# Europe considers a Defence, Security and Resilience Bank to tackle procurement and funding challenges



As defence budgets across Europe increase in response to security threats and economic uncertainties, challenges such as fragmented procurement systems, constrained finances, and currency volatility are prompting calls for innovative financial mechanisms. Among the proposals gaining attention is the establishment of a Defence, Security and Resilience (DSR) Bank, modelled on the World Bank, designed to provide a sustainable funding framework for European defence.

Europe finds itself at a crossroads amid renewed security tensions stemming from Russian aggression and recent disruptions in international trade. Governments across the continent are grappling with heightened fiscal pressures including rising healthcare costs, housing crises, and public disengagement after years of economic stagnation. These factors limit the flexibility available to increase defence spending, despite political will to bolster security.

The current procurement system remains highly fragmented, with individual states prioritising national interests which drives up costs and reduces efficiency. The proposed DSR Bank seeks to address these inefficiencies by pooling financial resources and risks at a multinational level. This pooled approach would enable participating nations to collectively access capital at lower interest rates due to enhanced creditworthiness, improving fiscal stability and predictability over traditional annual defence budgets which are susceptible to political and economic changes.

The concept draws lessons from history, particularly from the 1960s when the UK faced similar dilemmas as geopolitical threats to Europe intensified. The 1966 Defence White Paper saw Britain pivot its strategic focus to face the Soviet threat while reducing global commitments to manage costs. A notable example was the cancellation of the British Aircraft Corporation’s TSR-2 project and the subsequent plan to acquire the American F-111 bomber. However, the 1967 devaluation of the pound inflated the effective cost of this purchase, leading to its cancellation and leaving the UK reliant on ageing aircraft and limited export opportunities. This episode highlights the risks posed by external economic shifts and currency volatility on defence procurement.

Contemporary parallels are evident in projects such as the Global Combat Air Programme (GCAP), where cost inflation and funding stability remain key concerns. The UK and European defence industries are also confronting record-high order backlogs and supply chain constraints. Recent episodes like the 2022 pound devaluation following the UK’s mini-budget further underscore how such volatility can unexpectedly inflate defence contract costs, often priced in US dollars.

The DSR Bank proposal involves a multilateral financial institution owned by participating nation-states. Unlike existing models where individual countries borrow independently to fund defence procurement, the bank would borrow collectively and provide financing through its balance sheet. This would keep defence debt off individual national accounts, easing pressure on public finances. Additionally, the bank could underwrite risks for commercial lenders, encouraging investment in smaller suppliers within the defence supply chain—an area crucial for maintaining industrial capacity and resilience.

Moreover, the DSR Bank aims to harmonise regulatory complexities such as export controls and licensing, facilitating cross-border defence financing without centralising procurement decision-making. This would preserve sovereign control while addressing the structural inefficiencies that have long plagued European defence spending.

Beyond procurement, the bank could play a critical role in securing Europe’s defence supply chains, including access to essential raw materials for advanced defence technologies. Existing bilateral agreements, such as the EU’s arrangement with Ukraine on critical raw materials and the UK’s 100-year security partnership with Ukraine established in 2024, could be complemented and strengthened through the coordinated financing and governance structure of the DSR Bank. The institution’s ability to negotiate long-term contracts at scale for critical minerals and oversee supply chain security would further bolster Europe’s industrial base.

The United Kingdom is posited as a natural leader in spearheading the DSR Bank initiative. London’s status as a global financial hub combined with the political stability afforded by the Labour Government’s parliamentary majority creates favourable conditions for launching such an institution. While other European powers like Germany and France are navigating political transitions and domestic resistance to increased defence budgets, the UK’s established defence partnerships in regions such as the Baltic, the High North, and Ukraine underline its strategic centrality.

Authors Calvin Bailey and Graeme Downie contend that leading the creation of the DSR Bank would reaffirm the UK’s role in European defence and contribute to achieving strategic autonomy amid rising global uncertainties. They note, "The excellent credibility of our armed forces is already a massive draw for defence exports. When the Royal Navy uses a platform, the world takes notice," highlighting the UK's influence in defence procurement circles.

The DSR Bank initiative represents a significant departure from past approaches that allowed economic pressures and geopolitical shifts to diminish domestic defence industries and increase dependence on foreign suppliers. By focusing on stable, long-term funding mechanisms and collective financial strength, the proposal aims to secure Europe's future defence capabilities while accommodating the fiscal realities faced by individual nations.

Scheduled discussions between UK and EU leaders in London next month are expected to address these complex challenges. The establishment of the Defence, Security and Resilience Bank could mark an important step towards integrated European defence financing, with implications for procurement efficiency, industrial revitalisation, and strategic defence partnerships moving forward.

Source: [Noah Wire Services](https://www.noahwire.com)

## Bibliography

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