# Government signals action against banks blocking defence financing over ESG concerns



Government intervention is on the horizon for UK banks that deny financial services to defence firms due to “woke” environmental, social, and governance (ESG) concerns. Business Secretary Jonathan Reynolds has made it clear that the government will not tolerate barriers to funding for defence contractors in light of rising global tensions, particularly with Russia. “This is a dangerous world, and we cannot be squeamish about supporting defence products which keep the world safe,” he asserted during a recent visit to MBDA in Bolton, a key manufacturer of the UK’s missile systems. Despite some improvements, around one in ten small to medium-sized enterprises (SMEs) linked to this sector are still struggling to access finance, often having their banking facilities revoked for involvement with defence-related projects.

The pushback against restrictive banking practices comes amid an escalating debate concerning the application of ESG criteria in financial institutions. Recently, more than 100 Labour MPs and peers urged banks to reconsider these policies, suggesting that excluding defence investments as “unethical” undermines national security interests and support for Ukraine. Notable figures such as former NATO Secretary General Lord George Robertson and former Royal Navy Chief Admiral Lord Alan West have added their voices to this call, positing that such restrictions should not hinder investments essential for both UK and European security.

On a broader scale, top industry trade bodies, including TheCityUK and UK Finance, have convened to develop strategies aimed at facilitating increased funding for the defence industry. As European nations ramp up their military expenditures amid concerns over Russian actions, British Prime Minister Keir Starmer has likewise committed to expand annual defence spending to 2.5% of GDP by 2027. The trade bodies are advocating for reforms that include improving investor perceptions and aligning defence investments with ESG mandates, countering the prevalent notion of defence as a less ethical investment.

Yet, the practical implications for SMEs in the defence sector remain troubling. Reports indicate that financial access is becoming increasingly crucial, with some firms facing significant challenges, such as denied bank accounts, which can cripple operational capacity. Lizzie Jones from Supacat, a manufacturer of military vehicles, expressed frustration over banks’ reluctance to fund defence industries, stating that such disinterest has taken a toll on their ability to operate effectively. Meanwhile, Clive Higgins, CEO of Leonardo UK, noted a proactive response from the government in recent months but acknowledged the continuing adverse impact of ESG standards on finance access for smaller firms.

Despite these challenges, there is a sense of optimism as the government and defence firms work collaboratively to resolve these financial constraints. With significant investments on the horizon—such as MBDA’s recent announcement of a £200 million investment to create 700 jobs in Bolton—the importance of the defence industry as an engine of national economic growth is being affirmed. Notably, this investment will also extend capabilities to Poland, further strengthening bilateral defence commitments.

As the UK navigates a complex international security landscape, it is becoming increasingly evident that the perception and accessibility of finance for the defence sector will carry implications not solely for the industry itself but for national security at large. Policymakers seem determined to address the intersection of ethical banking and defence, positioning the latter not just as a matter of commerce but as a critical component of national resilience and safety in a precarious world.

In this evolving scenario, the critical question remains: will the financial services sector adapt its ESG criteria to allow for a more robust investment in defence, or will the ethical conundrums persist, hampering the UK’s ability to maintain a strong defensive posture? The government’s commitment to engage with banks suggests a recognition of the pressing need to reconcile these competing interests for the sake of national security.

## Reference Map:

* Paragraph 1 – [[1]](https://www.express.co.uk/news/uk/2059851/Government-warns-banks-over-using-woke-rules-to-block-defence-funding), [[5]](https://www.ft.com/content/1c34bdc2-9128-4eeb-977d-6c0778c2bbce)
* Paragraph 2 – [[2]](https://www.ft.com/content/062fda6e-e33e-4629-9fbd-16c8c2b318cc), [[6]](https://www.standard.co.uk/business/business-news/labour-mps-and-peers-urge-banks-to-view-uk-defence-investments-as-ethical-b1215033.html)
* Paragraph 3 – [[3]](https://www.reuters.com/world/uk/uk-finance-defence-trade-bodies-explore-funding-blueprint-arms-race-2025-03-05/), [[6]](https://www.standard.co.uk/business/business-news/labour-mps-and-peers-urge-banks-to-view-uk-defence-investments-as-ethical-b1215033.html)
* Paragraph 4 – [[7]](https://news.sky.com/story/defence-firms-held-back-by-uk-ethical-banking-standards-industry-says-13332109)
* Paragraph 5 – [[1]](https://www.express.co.uk/news/uk/2059851/Government-warns-banks-over-using-woke-rules-to-block-defence-funding), [[2]](https://www.ft.com/content/062fda6e-e33e-4629-9fbd-16c8c2b318cc)
* Paragraph 6 – [[3]](https://www.reuters.com/world/uk/uk-finance-defence-trade-bodies-explore-funding-blueprint-arms-race-2025-03-05/), [[5]](https://www.ft.com/content/1c34bdc2-9128-4eeb-977d-6c0778c2bbce)
* Paragraph 7 – [[1]](https://www.express.co.uk/news/uk/2059851/Government-warns-banks-over-using-woke-rules-to-block-defence-funding), [[7]](https://news.sky.com/story/defence-firms-held-back-by-uk-ethical-banking-standards-industry-says-13332109)

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## Bibliography

1. <https://www.express.co.uk/news/uk/2059851/Government-warns-banks-over-using-woke-rules-to-block-defence-funding> - Please view link - unable to able to access data
2. <https://www.ft.com/content/062fda6e-e33e-4629-9fbd-16c8c2b318cc> - Over 100 Labour MPs and peers have urged British banks and fund managers to reconsider their environmental, social, and governance (ESG) criteria that often exclude defence investments as 'unethical'. In an open letter, they emphasized the importance of supporting the UK's defence sector to bolster support for Ukraine. Signatories include former NATO Secretary General Lord George Robertson and former Royal Navy Chief Admiral Lord Alan West. The group argues that ESG standards should not hinder investments crucial for national security and international support.
3. <https://www.reuters.com/world/uk/uk-finance-defence-trade-bodies-explore-funding-blueprint-arms-race-2025-03-05/> - Top trade bodies for Britain's financial services and defence industries, including TheCityUK, UK Finance, and ADS Group, met to discuss reforms aimed at increasing investment in the defence sector as European governments ramp up military spending due to concerns over Russia's actions in Ukraine and doubts about U.S. protection. British Prime Minister Keir Starmer has committed to increasing annual defence spending, with aims to boost it from 2.3% to 2.5% of GDP by 2027. The trade bodies seek to address regulatory and financial challenges to facilitate bank and investment firm support for arms manufacturers. Their recommendations to Britain's business minister include improved information sharing, faster payments in defence supply chains, and ensuring defence investment aligns with ESG mandates. Despite obstacles and ethical concerns from customers, European defence stocks have been rising as investor confidence grows.
4. <https://www.ft.com/content/128f6f71-62b2-4cea-b0e1-32e38925b2f0> - The UK plans to introduce legislation next year to regulate ESG (Environmental, Social, and Governance) rating agencies, announced by Chancellor Rachel Reeves during her visit to Toronto. This initiative aims to align with global efforts to enhance transparency in the sector, following groundwork started by former Chancellor Jeremy Hunt. Currently, the ESG ratings industry, which influences substantial investments, lacks significant regulation. Reeves expressed concern over the opaque criteria used by these agencies and aims to increase transparency to support the sustainable finance sector in the UK. The Financial Conduct Authority will set the new rules, aligning with EU standards, to avoid additional burdens on businesses. This move is part of a broader strategy to boost the UK's economic growth and ensure the integrity of sustainable investments. Industry experts have welcomed this move but caution against over-regulation that could restrict essential ESG data.
5. <https://www.ft.com/content/1c34bdc2-9128-4eeb-977d-6c0778c2bbce> - Ministers are urging the UK's financial services industry to increase its support for the defence sector despite ethical concerns. Business Secretary Jonathan Reynolds is hosting a meeting to address the challenges posed by environmental, social, and governance (ESG) principles on the growth and investment in defence companies. Reynolds argues that banks should not succumb to pressure from campaign groups advocating for the boycott of defence firms. Despite a recent 9% reduction in investment in leading UK defence companies due to ESG concerns, attitudes have become more positive because of the Ukraine war highlighting the importance of a strong defence industry. Small and medium-sized defence companies, in particular, depend on bank lending for cash flow. The meeting aims to improve investor perceptions and encourage a more favorable attitude toward defence, emphasizing its crucial role in economic growth and job creation. Key attendees include top executives from ADS, UK Finance, City UK, BAE Systems, Babcock, and leading banks. This initiative follows the launch of a new defence industrial strategy and recognizes defence as a vital 'growth sector' in the UK’s broader industrial strategy.
6. <https://www.standard.co.uk/business/business-news/labour-mps-and-peers-urge-banks-to-view-uk-defence-investments-as-ethical-b1215033.html> - An open letter called for financial institutions to ‘rethink’ environment, social and governance requirements that often exclude defence investment. The MPs and peers said they believe ESG is ‘synonymous’ with the Ukrainian cause (Joe Giddens/PA) PA Wire Rebecca Speare-Cole6 March 2025 More than 100 Labour MPs and peers have called on British financial institutions to class UK defence investments as ethical to boost support for Ukraine. In an open letter on Thursday, the group called for a “rethink” on environmental, social and governance (ESG) investment requirements that often exclude defence firms as “unethical”. Labour MP Alex Baker co-ordinated the letter addressed to Britain’s banks and fund managers, with signatories including former Royal Navy chief admiral Lord Alan West, former Nato secretary general Lord George Robertson and chairman of the Commons Defence Committee Tan Dhesi. The group said financial institutions can “do more” to help the UK defence sector support Ukraine’s war effort as well as “rapidly generate the capabilities it needs to defend itself”.
7. <https://news.sky.com/story/defence-firms-held-back-by-uk-ethical-banking-standards-industry-says-13332109> - British banks should abandon outdated ethical standards and increase lending to domestic defence manufacturers in a 'patriotic' effort to ensure the UK can meet its security needs, defence suppliers have told Sky News. The defence industry has long complained that environment, sustainability and governance (ESG) standards, intended to guide business impact on society, have prevented small and medium-sized companies (SMEs) raising finance. With the government promising to increase defence spending to 2.5% of GDP, and the chancellor keen that SMEs in the sector should contribute increased growth, the industry believes ESG rules could hold British companies back. Lizzie Jones of Supacat, which manufactures military vehicles used by special forces and infantry, told Sky News: "We have absolutely felt the disinterest from banks to invest in the defence industry, which has been really hard to deal with over the last few years. We're hoping that the tide is beginning to change, and that actually some of the patriotic feelings that we need the defence industry, particularly right now, will help persuade the banks that investing in defence industries is good for UK growth." The call for a re-examination of ethical standards was echoed by one of the largest defence suppliers, Leonardo UK, the British arm of an Italian-listed multinational that manufactures helicopters and electronic warfare technology. Chief executive Clive Higgins told Sky News: "The ESG agenda was really impacting small to medium enterprises where no banking was effectively taking place, and individuals couldn't go get a bank account because they were in the defence sector. We've seen a real, really proactive response from the government over the last 12 months. I think we're starting to see a shift in the tragic events going on in Ukraine, which helps people recognise the importance of defence at home, because that ensures we can enjoy the freedoms that you and I take for granted each day."