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Mapping Europe's Defence Finance Architecture

Europe is spending more on defence than at any point since the Cold War. But how does the money actually work? This paper maps every major EU defence fund, programme and investment tool — and explains what each one does, who runs it, and why it matters.

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THE BRIEF

Europe is rearming. After decades of treating defence as someone else's problem — mostly America's — the EU has launched a wave of funds, loans, and programmes worth hundreds of billions of euros. The question is no longer whether to spend, but whether all this money is being spent wisely.

Russia's full-scale invasion of Ukraine in February 2022 was the turning point. It exposed a simple, uncomfortable truth: Europe's defence industrial base had spent 30 years shrinking. Factories that once made artillery shells had been repurposed or closed. Stockpiles were thin. Delivery times for new equipment were measured in years, not weeks.

Since then, the EU has moved fast — faster than many expected. New instruments have been created, old ones scaled up, and political taboos around EU defence spending have collapsed. But speed has come with a cost: the result is a complex, overlapping alphabet soup of funds that even experts struggle to navigate.

This paper cuts through that complexity. It explains each instrument in plain terms — what it does, who runs it, how much money is involved, and how it fits with everything else. It also identifies where the gaps are and what needs to change.

BY THE NUMBERS

€150 billion — maximum SAFE loan envelope for joint defence procurement

€8 billion — European Defence Fund budget for R&D (2021–2027)

€17 billion+ — European Peace Facility, mostly military aid to Ukraine

€800 billion+ — total leveraged investment targeted by ReArm Europe by 2030

80% — share of European procurement that went to non-EU suppliers post-2022

27 — EU member states participating in PESCO defence cooperation

SECTION 01

Why Europe Is Spending on Defence Now

For most of its history, the EU stayed well clear of defence. It was politically sensitive, legally complicated, and — as long as America was willing to carry the burden — strategically unnecessary.

That calculation has changed. Three things broke the old consensus. First, Russia's annexation of Crimea in 2014 was the warning shot. Second, Donald Trump's repeated questioning of NATO's collective defence commitment — in his first term and again after 2024 — forced European capitals to confront the possibility that the American security guarantee could no longer be taken for granted. Third, the full-scale invasion of Ukraine proved that large-scale conventional warfare had returned to European soil.

The EU's legal framework had always made defence spending difficult. The Treaty on European Union explicitly bars the EU budget from funding anything with direct military implications. For decades, this was interpreted broadly — even funding research into military technology was contested territory. The result: Europe's defence industrial base spent 30 years shrinking while the US, China, and Russia invested heavily.

The political shift since 2022 has been remarkable. What was once unsayable — that the EU should fund defence — is now mainstream policy. Member states' combined defence spending has risen from around €218 billion in 2021 to an estimated €392 billion in 2025. At the 2025 Hague Summit, NATO members committed to a 5% of GDP defence target. And in March 2025, the European Commission published its most ambitious defence plan ever: ReArm Europe.

"Europe is not short of money for defence. It is short of coordination, industrial capacity, and the political will to spend together."

The legal workarounds that made all this possible are worth understanding. Since the EU budget cannot directly fund military operations, every instrument in this paper had to be justified on other grounds — research and innovation policy, industrial competitiveness, emergency provisions, or off-budget structures. The European Defence Fund uses internal market and research treaty articles. The European Peace Facility sits entirely outside the EU budget. SAFE was rushed through under an emergency treaty provision that bypassed the European Parliament — a decision that is now being challenged in court.

These are not just technical details. They explain why the current architecture is complex, sometimes contradictory, and vulnerable to political friction. And they set the context for understanding each instrument on its own terms.

SECTION 02

The Nine Instruments — Explained

There is no single EU defence budget. Instead, there is a collection of nine distinct instruments, each with its own purpose, legal basis, and pot of money. Here is what each one actually does.

The European Defence Fund (EDF)

Think of the EDF as Europe's defence R&D engine. With a budget of around €8 billion for 2021–2027, it funds collaborative research and development projects — everything from next-generation tanks and missile defence systems to AI integration in military platforms. It is the EU's biggest direct investment in defence technology, and the first time the EU budget was used for this purpose at meaningful scale.

The catch: the EDF pays for the research but not for actually buying the finished product. That is still a national decision. So you can end up with a brilliant EU-funded prototype that member states then choose not to procure together — defeating part of the point.

Despite this, the fund has committed over €5.4 billion across 31 programme areas, and in 2026 is investing €1 billion in 31 projects ranging from interceptor missiles to autonomous maritime vessels. SMEs receive funding bonuses, and projects linked to PESCO get an additional 10% top-up.

The European Defence Industry Programme (EDIP)

EDIP is the bridge between the EU's emergency responses of 2022–2024 and its long-term industrial strategy. Adopted in December 2025 with a €1.5 billion budget for 2025–2027, it focuses on building industrial capacity — supply chain resilience, standardisation, and getting SMEs properly integrated into the defence industrial base.

It also includes €300 million specifically for Ukraine's defence industry — a signal that Ukraine's integration into European defence structures is already underway, well ahead of any formal accession. An important rule: at least 65% of components in EDIP-funded projects must come from the EU or associated countries. This is the EU starting to get serious about reducing dependency on non-European suppliers.

SAFE — Security Action for Europe

SAFE is the big one. Adopted in May 2025, it allows the European Commission to borrow up to €150 billion on capital markets — backed by the EU's AAA credit rating — and lend that money to member states for joint defence procurement. The terms are generous: competitive interest rates, maturities of up to 45 years, and a 10-year grace period on principal repayments. No VAT on purchases made under the scheme.

By July 2025, 18 member states had already expressed interest, with combined demand reaching €127 billion — close to the ceiling. Ukraine, Norway, Iceland and Liechtenstein can participate on equal terms. Canada became the first non-EEA country to join after a bilateral agreement in December 2025.

The risk is real though: without explicit rules requiring member states to spend SAFE loans on top of their existing defence budgets — rather than instead of them — the money could just replace national spending rather than increasing it. Several of the most fiscally stretched member states are already under EU deficit procedures. Watching this closely will matter.

The European Peace Facility (EPF)

The EPF is architecturally unlike everything else here. It sits entirely outside the EU budget — financed by direct member state contributions — specifically to avoid the treaty restrictions on military spending. Since Ukraine was invaded, it has become the EU's primary vehicle for military aid: artillery, ammunition, air defence systems, training.

By 2024, the EU had mobilised around €6.1 billion through the EPF for Ukraine. An additional channel: 90% of windfall profits from frozen Russian sovereign assets held in EU banks have been routed through the EPF, with a first tranche of €1.5 billion transferred in mid-2024.

The EPF has a critical vulnerability: it requires unanimous Council decisions. Hungary has blocked new EPF tranches for Ukraine since March 2023, forcing the EU to find alternative routes. This is the EU's most powerful defence tool — and its most politically fragile.

ASAP — Act in Support of Ammunition Production

ASAP was the EU's emergency response to a specific crisis: Ukraine was firing artillery shells faster than Europe could make them. Adopted in July 2023 with €500 million, it funded 31 projects to double EU shell production capacity to 2 million rounds per year. It also triggered a further €1.4 billion in additional investment from matching national contributions.

ASAP expired at the end of 2025 and its mandate has been absorbed into EDIP. Its real legacy is demonstrating that the EU can legislate and act fast when the political will is there — from proposal to adoption in weeks rather than years.

CEF Military Mobility

Moving tanks across Europe turns out to be surprisingly difficult. Bridges can't always take the weight. Rail gauges differ. Border crossing procedures for military convoys can take weeks. The Connecting Europe Facility's military mobility strand — €1.76 billion for 2021–2027 — is fixing this, funding transport infrastructure upgrades across Central and Eastern Europe to NATO military standards.

It is not glamorous, but it matters. Deterrence depends on the ability to move forces quickly. The projects are concentrated along corridors connecting the Baltic states, Poland, and the Western Balkans to Western European logistics hubs.

EIB Defence Equity Facility

European defence start-ups and innovative SMEs have long struggled to raise private capital. Many institutional investors — pension funds, insurance companies — either couldn't or wouldn't invest in defence companies because of ESG restrictions. The EIB Group's Defence Equity Facility, run by the European Investment Fund with €175 million of public money, is designed to change this.

By investing alongside private funds in dual-use defence technology, it aims to mobilise around €500 million in total private capital. The EIB has also expanded its direct lending to defence companies, allocating 3.5% of its 2025 annual financing — around €3.5 billion — to security and defence. The ESG stigma problem has not gone away, but it is slowly being addressed.

PESCO — Permanent Structured Cooperation

PESCO is not a fund. It is a commitment framework — 27 member states agreeing to cooperate on defence capability development, increase spending, and work together on specific projects. It was launched in 2017, and by 2026 has over 60 active projects across cyber, maritime, air, space, and logistics domains.

The honest assessment: PESCO has underdelivered relative to its ambition. The commitments have been interpreted loosely, many projects would likely have happened anyway, and it has struggled to generate genuinely transformational cooperation. But it provides the political and legal scaffolding within which EU defence cooperation sits — and its 10% EDF funding bonus creates a real financial incentive to work within the framework.

ReArm Europe / Readiness 2030

ReArm Europe — later rebranded Readiness 2030 — is the overarching plan that ties all the other instruments together. Launched in March 2025 by Commission President von der Leyen, it sets out to leverage over €800 billion in EU-wide defence investment by 2030 through five pillars: SAFE loans, national fiscal flexibility under the Stability Pact, repurposed Cohesion Funds, EIB support, and private capital mobilisation.

In October 2025, this was followed by a Defence Readiness Roadmap with specific milestones and capability targets. It is the most ambitious statement of EU defence intent ever published. Whether it translates into actual delivered capability depends entirely on member state willingness to follow through.

AT A GLANCE

All Nine Instruments Compared

The table below gives a quick-reference overview of every instrument covered in this paper.

Instrument	Type	Budget	Timeframe	Run by	Purpose	Who benefits
EDF	Grant	~€8bn	2021–2027	European Commission	Collaborative R&D in defence technology	Companies, SMEs, research bodies
EDIP	Grant	€1.5bn	2025–2027	European Commission	Industrial ramp-up & supply chain resilience	EU defence industry, Ukraine
SAFE	Loan	Up to €150bn	2025–2030	European Commission	Large-scale joint procurement	EU Member States, Ukraine, EFTA
EPF	Off-budget	€17bn+	2021–2027	Council / EEAS	Military support & partner assistance	Ukraine, partner countries, EU missions
ASAP	Grant	€500m	2023–2025	European Commission	Ammunition & missile production	EU defence manufacturers
CEF Military Mobility	Grant	€1.76bn	2021–2027	European Commission	Military transport infrastructure	EU Member States, transport operators
EIB Defence Equity	Equity	€175m (→€500m)	2024–2027	European Investment Fund	Private capital for dual-use tech	Start-ups, SMEs, venture capital
PESCO	Framework	No direct budget	Ongoing	Council / EDA	Structured capability cooperation	27 EU Member States
ReArm Europe	Policy umbrella	€800bn+ leveraged	2025–2030	Commission + Member States	Overarching rearmament framework	All EU Member States

Note: SAFE figure is the maximum authorised borrowing. EPF includes windfall profits from frozen Russian assets. ReArm Europe figure represents aggregate leveraged investment across all five pillars.

SECTION 03

What Is Actually Going Wrong

The money exists. The political will — at least at the Brussels level — is there. So why is European defence still fragmented, under-equipped, and slow to deliver?

Too many instruments, not enough coordination

Nine separate instruments, each with its own legal basis, eligibility criteria, application process, and governance structure. For a defence SME trying to access EU funding, this is a maze. For a member state trying to coordinate national and EU-level procurement, it is a headache. The proliferation of instruments has happened fast — driven by political urgency — but without a coherent master plan.

The result is genuine overlap. EDIP, ASAP, and EDIRPA all targeted similar industrial capacity goals. PESCO projects duplicate NATO capability initiatives. CEF military mobility intersects with EDIP's infrastructure provisions. Consolidation is overdue.

The research-to-procurement gap

The EDF funds brilliant defence technology up to the prototype stage. Then what? Member states are under no obligation to procure the resulting systems together, or at all. Many EU-funded prototypes end up being procured nationally — in incompatible variants, at smaller volumes, at higher unit costs. The gap between what the EU funds in R&D and what actually gets bought is the architecture's biggest structural flaw.

The substitution risk in SAFE

SAFE is the most powerful tool in the arsenal, but it has a serious design weakness. There is no explicit requirement that member states increase their overall defence spending when they take a SAFE loan. A country already planning to spend €20 billion on defence could take a SAFE loan, spend the €20 billion, and claim to have 'used SAFE' — without adding a single extra euro to its defence budget. Several of the most indebted potential borrowers are already under EU deficit procedures. Without proper monitoring, the €150 billion headline could mask very little real increase.

The ESG problem has not gone away

The EU has spent years building a sustainable finance taxonomy that many institutional investors now use as a guide. Defence has historically been excluded or restricted. The EIB's revised policy and the Defence Equity Facility are helpful, but the fundamental classification question remains unresolved. As long as pension funds and insurance companies face pressure to avoid defence investment, private capital mobilisation will remain limited — and Europe's defence industry will remain dependent on public funding in ways that constrain its scale and speed.

80% of procurement still goes outside Europe

Despite all the European preference rules in SAFE and EDIP, the immediate post-2022 reality was stark: around 80% of European defence procurement went to non-European — mostly American — suppliers. This was understandable in a crisis: US equipment was available, interoperable with NATO standards, and politically safe. But it has created dependencies that will take years to unwind, and it has not helped European defence companies build the scale they need.

SECTION 04

What Comes After 2027

The current architecture was largely built under emergency conditions. The post-2027 Multiannual Financial Framework negotiations — starting in earnest in 2026 — are the moment to build something more permanent, more coherent, and more effective.

The EDF's ~€8 billion over seven years sounds like a lot until you compare it to what member states actually spend: around €90 billion on procurement in 2024 alone. To genuinely shape European defence procurement, analysts suggest the EU would need to allocate closer to €9 billion annually — not over seven years.

The NextGenerationEU programme offers the right model: common borrowing at scale, performance-based disbursements, large-scale capital market access. The architectural innovations of NGEU could in principle be extended to defence — a permanent EU defence borrowing facility, replacing the emergency Article 122 basis of SAFE, with proper parliamentary oversight and additionality requirements built in from the start.

The EU-NATO relationship also needs clearer structure. The two organisations complement each other — NATO provides the operational command and collective defence guarantee; the EU provides the industrial, financial, and regulatory framework. But in practice, there is duplication in capability planning, innovation programmes, and procurement initiatives. A formal EU-NATO industrial coordination mechanism, with joint planning cycles and mutual recognition of standards, would reduce friction and improve the return on investment for both.

Ukraine's integration is the wildcard. Already embedded in EDIP and SAFE, Ukraine's defence industry — battle-hardened, innovative, and increasingly sophisticated — represents a strategic opportunity for European defence. Managing this integration proactively, through technology transfer agreements and investment protection mechanisms, would benefit both Ukraine and the broader EDTIB.

WHAT NEEDS TO HAPPEN

Seven Recommendations

Europe has the money. What it needs now is better architecture, smarter rules, and the political discipline to follow through.

01

Make SAFE loans conditional on genuine additionality

The European Commission should require all SAFE borrowing member states to commit, via binding Memoranda of Understanding, that EU loans supplement rather than replace national defence spending. Publish these MoUs. Monitor compliance publicly. Without this, the €150 billion headline risks being an accounting trick.

02

Consolidate the instrument architecture post-2027

The next MFF should reduce nine instruments to three: a scaled-up R&D fund (EDF successor), a meaningful procurement support instrument (EDIP successor with real budget), and a permanent lending facility replacing SAFE's emergency legal basis — with full parliamentary oversight built in from day one.

03

Close the R&D-to-procurement gap

EDF funding should come with conditions: recipient consortia must submit credible joint procurement plans alongside their research proposals. The EU should create dedicated procurement bridges — funded under EDIP or its successor — to support the transition from prototype to production. The valley of death between lab and battlefield needs to close.

04

Fix the sustainable finance taxonomy for defence

The Commission should urgently clarify that investment in European defence companies is compatible with responsible investment principles under the EU taxonomy. The current ambiguity is costing Europe billions in private capital that could otherwise flow into its defence industry. This is not a trade-off between green finance and security — it is a false choice that needs to be resolved.

05

Reform PESCO — or be honest about its limits

PESCO's commitments need to be made binding and independently reviewed. Project selection should align explicitly with the EU's Readiness 2030 capability targets. If member states are not willing to make PESCO genuinely demanding, they should say so — and resources should be redirected to instruments that are actually working.

06

Build a proper Ukraine integration strategy

Ukraine's defence industry should be systematically integrated into the EDTIB ahead of accession — through technology transfer, certification harmonisation, and investment protection. Ukraine's battlefield experience is a strategic asset for European defence. Treat it as one.

07

Create a single EU defence investment navigator

Member states, companies, and investors need one authoritative source that explains every EU defence instrument, its eligibility rules, its application process, and its funding pipeline. House it in the European Defence Agency. Connect it to NATO's industrial coordination processes. The current complexity is deterring participation and costing effectiveness.

THE BOTTOM LINE

Europe has crossed the Rubicon on defence spending. The money is being committed, the instruments are being built, and the political consensus — fragile as it is — is holding. What the EU has not yet done is turn financial ambition into delivered military capability.

The gap between what Brussels announces and what arrives on the battlefield is still too wide. Closing it requires simpler architecture, smarter conditionality, and — above all — the discipline to spend together rather than separately. Europe has spent decades building the world's largest single market. It now needs to apply the same logic to defence.

The window is open. The geopolitical pressure is not going away. The question is whether European leaders will use this moment to build something that lasts — or settle for another round of impressive headlines and incremental progress.

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