as guarantors to reduce the burden on their respective budgets.

Public-private partnerships

Public-private partnerships (PPPs) are a powerful tool for financing and implementing mine action projects. Under this mechanism, the state and the private sector join forces to achieve a common goal.

How it works:

- Private sector investment: private companies finance the purchase of equipment, training of personnel or demining activities.
- Government support: the government provides the legal framework, coordinates projects, and provides guarantees to investors.
- Risk sharing: the government assumes some of the risks associated with delays or unforeseen circumstances, which reduces the burden on private partners.

Advantages:

- Efficiency: the private sector implements cutting-edge technologies and management approaches that increase the effectiveness of demining.
- Speed of implementation: due to the involvement of private resources, projects are implemented faster than with traditional public funding.
- Social responsibility of businesses: companies' participation in such projects improves their reputation and promotes corporate social responsibility.

Sustainable development funds

Another mechanism for raising funds is the creation of specialised sustainable development funds focused on supporting humanitarian and environmental initiatives. Such funds can be based on partnerships between international organisations, governments and the private sector.

Advantages:

- Multi-donor approach: funds receive contributions from a variety of donors, including governments, international organisations, private companies, and individual philanthropists;
- Investment-oriented approach: part of the fund's resources can be invested in projects that generate income, which is used to support other initiatives;
- Transparency: all expenses and results of the fund's activities are publicly reported, which increases donor trust.

4. Challenges in implementing innovative financing

Despite their high potential, innovative financing mechanisms face a number of challenges that need to be taken into account when implementing them:

- Lack of investor awareness: many investors are not familiar with humanitarian projects such as mine action, which limits their participation;
- Regulatory barriers: many countries, including Ukraine, have difficulties with the legal regulation of innovative financial mechanisms;
- Trust issues: preconceived notions of corruption may deter investors from participating in Ukrainian projects.

Despite these challenges, the introduction of innovative EOD financing mechanisms has good prospects.

The story of Ukrainian agribusinesses entering the international bond market provides a vivid illustration to that effect.

In the late 2000s, Ukrainian agricultural companies began to enter international stock exchanges. At first, the largest agricultural holdings, and later smaller agricultural companies, successfully listed their securities on the Warsaw, Frankfurt, and London stock exchanges.

At the time, this seemed impossible: there was a negative experience with securities of Ukrainian companies, and their financial statements, ownership structure, proof of assets and turnover did not meet the standards and rules for listing on international platforms. Today, however, 15-20 Ukrainian companies are listed on stock exchanges, and the participation of Ukrainian companies in global capital markets has become commonplace.

At the same time, there was no special adjustment of Ukrainian legislation; everything was based entirely on the will and desire of private business to use new financial instruments. Using the existing legislative mechanisms and adapting to the dynamic environment, Ukrainian agricultural companies have successfully mastered the new mechanisms to finance their operations.

The result of this can be seen today, as Ukraine is one of the key food exporters in the world.

Similar prospects, but in the EOD sector, await those who focus on exploring and implementing new mechanisms for financing mine action in Ukraine.

Demining Ukraine's territories is not only a humanitarian challenge, but also a unique opportunity for Ukraine's economic development and for businesses operating in the EOD sector.

New financial mechanisms, such as thematic bonds, agricultural bonds, public-private partnerships and sustainable development funds, can provide the necessary funding to reach this goal.