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From niche to necessity: financing defence as strategic infrastructure

Defence finance is moving from specialist lending into infrastructure-style investment as governments seek bankable routes to private capital

By Ryan Ayrton   August 3 2026

Defence finance is moving beyond its traditional status as a specialist niche, both in structure and investor base.

Across NATO, the EU and allied nations, parts of the defence and security ecosystem are increasingly viewed through an infrastructure lens: essential, long-term, policy-backed and central to national resilience.

The pace of change over the last 12-24 months reflects political commitment not seen for decades.

Increased defence spending, rearmament, supply-chain resilience, expanded export credit capacity and evolving lender policies have turned a gradual market evolution into an urgent financing priority.

The definition of defence is broadening. AI, cyber, secure communications, space, logistics and dual-use technologies now sit alongside traditional military hardware.

This analysis considers the key instruments, market trends and implications for market participants.

Strategic export finance

Export finance, often supported by export credit agencies (ECAs), is a natural starting point, given recent deal flow and contract announcements.

It is becoming a central tool for governments and contractors seeking to meet rising demand. In June 2026, UK Export Finance (UKEF), the UK's ECA, announced a landmark £50 billion ($66.5 billion) defence export fund.

Publicly announced ECA deals include UKEF-backed financing for the supply of minesweeper vessels to Ukraine and Bpifrance backed financing of more than €1 billion for Eutelsat's OneWeb satellite constellation, supplied by Airbus Defence and Space. Eutelsat’s business is supported in part by the €350 million, eight-year Centaure sovereign communications contract with the French Armed Forces Ministry, announced in June 2026.

The range is broad, spanning multi-billion-dollar exports of military hardware and SME financings that enable innovative growth companies to access international markets.

Importantly, ECAs are no longer confined to traditional structures linked to specific export contracts. Recent years have seen the expansion of “untied” products, supporting domestic borrowers and supply chains where there is a broader national economic or strategic rationale. For defence and dual-use businesses, that may open new sources of liquidity.

Bankable defence infrastructure

Public-private partnerships (PPPs) provide an attractive structure for new defence projects, attracting debt and infrastructure fund equity due to their long tenors and predictable revenue streams.

Notable examples already exist. In the UK, the AirTanker air-to-air refuelling project and several military buildings have attracted infrastructure fund investment; in France examples include CEGELOG military accommodation and the French Pentagon; and in Lithuania, the Rūdninkai military town, which reached financial close in July.

Calls are growing to accelerate the implementation of new security and defence PPPs. In April 2025, the European Investment Bank released a paper endorsing defence PPPs, focusing on cost efficiencies, innovation and risk sharing.

At the NATO Summit Defence Industry Forum in Ankara in July, NATO launched a call to action to increase private investment in defence, including through public-private co-investment models to expand lending capacity and lower cost of capital.

The UK's £298 billion Defence Investment Plan published in June 2026 falls short of recommending new PPPs, focusing instead on a “segmented” procurement approach to improve demand signals and clarify risk allocation with industry. A Defence Finance and Investment Strategy paper will set out further detail.

Questions remain over whether PPP structures are suitable for defence projects with intermittent demand. Value-for-money criticisms of PPPs also linger in certain jurisdictions, though appetite varies. Where traditional PPPs will not be used, governments must find alternative models quickly so private capital can be deployed.

Contracted defence growth

Government and armed forces contracting is growing rapidly across NATO and allied nations, supported by strategic defence plans and increased spending commitments. Investors and lenders are favouring businesses benefitting from long-term, policy-driven contracts, recognising their potential for stable revenues and resilience in uncertain environments.

For infrastructure funds and private capital, the sector is increasingly seen as an extension of the broader infrastructure investment landscape.

Illustrating the trend, in May 2026, investment management company Carlyle announced a dedicated mid-market aerospace, defence and industrial platform focusing on the US and Europe. The PE and infrastructure investor is seeking to build and scale businesses essential to the industrial base – describing this as a "multi-decade investment opportunity across defence and industrial infrastructure".

As the “security infrastructure” market develops, private capital is being deployed into businesses holding essential contracts with defence ministries or prime contractors. This evolution allows asset managers access to sector growth while complying with investor mandate restrictions on lethal equipment exposure.

Not every borrower holding a contract with a defence counterparty will attract capital from infrastructure investors or lenders. The businesses most likely to do so are those with long-term contracted revenues, mission-critical services, high barriers to replacement and limited exposure to demand volatility or product obsolescence.

Businesses with these characteristics may be able to structure debt on favourable terms, capturing some of the attractive features of PPPs without formal frameworks or restrictions.

There are calls on sovereign counterparties to enhance bankability of their agreements.

Lender red lines

Lenders are adapting, though policy variations remain. The closer to front-line weapons or military action, the more restrictive certain institutions may be.

Still, the trend is towards greater openness, especially for deals involving critical infrastructure, technology or services rather than offensive capability.

Following the Ankara Summit in July, the NATO Innovation Fund joined a group of major international financial institutions in welcoming the NATO call to action.

A key practical issue is taxonomy. Many lenders and investors are not asking whether "defence" is investable in the abstract, but where an asset sits on a spectrum: civil, dual-use, security, non-lethal military support, or direct weapons capability.

That classification can determine eligibility under investor side letters, fund mandates and ESG policies.

As lenders increasingly recognise certain defence and security-related assets as having infrastructure characteristics – comparable in risk profile to other infrastructure borrowers on their books – financing terms are beginning to converge with mainstream lending.

Specialised private credit funds may also enter where traditional lenders will not, though the market awaits movement at scale.

Menu of options

For lawyers, the transformation of defence finance opens opportunities and challenges. Private practice advisers must tailor their approach: not every client or deal suits the same model.

A menu of options, from export finance to project finance, infrastructure acquisition and capex facilities, is essential. The reframing of defence as infrastructure means lawyers must draw on infrastructure and leveraged finance expertise, not just defence sector knowledge.

The sector's complexity demands multidisciplinary teams to secure the right terms and navigate procurement, regulatory, export control, sanctions and policy frameworks. Compliance teams should be involved early – not as hurdles to clear, but as facilitators of innovation.

Firms that build effective cross-practice defence teams will be best positioned as the sector scales.

Defence finance redefined

Defence and security finance has moved from the margins of specialist lending into the core of national resilience, industrial strategy and infrastructure investment.

Export finance and PPP models will remain important, but neither is a complete answer. The next phase will require structures that can accommodate changing technology, surge requirements, political risk and investor mandate constraints.

As the lines between defence, infrastructure and mainstream finance continue to blur, market participants will need to adapt quickly.

For governments, the question is whether policy can keep pace with the threat environment – and whether bankable structures will be ready when capital is needed most.