From civil to defence

Funding and financing support to European readiness

Table of contents

Setting the Scene		03
01	From Fragmentation to Readiness: Defence Priorities in the 2021-2027 MFF	05
02	Toward a Permanent Defence Investment Architecture: The 2028-2034 MFF Prospect	10
03	Readiness 2030: Accelerating Defence Readiness Through Targeted EU Support	12
04	Public Funding Compass: Quick Bites	15
05	Banks on the Frontline: How Financial Institutions Are Reshaping Defence Capital Flows	18
06	Beyond Traditional Banking: Development Institutions, Export Credit Agencies, and Specialized Finance	22
07	The Investor Vanguard: Private Equity, Venture Capital, and the New Defence Tech Boom	30

Setting the Scene

01.
Europe's new defence paradigm streamlines funding and financing instruments

Europe is moving toward defence readiness at scale, supported by, inter alia, structurally higher national defence budgets and more streamlined EU funding and financing instruments. Pathways to scale and finance dual-use technologies are accelerating under the "New Defence" paradigm, leveraging civilian and defence innovations together. For industry, it means stronger demand visibility and increased public investments; for lenders, evolving risk and ESG frameworks and new financing opportunities across the defence value chain.

02.
Civilian funding and financing instruments shift toward defence

EU research and development programmes such as Horizon Europe and Digital Europe are moving from civil to dual-use applications coverage, while commercial banks across the EU, driven by the EIB's recent changing policy, are rolling back exclusionary policies on defence financing. The new proposed Competitiveness Fund to be implemented under the next MFF (2028-2034) is expected to reinforce this shift with €131 billion for Defence and Space—five times more than before.

03.
European Union defence initiatives: from research, to development and innovation support

Public funding and expenditure at EU level cover the entire defence value chain from research, development and innovation of military technologies to supporting joint procurement of conventional weaponry and advanced defence systems. The EU also support the deployment of enhanced dual-use infrastructure and technologies, including advanced digital systems and telecommunication solutions.

04.
Complementing EU defence efforts at the national level

Member States consistently complement EU spending on defence through national budgets, financing both government spending for direct procurement and military capability expansion, and private entities investment projects in dual-use infrastructures and defence manufacturing capacity expansion via competitive call for proposals.

01

From Fragmentation to Readiness: Defence Priorities in the 2021-2027 MFF

The 2021-2027 MFF and its 2024 revision, following the Russian invasion of Ukraine, have reshaped the EU's approach to defence and security. The Union now urges to bridge the technological and infrastructural gaps caused by decades of underinvestment. **Over € 14 billion** have been allocated to defence and security within 2021-2027 MFF, complemented by a broader increase in Member States' military spending as most of them move towards the NATO 5% defence expenditure target.

The progressive defragmentation of the EU's defence and security agenda, including in funding and financing mechanisms, has given rise to a more integrated, multi-pillar approach covering the entire value chain and encompassing: defence capability projects, dual-use infrastructure investments and advanced dual-use technologies supporting hybrid security.[1]

Building on this approach, the key EU programmes outlined below (both defence-specific and defence-relevant civil programmes) operationalise this integrated approach, starting with the European Defence Fund.

European Defence Fund 2021-2027

€ 7.3 billion

~€6.5 billion has already been committed, including over €1 billion available in 2026[2]

EDF supports private and public entities engaged in collaborative transnational defence projects aimed at delivering innovative and interoperable technologies and equipment. It provides grants to R&D initiatives under several domains, including advanced combat and training systems, digital technologies, space and mobility solutions, medical and CBRN protection and energy resilience.

EDF issues dedicated spin-in calls to **adapt civilian technologies and solutions for defence use**[3]. Nearly 4-8% of the EDF annual budget is allocated to disruptive, primarily dual-use technologies such as AI, advanced materials, quantum technologies, robotics, and more.

As an EDF subprogramme backed by nearly **€2 billion** through 2027, the **European Defence Innovation Scheme (EUDIS)** lowers entry barriers and accelerates defence innovation. It supports SMEs, startups, and non-traditional players through calls for disruptive and dual-use technologies, spin-in opportunities, and services such as business acceleration, coaching, and investor matchmaking.

[1] https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex:52025PC0188

[2] https://defence-industry-space.ec.europa.eu/edf-work-programme-2026_en

[3] In addition to EDF 2026 calls directly addressing disruptive technologies, energy resilience, digital transformation and other dual-use domains, the Work Programme also includes specific calls requiring proposals to build upon results from **EU civil-focused programmes**. In 2026, this applies to the topics New turbofan engine and Layered critical seabed infrastructure protection.

Connecting Europe Facility Transport Military Mobility 2021-2027

€ 1.74 billion

fully allocated within 2021-2023

CEF Transport Military Mobility has supported private and public entities aiming to upgrade strategic infrastructure across both the TEN-T and the EU military network to enhance military mobility. Under the 2021–2027 CEF military mobility envelope, the EU has co-funded 95 transport infrastructure projects across 21 Member States.

The allocated funding of € 1.74 billion has been fully utilised within 2021-2023, and the next package of € 17.6 billion for financing military mobility projects will be covered under the MFF 2028-2034.

European Defence Industry Programme 2025-2027

€ 1.5 billion

approved and entered into force in December 2025

EDIP represents the first ever mechanism ensuring the security of supply of defence products through the EU via cooperation in defence procurement. Contextually, it aims to provide grants to address existing capability gaps within the defence industry in terms of both manufacturing capacity and lead production time. EDIP will bridge the gap between the EDF research funding support up to development, prototyping and support to joint acquisition of defence products.

EDIP grants will support, inter alia, scaling and repurposing production from civil to defence manufacturing, new tech integration, product testing and certification, strengthening supply chains, upskilling the workforce, especially for innovative SMEs. Within this package, € 300 million is allocated to a Ukraine Support Instrument to integrate Ukraine’s defence industry into the EU manufacturing network.

Civil Funding Programmes expanded to cover Defence

€ 3+ billion
for the 2021-2027 period

Numerous flagship[4] civil funding programmes have seen their scope extended to cover dual-use and defence topics. Horizon Europe Cluster 3 “Civil Security for Society” supports R&D initiatives aimed to deliver innovative technologies enhancing the security against crime, terrorism, natural and human-made disasters, cyberthreats and for the effective management of EU external borders.

The European Innovation Council (“EIC”) Accelerator and STEP[5] Scale up, being Horizon instruments, are expected to start providing grant and equity support in 2026 for technologies with potential dual-use applications, as well as those focused on defence applications for scale-up[6]. The EIC instruments specifically target start-ups, SMEs and small mid-caps.

Digital Europe Programme supports the wide deployment of cybersecurity capacities, tools and data infrastructure across Member States, envisioning to expand its artificial intelligence and high-performance computing chapters to dual-use applications. It is expected to start supporting projects, services and competences with potential dual-use application in 2026.

Cohesion Policy Funds are undergoing a mid-term review, expanding STEP scope and allowing regional administrations to reallocate at least 15% of resources toward dual-use and defence initiatives.

[4] https://www.consilium.europa.eu/en/press/press-releases/2025/10/08/defence-council-agrees-position-to-incentivise-defence-related-investments-in-the-eu-budget/
[5] Strategic Technologies for Europe Platform
[6] https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex:52025PC0188

Funding For Defence: Areas and Sectors of Intervention

Funding Programme	Selected areas and sectors of intervention
European Defence Fund	• Combat Systems (i.e. ground, naval, underwater, air and missile) • Medical Response and CBRN protection • Advanced materials and biotechnologies for military use • Advanced communication technologies • Advanced cybersecurity systems • Disruptive technologies (e.g. autonomous AI-based systems, advanced sensors, advanced navigation and detection systems)
Connection Europe Facility Transport Military Mobility	• Critical dual-use transport infrastructures
European Defence Industry Programme	• Capacity building and repurposing of civil production for defence applications • Conventional and advanced weaponry • STEM and defence-specific skills
Horizon Europe Cluster 3 "Civil Security for Society"	• Critical infrastructures (i.e. transport, energy, digital networks and telecommunication networks) • Border surveillance and monitoring systems • Advanced autonomous systems and robotics for disaster response
European Innovation Council	• Breakthrough, disruptive innovations in the fields of digital, deep tech, clean tech & biotech, and more
Digital Europe Programme	• Advanced cybersecurity systems • Disruptive technologies (e.g. autonomous AI-based systems, advanced sensors, advanced navigation and detection systems)
Cohesion Policy Funds	• Critical infrastructures (i.e. transport, energy, digital networks and telecommunication networks) • Capacity building for defence manufacturing • STEM and defence-specific skills

02

Toward a Permanent Defence Investment Architecture: The 2028-2034 MFF Prospect

The adoption of the Multiannual Financial Framework 2028-2034 is set to establish a comprehensive defence investment architecture complementing the initial approach started in 2021, with over € 149 billion allocated. The European Commission has proposed the European Competitiveness Fund, a more structured and simplified financial toolbox including grants, equity, debt and procurement.

European Competitiveness Fund (ECF) - Resilience and Security, Defence industry and Space window

€ 131 billion

The window budget will be 5 times larger than 2021-2027 MFF allocation, enabling comprehensive support across the entire investment cycle.
This is expected to significantly accelerate progress in critical strategic areas, also delivering a major boost to cybersecurity capacities, strengthening dual-use infrastructure and enhancing EU's defence industrial and technological capabilities.

Funding allocation under this window will be complemented by:

Horizon Europe's Resilience and Security, Defence Industry and Space topics

With **€ 175 billion**, the renewed Horizon Europe Programmes is set to support numerous R&D initiatives, including those aligned with the ECF Resilience and Security, Defence Industry and Space window.
This will reasonably represent a significant increase with respect to 2021-2027 MFF allocation;

Connecting Europe Facility Transport Military Mobility topics

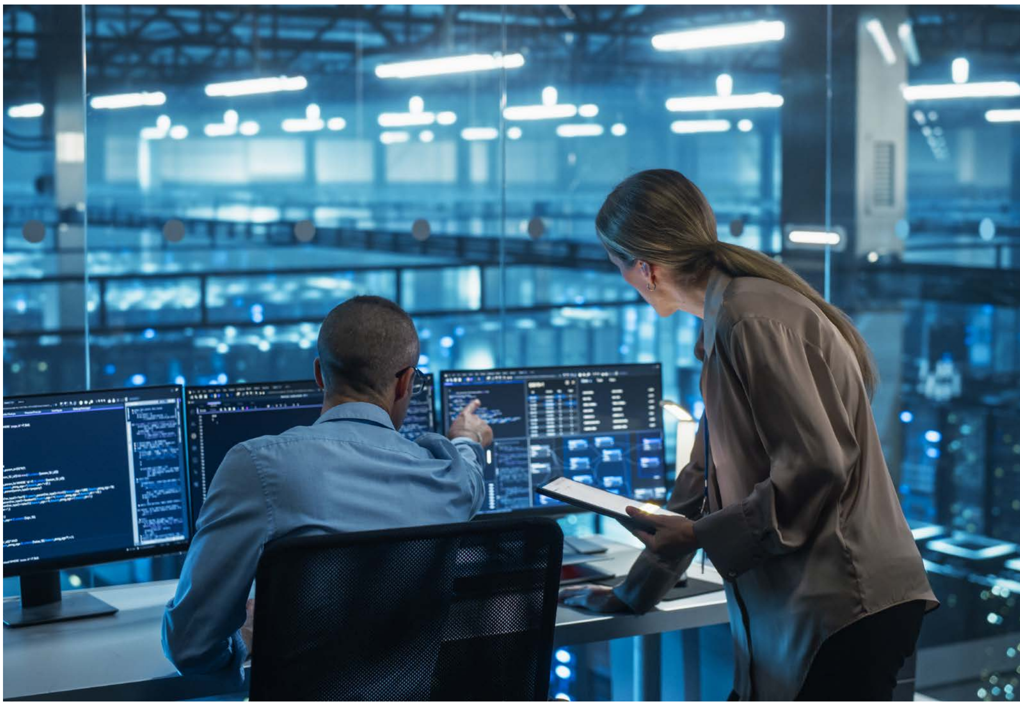
With **€ 17.65 billion**, the renewed CEF Transport is set to support the modernisation and construction of critical transport infrastructure for military mobility use. This represents an increase of 10 times with respect to 2021-2027 MFF allocation;

National and Regional Partnership Plans

With **€865 billion** in EU funding complemented by € 833 billion in Member States funding, National and Regional Partnership Plans are designed to deliver each country's long-term economic development strategy, including investments in sustainable dual-use infrastructure such as transport, energy and digital networks. These Plans modernise the implementation framework by integrating multiple regional programmes under the cohesion policy into a single National and Regional Partnership Plan per Member State, mirroring the structure of the National Recovery and Resilience Plans. This approach enables coherent, mutually reinforcing reforms, investments and complementary interventions.

03

Readiness 2030: Accelerating Defence Readiness Through Targeted EU Support



In March 2025, the European Commission presented ReArm Europe Plan - Readiness 2030 aimed to complement and multiply Member States efforts, accelerating their roadmaps towards defence resilience. This plan has been developed to address the five main persistent gaps identified by the White Paper for European defence - Readiness 2030:

- Limited industrial production capacity by supporting aggregate demand of Member States;
- Strong supply chain dependency from extra-EU countries by diversifying supply sources and develop EU alternatives, especially for what concerns critical technologies;
- Fragmented market by harmonizing rules towards the creation of the largest global defence market integrated from R&D to mass production;
- Slow technology adoption by creating a favourable regulatory environment, also presenting an European Armament Technological Roadmap, and financially supporting advanced manufacturing processes and AI integration;
- Skill shortages by building expertise in STEM and advanced digital technologies.

To this end, ReArm Europe Plan- Readiness 2030 package combines direct financial support to Member States with deep simplification of relevant legislation and ease of administrative burden, facilitating the transformation of defence through disruptive innovation.

The Plan supports Member States with up to € 800 billion for defence expenditure with the aim to ensure readiness by 2030. These resources have been made available as of 2025 through two channels:

01.

Security Action For Europe (SAFE)
A new financial EU instrument funded by € 150 billion providing low-interest rate loans to Member States, supporting their investments in defence capabilities. To access these funds, 19 Member States have developed and submitted their National Defence Investment Plans to the European Commission by 30 November 2025. Once approved by the Commission and the Council, loan agreements will be finalised, and pre-financing is expected to be provided starting in March 2026. While SAFE primarily focuses on joint procurement of conventional weapons (e.g., ammunition, missiles, artillery systems), the programme also covers the acquisition of critical dual-use products and technologies, such as drones, anti-drone systems, cybersecurity solutions, artificial intelligence, and electronic warfare.

02.

The activation of the National Escape Clause of the Stability and Growth Pact, solution chosen by 16 countries
A legal provision enabling Member States to exceed the 3% of GDP annual deficit ceiling and adjust their medium-term fiscal-structural plans, up to 1.5% of GDP, to accommodate additional defence spending. This measure is expected to unlock up to €650 billion in defence investment across the EU.

The ReArm Europe Plan- Readiness 2030 also aims to mobilise private capital through European Investment Bank.

Additionally, the Ukraine Support Loan was approved by the European Parliament in February 2026, following agreement in the Council, and is now pending formal adoption by the European Council. The instrument will provide €90 billion in financial support to Ukraine over 2026–2027 to sustain its budgetary and defence needs. Of this amount, €60 billion will be earmarked for Ukraine's defence procurement from European markets and to unlock public investment in Ukraine's defence industry, supporting its integration into the European Defence Technological and Industrial Base. While the loan is not part of the ReArm Europe Plan – Readiness 2030, it enables Ukraine to participate in common procurement orders of military equipment placed by Member States under the SAFE framework. Since Ukraine is not eligible to receive funding under SAFE, it can use the funds provided by the Ukraine Support Loan to finance its share of the orders.

04

Public Funding Compass: Quick Bites

To navigate the complex EU funding landscape for defence and dual-use activities, companies should address several key considerations before seeking funding. The most material considerations are set out below.

01.

Company size and group scope

Many EU programmes – particularly in defence and dual-use – prioritise start-ups, SMEs, and small mid-caps (generally up to 500 employees). For instance, the EUDIS, as part of the EDF, provides targeted support to a new generation of defence companies across Europe, primarily start-ups, SMEs and small mid-caps. Company's size should be assessed at the consolidated group level to determine eligibility and optimal positioning.

02.

Growth strategy and financing needs

Whether the company will adapt existing products, technologies, solutions, or infrastructure for defence applications, or develop new offerings, should be defined. The geographic strategy, including target countries, should be specified. When expanding into new markets, national-level instruments –such as state aid and regional R&D schemes – that can complement EU funding should be assessed.

03.

R&D intensity and TRL

A significant share of EU programmes – such as the EDF, Horizon Europe, and the EIC – support research, development, and innovation. Technology Readiness Level (TRL) is critical; most programmes target TRL 4+ solutions – that is, component and/or breadboard validation in a laboratory environment. This traditional EC approach was changed with the implementation of the new EDIP programme and with the ECF aiming at bridging the gap between low TRLs and research with development activities up to prototyping and joint procurement to increase support across the whole spectrum of business development needs.

04.

Project scope and deliverables

Whether the investment project concerns technology development, infrastructure, or weapon systems should be defined. In each case, the following questions should be addressed:

Technology	Infrastructure	Weaponry
1. Is it stand alone? 2. What is the expected application for defence? 3. Does it require R&D activities? 4. What are its actual and target TRL? 5. Does it involve or require EU partners? 6. What is the investment size? 7. Is it ready to start?	1. Is it new or upgrades an existing one? 2. Is it military only or dual-use? 3. What is the expected impact for defence? 4. What is the target location? 5. Does it involve or require EU partners? 6. What is the investment size? 7. Is it ready to start?	1. Does it involve manufacturing capacity building or product delivery? 2. Does it respond to a known urgency of an EU government? 3. Does it reduce dependency from extra-EU countries? 4. What is the target project location? 5. What is the investment size? 6. Is it ready to start?
PwC can help you in	**PwC can help you in**	**PwC can help you in**
• Refine your project idea into a successful proposal for funding • Revise and validate your project business plan • Build and consolidate strategic EU business partnerships • Explore new ideas to become a technology leader leveraging funding for defence	• Refine your project idea into a successful proposal for funding • Revise and validate your project business plan • Build and maintain solid relationships with any institutional stakeholder • Ensure broad acceptance of the intervention among local stakeholders	• Drive your business idea to a coherent public funding opportunity • Aling your idea to institutional needs through dedicated interviews • Revise and validate your strategy and project business plan

05

Banks on the Frontline: how financial institutions are reshaping defence capital flows

Commercial banks across the EU are re-focusing on the defence sector as political demand strengthens and Member States scale up defence spending, marking a shift from a prolonged period characterised by broad exclusionary policies limiting bank involvement in defence-related activities.

While aggregated EU-wide data on bank lending to defence are not publicly available, **France provides clear evidence of banking activities in one of the largest EU's defence markets**. Figures from the French Banking Federation show that the six largest French banking groups consistently grew their involvement in the defence industry since 2021. They currently provide around €37 billion in financial support to the sector, covering lending, guarantees and working capital facilities[7]. This growth has been accompanied by targeted adjustments in defence eligibility frameworks from major groups such Crédit Agricole[8] and BNP Paribas.

BNP Paribas case study

Policy shift and eligibility framework[9]

In 2025, BNP Paribas revised its defence and security sector policy by removing an explicit restriction on financing "controversial weapons", concluding that the term was overly broad and could capture activities not prohibited under international law, including certain segments of drone manufacturing. The updated policy now follows a clear distinction between weapons systems authorised under major international agreements and those that are prohibited.

Scale and composition of defence-related financing[10]

This policy clarification reflects BNP Paribas's sizeable and diversified engagement with the defence sector. As of end-2024, the bank had deployed around **€24 billion** in financing, with **€12 billion** directly linked to defence activities, mainly supporting NATO-based industrial companies, predominantly in Europe. In parallel to lending, the Bank has supported defence firms through capital markets and asset management, with **€55 billion** in bond issuances, **€2.2 billion** in primary equity transactions and **€2.5 billion** in assets under management invested in defence companies over recent years.

[7] Fédération bancaire française. (2025, March 18). Les banques françaises prêtes pour la montée en puissance du financement de l'industrie de la défense [Press release]. Fédération bancaire française.

[8] https://www.fbf.fr/fr/communique_de_presse/les-banques-francaises-pretes-pour-la-montee-en-puissance-du-financement-de-lindustrie-de-la-defense/

[9] BNP Paribas. Defence and Security Sector Policy (2025). BNP Paribas Group. https://cdn-group.bnpparibas.com/uploads/file/bnpparibas_sector_policy_defence_security.pdf

[10] BNP Paribas. BNP Paribas reaffirms its long-standing commitment to the defence sector and its corporate clients. Press release, Paris, 6 March 2025. https://group.bnpparibas/en/press-release/bnp-paribas-reaffirms-its-long-standing-commitment-to-the-defence-sector-and-its-corporate-clients

Despite this re-engagement of the banking sector, access to finance remains uneven, particularly for smaller firms. According to PwC analysis of the defence lending policies of the largest banks in the EU, defence companies - including manufacturers of conventional weapons - are generally eligible for the full range of banking products according, but practical constraints persist in reality. In some Member States in particular, limited institutional experience with defence-related transactions therefore continues to translate into additional barriers to effective access to finance.

In practice, **commercial bank financing remains concentrated on lower-risk segments of the defence value chain**. It is mostly directed towards prime contractors, dual-use technology suppliers and industrial capacity-expansion projects, where credit risk profiles, collateral values and cash-flow predictability are comparatively stronger. As a result, **SMEs remain disproportionately constrained**. According to the last available figure from the European Commission, the yearly debt financing gap for SMEs in the defence sector is estimated at € 1 to 2 billion[11].

In response to these constraints, **institutions such as Commerzbank, Deutsche Bank, ING and Landesbank Baden-Württemberg have backed the proposed Defence, Security & Resilience Bank**, a jointly supported international initiative aimed at providing dedicated risk-sharing instruments to address the structural financing gaps in defence industrial base. In parallel, Deutsche Bank has reinforced its defence engagement by establishing a cross-divisional coordination structure and completing the first intermediated European Investment Bank-backed loan supporting defence SMEs.

[11] European Commission (Directorate-General for Defence Industry and Space). (2024, January 11). Study results: Access to equity financing for European defence SMEs. https://defence-industry-space.ec.europa.eu/study-results-access-equity-financing-european-defence-smes-2024-01-11_en

On top of this, **banks and industry associations are also acting collectively to address existing frictions**. Under the coordination of the European Banking Federation, institutions including BNP Paribas, UniCredit, Intesa Sanpaolo and Rabobank have established a **dedicated task** force **to identify regulatory and operational obstacles to defence financing**, improve consistency across sector policies and strengthen alignment between banking practice and Europe's defence-readiness objectives[12].

In Poland, the Polish Bank Association (ZBP) has also established a working group comprising 19 commercial banks to develop a joint approach and propose solutions that would enable them to become more involved in financing the defence and dual-use sector. The group is working on draft proposals for changes to EU and domestic regulations, including the CRR, ESG, and AML/CFT frameworks.

Clarifications on the EU sustainable finance framework and effects on commercial lending

To avoid misinterpretation of EU sustainability rules, the European Commission clarified[13] that the EU sustainable finance framework does not require defence-related exclusions and emphasised that blanket bans could harm specialised SMEs. As a result, the European Banking Federation published a policy note[14] stating that the EU regulatory and ESG framework **does not create specific barriers to defence financing** and reaffirming the banking sector's strategic role in the European defence industrial base.

Within this framework, the only explicit exclusions concern controversial weapons, anti-personnel mines, cluster munitions, chemical and biological weapons.

[12] "Top European Banks Launch Task Force to Boost Defense Investment." Bloomberg, 11 Apr. 2025

[13] European Commission. (2025). Commission Notice on the application of the sustainable finance framework and the Corporate Sustainability Due Diligence Directive to the defence sector (C(2025) 3800/3).

[14] European Banking Federation. (2025, October). The role of banks in financing the EU defence industrial base (EBF Policy Note). https://www.ebf.eu/wp-content/uploads/2025/10/EBF_The-Role-of-Banks-in-Financing-the-EU-Defence-Industrial-Base.pdf

06

Beyond Traditional Banking: Development Institutions, Export Credit Agencies, and Specialized Finance

The **European Investment Bank** (EIB) has progressively expanded its mandate to support security- and defence-related activities since 2024, with the latest clarification of eligibility adopted in March 2025. The EIB currently finances dual-use and defence technologies and infrastructure, as well as equipment and infrastructure dedicated to military and police use within the European Union.

As a case in point, the recently announced **EIB TechEU programme**[15] (€70 billion in debt and equity financing for innovation, expected to mobilise €250 billion by 2027) will provide financing for both large defence and dual-use enterprises as well as SMEs. Priority areas include, inter alia, dual-use and military technologies (e.g., mechanical, electrical, and electronic technologies), advanced digital technologies (e.g., cybersecurity, AI, software), and military equipment such as helicopters, drones, and radar systems.

Clear exclusions nevertheless remain. The **EIB does not finance weapons and ammunition**, nor military or police equipment and infrastructure located outside the European Union[16]. Companies seeking EIB financing may be active in such areas, provided that the EIB financing does not support excluded activities.

In 2025, the EIB's overall financing ceiling has been set at € 100 billion, with a dedicated target of € 3.5 billion for security and defence. In parallel, a € 3 billion Pan-European Security and Defence Lending Envelope is currently active for intermediated operations.

The Security and Defence Office (SDO), established in May 2024, is the EIB's Group single-entry point for security and defence-related projects. EIB financing is primarily relevant for larger defence and dual-use projects. In addition, the EIB primarily finances projects with an R&D and innovation component; production-only financing can only be considered on a case-by-case basis.

[15] https://www.eib.org/en/projects/topics/innovation-digital-and-human-capital/techeu/index
[16] European Investment Bank. (2025, July). EIB Group excluded activities (Publication No. 20250132). European Investment Bank. https://www.eib.org/files/publications/20250132-eib-group-excluded-activities-en.pdf

The EIB key product offering for security and defence-related companies and investments is summarised in the table below.

Product	Who it is for	Loan size	Amount of financing	Selected defence-related transactions
Direct loans / project finance	Public and private sector entities, including large corporates, mid-caps, public authorities and SPVs, including under project finance or PPP structures	Typically ≥ € 25m; lower thresholds apply in specific Member States or for priority projects	Up to 50% of total project investment costs[16]	• Leonardo (€ 260m sustainability-linked loan for defence, space and secure electronics R&D); • - Lithuania (€ 540m loan for military base and associated infrastructure)
Venture debt	Rapidly growing innovative companies	Case-specific		Gatewatcher (€25 million venture debt for cyber-defence)
Intermediated lending (through local partner banks)	SMEs and mid-caps	To SMEs funds in amounts up to €12.5 million		Deutsche Bank (€500m framework loan); BPCE Group (€300m loan)

PwC's expert team has extensive experience in supporting private companies throughout the entire process of obtaining and securing EIB financing. We help improve project bankability, ensure compliance with eligibility requirements, facilitate negotiations with the EIB, and more.

On a similar note, the European Investment Fund also supports the defence and dual-use industry. Further details on the Defence Equity Facility are provided in Chapter 7.

The role of National Promotional Banks

The availability of national promotional bank finance for defence companies remains uneven across the EU. National promotional banks differ materially in whether defence activities are supported through dedicated programmes, financed only through horizontal instruments, or excluded altogether.

Despite a broader relaxation of eligibility frameworks in recent years, only a limited number of Member States have established explicit defence-dedicated programmes. As of 2025, France, Estonia, Latvia, Lithuania and Poland are the only Member States in which national promotional institutions operate defence-specific funds, mandates or facilities directly targeting defence start-ups, SMEs and industrial players. The two case studies below illustrate the offerings and approaches of two of the biggest national promotional banks with a direct and sustained involvement in the defence sector.

NPBI case study: Bpifrance

Bpifrance acts as France's national financing and support platform for defence and dual-use companies, covering the full Defence Technological and Industrial Base (DTIB) lifecycle from early innovation to industrial scale-up, exports and internationalisation.

The bank plays the role of central integrator within the French defence ecosystem, co-designing support for the Defence Technological and DTIB with the General Directorate for Armaments, managing defence innovation financing with the Defence Innovation Agency, and supporting defence exports alongside Business France and Team France Export.

Eligibility and exclusions

- Financing excludes internationally prohibited weapons (anti-personnel mines, cluster munitions, chemical and biological weapons and other treaty-banned systems), in line with French law and international commitments.
- Defence and dual-use activities that are not subject to international prohibitions remain eligible across Bpifrance instruments.

Available instruments

Bpifrance provides a full continuum of dedicated support to defence and French DTIB companies across debt, equity, business support and exports.

Type of support	
Debt	• **DEF'FI loan**, for defence SMEs (3+ years) supporting business development or MoD-defined regional objectives.
Equity	• **Definvest Funds**, dedicated for strategic DTIB companies • **Defence Innovation Fund**, growth and scale-up equity for defence-relevant technologies. • **Bpifrance Défense Fund**, retail investment vehicle (target €450m) supporting defence and cybersecurity SMEs.
Business support	• **Diag Cybersecurity Defence** • **Defence Accelerator**
Export	• **Repayable advances for defence exporters** • **Export credit insurance** • **Export support**

In the other Member States, defence and dual-use companies are usually eligible for promotional finance only through horizontal instruments, such as innovation loans, SME facilities or infrastructure funding, provided their activities fall within general eligibility criteria and are assessed on a case-by-case basis.

NPB case study: BGK

BGK is Poland's national promotional bank with a growing mandate to finance defence and dual-use through debt, equity and guarantees, complementing commercial banks and mobilising European Union and national resources for the Defence Technological and Industrial Base.

Role and focus

BGK uses blended finance that leverages the National Recovery Plan (KPO), the European Union Recovery and Resilience Facility (RRF) and national sources to scale innovation, production capacity and critical-infrastructure resilience. Its medium-term strategy prioritises defence, dual-use technology and supply-chain security.

Eligibility

Projects must comply with Polish and European Union law, including sanctions, anti-money laundering and counter-terrorist financing rules, and sustainability requirements. Beneficiaries include defence prime contractors, suppliers, dual-use innovators and local governments for civil protection and resilience.

Instruments

- **Debt**: preferential loans for working capital, capital expenditure and scale-up, with reduced interest rates and, in some programmes, partial write-offs.
- **Equity**: growth and venture capital via BGK's investment arm and special-purpose vehicles, including alternative investment companies (ASIs) managed by Vinci S.A.
- **Guarantees**: de minimis and portfolio guarantees to unlock bank finance.
- **Public sector finance**: loans and co-financing for shelters and other protective infrastructure.
- **Innovation support**: research and development and commercialisation in artificial intelligence, cybersecurity, autonomous systems and advanced manufacturing.

Dedicated facility — Security and Defence Fund (FBiO).

Expands defence capacity and innovation, targets the defence industry and cybersecurity, and supports municipalities, small and medium-sized enterprises and start-ups. It deploys a mix of preferential loans (including low interest rates and, where programme rules allow, partial forgiveness), equity and quasi-equity via a special-purpose vehicle, complemented by the National Recovery Plan (KPO), the European Union Recovery and Resilience Facility (RRF) and co-financing with commercial banks.

Investment arm — Vinci S.A. (BGK Group)

Equity and quasi-equity for dual-use and defence innovations, including structures implemented via alternative investment companies (ASIs) managed by Vinci S.A., to support commercialisation and scale-up.

European Union programmes — SAFE

Subject to governmental designation, BGK can act as Poland's national financial intermediary for the SAFE facility, supporting the disbursement of funds to eligible defence and dual-use projects.

The role of Export Credit Guarantees in the EU

Export credit agencies (ECAs) play an enabling role for defence and dual-use industries by mitigating political, commercial and country risks that are often beyond the appetite of private insurers and commercial banks. ECAs provide officially supported export credits, guarantees and insurance, and their support is essential where private market finance is limited because of risk perceptions.

At EU and national level, **conventional weapons and defence equipment are not subject to a blanket exclusion from export credit support**. Most European ECAs explicitly allow coverage of defence exports, provided that defined legal, political and policy conditions are met[17]. Absolute exclusions are generally limited to internationally prohibited weapons (e.g., chemical and biological weapons, cluster munitions) and to destinations subject to arms embargoes. Major commercial banks follow the same stance.

In practice, ECA support for defence exports in EU is highly destination dependent. Coverage is typically available when exports are destined for EU Member States, NATO members or NATO-equivalent partner countries. Exports to other third countries are generally possible only following explicit government approval, often through a prior indication or interministerial decision. Destinations subject to EU, UN or national embargoes are excluded. Similar destination-based constraints apply to export guarantees provided by commercial banks.

In any case, when it comes to defence exports, ECAs operate under stronger political oversight than for civilian exports and transactions commonly require interministerial coordination, prior government indications and confirmation of compliance with national arms-export control legislation.
The case study on Germany below provides a clear illustration of a notable policy shift in this area.

Germany: change in Export Credit Guarantees cover policy

In 2025, Germany updated its **Export Credit Guarantees cover policy**.
The revised framework now explicitly states that cover is available for exports of war weapons and defence equipment to the EU customs territory, NATO member states, NATO-equivalent partners (including Australia, Japan, New Zealand and Switzerland), and a limited number of additional partner countries.

Exports to other third countries may also be eligible, subject to a positive preliminary indication by the Federal Government prior to the submission of a formal application. Exports to embargoed destinations remain excluded. Other military goods are assessed on a case-by-case basis following a preliminary inquiry.

[17] An EU-level regulatory framework also governs the export of dual-use goods. Regulation (EU) 2021/821 requires that exports of dual-use items be subject to prior authorisation by national authorities, based on an assessment of the item, end-user, end-use and destination, as well as risks related to security, non-proliferation and human rights.

07

The Investor Vanguard: Private Equity, Venture Capital, and the New Defence Tech Boom

6.2%

Projected share of defence investments in total EU venture capital in 2025.

Private investors are playing a growing role in financing Europe's defence ecosystem, with venture capital emerging as the main driver, particularly at early and growth stages.

While until 2022 defence was largely absent from mainstream European technology investment portfolios, in 2025 **venture capital funding reached approximately €1.28 billion**[18], making it the most active year on record for the sector.

Defence now represents around 4% of total European VC funding, compared to less than 1% prior to 2020, and approximately 6.2% of total VC investment within the EU-27 alone[19]. Despite this growth, **investment remains highly concentrated**. A limited number of late-stage transactions account for a disproportionate share of total capital deployed. In 2025, mega-rounds, most notably Helsing's € 512 million Series D, represented more than three quarters of total European defence VC investment.

Geographic concentration of defence venture capital in the EU

Over the last years, **Germany** has emerged as the **main European hub for defence VC**, accounting for approximately € 1.7 billion in cumulative defence VC investment since 2019 and around € 1.28 billion since 2024 alone. Defence-related investments represent more than 10 % of total German VC activity since 2024, a higher share than in any other European region.

By contrast, France has attracted approximately € 124 million in defence VC investment since 2024, representing less than 1.5 % of national VC activity. Southern Europe continues to attract significantly lower volumes, with around € 293 million in combined defence VC investment since 2024, while the Nordic region remains below € 68 million over the same period.

On the **investor side**, the number of investors participating in at least one European defence venture transaction is projected to be nearly four times higher in 2025 than in 2019[20]. This expansion has been driven in large part by the emergence of specialised defence and security-focused venture funds, which now participate in more than one third of all European defence VC rounds, compared to negligible involvement prior to 2022. While only eight dedicated defence funds had been launched before 2022, a further fifteen were launched between 2024 and 2025 alone.

[18] Original data is expressed in USD and has been converted into EUR based on the ECB average exchange rate for September 2025, corresponding to the month of publication of the Dealroom report. (EUR 1 = USD 1.1732) ECB website: https://www.ecb.europa.eu/stats/policy_and_exchange_rates/euro_reference_exchange_rates/html/eurofxref-graph-usd.en.html)
[19] Dealroom.co. (2025, September). State of Defence Tech 2025. (Dealroom Report). Dealroom.co.
[20] Dealroom.co. (2025, September). State of Defence Tech 2025. (Dealroom Report). Dealroom.co.

At the same time, the market remains highly internationalised. US-based investors account for approximately 40 to 50 % of total VC funding in European defence startups, with their share increasing further in large late-stage rounds.

Clarifications on the EU sustainable finance framework and effects on EU Article 8 and 9 funds

Traditionally, ESG concerns and reputational risks have been cited as key barriers to private investment in defence. In 2025, the European Commission has clarified that the EU sustainable finance framework sets no limitations on the financing of any sector, including the defence sector, and that sustainability-related disclosures apply horizontally across all industries.

Similarly, certain defence activities contributing to peace, security and resilience may contribute to social sustainability objectives under the Sustainable Finance Disclosure Regulation (SFDR), subject to compliance with the “do no significant harm” principle and applicable good governance requirements.

As a result, for **Article 8 equity funds** the share of funds with zero defence exposure declined from about 67% in 2022 to around 46% by mid-2025, while those with defence exposure above 5% rose to roughly 19%. Among Article 8 funds, exclusions are largely limited to controversial weapons (applied by around 92% of funds), while only about 31% extend exclusions to broader military contracting or conventional defence activities.

On the other hand, around 80% of **Article 9** equity funds still have zero exposure to aerospace and defence companies, while the remaining funds generally have very limited exposure, typically below 5% of portfolio value[21].

[21] Bioy, H. (2025, August 15). EU ESG funds’ exposure to defense continues to increase. Sustainalytics. https://www.sustainalytics.com/esg-research/resource/investors-esg-blog/eu-esg-funds--exposure-to-defense-continues-to-increase

Sectoral trends in venture funding

Venture investment in defence has concentrated on robotics and autonomous systems, the largest destination of capital outside AI-driven applications. Investment reached approximately €293 million in 2025 and €653 million cumulatively since 2019, driven primarily by unmanned aerial vehicles, which account for around 79% of total funding. **Investor interest is increasingly extending beyond core defence technologies to dual-use sectors**, notably AI, where startups have raised around €20 billion since 2020, representing roughly 17% of total EU VC investment in 2025[22].

Other dual-use domains show similar momentum. European space ventures attracted approximately €1.5 billion in 2024, the largest single-year increase in a decade, with investment increasingly concentrated in fewer, larger rounds and venture capital accounting for around 82% of total funding[23]. In parallel, **European quantum startups** have raised more than €1.36 billion since 2020, with 2025 projected to reach approximately €2.05 billion, the highest level on record. Europe captures around 35–40% of global VC investment in quantum cryptography and quantum computing.

EU Defence Equity Facility: a fund-of-funds for defence businesses

To enhance access to financing for defence businesses, including SMEs, start-ups, scale-ups, and small mid-caps, the European Commission has introduced several key measures. A flagship initiative is the **Defence Equity Facility (DEF)**, a fund-of-funds jointly backed by the Commission and the EIF, designed to channel approximately €500 million in equity into EU defence companies by investing through selected venture and private equity funds and via co-investments. Practically, companies do not apply to DEF directly; instead, they can approach EIF-backed fund managers with clear defence or dual-use strategies to support productisation and certification, scaling production, and building supply chains.

On 22 May 2025, the Commission and EIF committed €40 million from DEF to **Keen Venture Partners' European Defence and Security Tech Fund**[24]. This marks the EIF's first direct investment under DEF into a specialised defence-tech fund. The fund targets early-stage companies innovating in areas such as cyber defence, AI, robotics, autonomous systems, and space technologies, including satellite communications protection and image analysis. Having raised already over €150 million by end 2025, Keen expects to eventually close out at €200 million and make than 25 investments between €1 million and €10 million.

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[22] Dealroom.co. (2025, November 12). Startups driving Europe's AI transformation (Dealroom Report). Dealroom.co. https://dealroom.co/uploaded/2025/11/Startups-driving-Europes-AI-transformation-2.pdf?x94554

[23] European Space Policy Institute. (2025). Space Venture 2024: Global investment dynamics (ESPI Report 95). European Space Policy Institute. https://www.espi.eu/wp-content/uploads/2025/06/Space_Venture_2024.pdf

[24] https://defence-industry-space.ec.europa.eu/defence-equity-facility-european-commission-and-eif-announce-eu40-million-investment-european-2025-05-22_en

To complement the DEF, the European Commission, together with the European Investment Bank and the European Investment Fund, will support the launch, by Q1 2026, of an **up to €1 billion Fund of Funds** to provide growth capital to defence-related innovative SMEs and scale-ups and to consolidate defence supply chains, with the participation of private funds (venture capital, private equity, private credit and infrastructure)[25].

NATO Initiatives

Several initiatives have been launched at NATO level to accelerate dual-use innovation and scale deep-tech solutions relevant to defence and security, notably the Defence Innovation Accelerator for the North Atlantic (DIANA) and the NATO Innovation Fund (NIF).

DIANA was established by NATO in 2021 and became operational with its first challenges in 2023. It runs competitive challenge programmes and accelerator cohorts across a transatlantic network of test centres and accelerators, offering non-dilutive grants (€100k initial awards with potential follow-on to €300k), technical mentorship, and access to end-users to help companies adapt and validate civilian technologies for defence use. Eligibility is open to startups and SMEs from participating NATO Allies, including companies with **no previous defence experience**. Priority areas cover autonomy, AI, cyber, space, energy resilience, sensing, quantum, and more.

The programme is use-case-driven, with cohorts tackling concrete operational problems, for example, counter-UAS detection and defeat, resilient PNT and communications, expeditionary energy and power management, and rapid environmental sensing for contested logistics, so that teams progress from lab-ready concepts to mission-ready capabilities with early customer feedback.

[25] European Commission. (2025, November 19). EU Defence Industry Transformation Roadmap: Unleashing disruptive innovation for defence readiness (COM(2025) 845 final). European Commission. https://defence-industry-space.ec.europa.eu/document/download/513de692-d08c-40cc-80c3-cb6611ace178_en?filename=EU-Defence-Industry-Transformation-Roadmap.pdf

Complementing DIANA, the **NATO Innovation Fund** is a €1 billion multi-sovereign venture vehicle with a 15-year investment horizon, created following Allied decisions in 2022 and formally launched in 2023, to invest in early-stage companies and specialist funds developing dual-use deep-tech across the Alliance. NIF focuses on breakthrough technologies that can transform defence readiness and resilience, such as advanced AI/ML, next-generation sensors, cybersecurity, space systems, novel materials and manufacturing, and frontier computing, offering equity capital from seed and Series-A onward and patient support to scale. Illustrative use cases include AI-enabled multi-sensor fusion for ISR, secure autonomy stacks for uncrewed systems, space-based situational awareness, advanced power storage for deployed operations, and privacy-preserving cyber analytics.

These NATO instruments have emerged alongside growing private capital interest in European defence and security tech, reinforcing the pipeline from R&D to deployment.

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