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Multilateral finance: securing the scalability and competitiveness of UK defence

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A STUDY BY

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Dr. Rebecca Harding on why multilateral financial architectures — not conventional sovereign expenditure — hold the key to scaling UK defence industry capacity while preserving long-term fiscal flexibility.

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A note on this briefing

This briefing sets out the relevance of multilateral financing solutions to UK strategic and industrial interests and addresses directly the relationship between DSRB and the UK's own emergent Multilateral Defence Mechanism. It should be noted that detailed information about the MDM is not publicly available thus the evidence is taken from what is currently in the public domain only. The note highlights discussion points but is not a formal proposal.

What is the DSRB?

The Defence, Security and Resilience Bank (DSRB) is a multilateral bank in the process of being established, designed to counter the chronic underinvestment in defence, security and resilience. It mobilises and channels capital specifically towards the shared strategic goals of its member states — in accordance with democratic principles, the rule of law and the UN Charter. A particular focus is placed on access to financing for SMEs as the backbone of defence and security supply chains, in cooperation with national development banks and financial actors. In doing so, the DSRB strengthens industrial capacities, promotes innovation and technological cooperation, and underpins the readiness of institutions and societies against future threats. The Bank treats defence and security financing as an integral component of credible deterrence and as a response to a crisis that requires a coordinated, forward-looking multilateral architecture.

Specific considerations for the UK

For the UK, founding membership opens a path to strengthening the SME sector, securing dual-use supply chains and de-risking bank financing of security-relevant procurement, while structuring part of the contribution, the paid-in capital, as a financial asset rather than conventional expenditure. The founding window closes on Charter signing, expected to be July 2026 — after which admission terms are set by existing members rather than the founding group. The case for early engagement is therefore time-sensitive. There are unique considerations for the UK. The DSRB Development Group understands, through media reporting and events, that the UK has put forward a proposal to other governments around a "Multinational Defence Mechanism" (MDM). What follows is an interpretation from those sources and may not represent the full picture:

- MDM is a means of enabling joint procurement, reducing costs and streamlining finance for defence between NATO and EU members.
- The mechanism works through sharing risk via joint procurement and thereby scaling demand and creating greater certainty in the market for defence products, particularly amongst SMEs.

It does not require paid-in capital but effectively provides sovereign guarantees through national financial structures such as UKEF or the National Wealth Fund on jointly procured projects.

This reduces collective risk and is consistent with a precautionary approach taken by HMT and the EU.

The MDM framework is lower risk and can be delivered quickly on completion of agreements with other nations. As such it is an attractive way of aligning its Public Sector Net Borrowing Requirements with the need for some contingent liabilities to crowd in private finance. For the UK, relative movements in gilt yields since 2022 illustrate the degree to which UK borrowing costs remain sensitive to fiscal credibility, political stability and expectations of debt sustainability. In an environment where structural expenditure requirements are rising there may be increased value in diversifying funding channels beyond conventional sovereign issuance alone. Multilateral funding structures can be viewed less as substitutes for national expenditure and more as instruments for preserving long-term fiscal flexibility and resilience.

On the basis of the above, MDM and DSRB are not bringing a funding advantage to the UK and are complementary rather than mutually exclusive. DSRB will, over time, add additional guarantees and capacity for syndicated lending which will enhance the MDM by giving Member nations greater purchasing power. Both MDM and DSRB have the potential to lower procurement costs through joint procurement, improve interoperability and standardisation, and improve SME liquidity through guarantees. SME liquidity is potentially improved more under DSRB since there is a deeper capital pool to draw on. The central issue for the UK is whether the MDM alone is sufficient to create the longer-term transition to industrial preparedness that the defence sector requires. There is a strong possibility that investment in British defensive and offensive capabilities through an expansion of production capacity of defence SMEs and supply chains will require the financial leverage that the DSRB can offer via guarantees to loans by commercial banks. The MDM does not appear to require an additional boost to spending now, while the DSRB paid-in capital would be regarded as an investment in PSNBR terms as it represents the purchase of shares in a multilateral organisation.

In essence, the framework of MDM, as we understand it, and the DSRB solve different but related problems. If our interpretation from the news coverage, conference presentations (notably OMFIF, May 2026[1]) and events is correct, then the two can evolve together:

MDM coordinates procurement, enables sovereign-backed risk-sharing, answers a NATO-wide procurement need, is low political risk and can be implemented quickly.

DSRB is a means of long-term capital mobilisation, provides multilateral development bank style balance sheet intermediation, enables long-term industrial financing and creates institutional permanence.

In other words, certain functions — such as multilateral guarantees, cross-border pooled procurement financing and long-duration syndicated lending — may become more scalable through a dedicated multilateral structure rather than through sovereign instruments.[2]

DSRB Background

The Bank will be set up along the lines of supranational development banks like EBRD or AIIB, with a similar capital structure, similar product range, servicing both public sector and private sector, and a governance structure mirroring that of AIIB. Charter negotiations, attended by delegates from 20 nations, including the UK as an observer, were hosted by Canada and concluded in Montreal in April 2026. Canada will host the institution with Luxembourg providing the European Hub. The Bank will operate according to sound banking principles but will not seek to be profit-maximising, instead providing long-tenor, low-interest financing for defence, security and resilience, with a mandate that explicitly supports SMEs, start-ups and supply chains whilst also providing finance to the public sector. The Bank’s Charter is drafted to complement national or other multilateral initiatives such as the MDM.

Current Status

The founding window is open. Founding membership remains open for the UK until the signing of the Charter. Admission criteria after signing are deliberately kept low for democratic nations, but remain under the control of existing members. The Bank is being built as an inclusive institution for democratic allies, in line with Prime Minister Carney's 'Middle Powers' approach. In addition to states, existing multilateral banks will also be eligible to join.

Certain functions are potentially more scalable than national solutions alone. The targeted AAA rating and the resulting 0% risk-weighting, standard for multilateral development banks (MDBs), mean that the Bank's financing will operate in collaboration with national development banks and commercial banks. DSRB guarantees for loans made by UK commercial banks to UK defence, security and resilience SMEs significantly reduce capital requirements for banks, enabling banks to lend at scale, profitably — and for their clients sustainably.[3]

Institutional design matters more than expenditure levels. Lower-rated states will draw their membership benefit from interest savings on loans sovereign defence procurement receives directly from DSRB. Higher-rated members realise the benefit primarily through the multilateral guarantee architecture, which channels demand specifically towards their innovation and SME base. However, neither MDM nor DSRB provide a mechanism to reap the desired "defence dividend" directly. The evidence from the literature is clear: defence spending alone has modest and short-lived effects on growth. Academic studies of defence multipliers find that an additional 1% of GDP in defence outlays typically raises output by only 0.4–0.8% in the short run, fading to near zero after five years.[4] By contrast, when spending is structured through multilateral financial institutions, outcomes are stronger and more persistent, because MDBs pool sovereign equity, leverage it many times over, and crowd in private finance.[5] Applied to defence, relatively small sovereign contributions can support more significant GDP multiples over a 5–10 year period from spillover effects, given appropriate institutional design.[6]

Exclusivity is an opportunity for UK industry. DSRB financing is aimed to stay within its Membership. Only companies in Member states can receive financing from the Bank, and Member states receiving loans have to use the proceeds for procurement in Member states. Preferential financing arrangements within DSRB may increasingly influence supplier selection, technology partnerships and procurement decisions amongst participating states. DSRB is not a short-term growth initiative but a broader evolution in allied economic security architecture analogous to earlier multilateral financial institutions.[7]

UK Membership. The capital subscription for founding the DSRB can be credited against the NATO share. The capital contribution of nations is GDP-weighted but capped at the level of Canada, whose contribution is expected to be between €1bn and €1.5bn in paid-in capital.[8] Member liability is limited to paid-in capital plus callable capital, corresponding to the general architecture of multilateral banks such as the World Bank or the EBRD. It is important to note that callable capital of multilateral banks has never been called since Bretton Woods.

Why now? The UK does not face a binary choice between the MDM and the DSRB. The MDM may well represent the most fiscally and politically pragmatic near-term mechanism for procurement coordination and sovereign-backed risk-sharing. DSRB provides a longer-term financial architecture capable of supporting long-term supply chain resilience, capital mobilisation and institutional permanence.[9] The broader question for the UK is whether emerging security and resilience challenges increasingly require institutional responses analogous to those developed for financial stability and reconstruction in earlier periods of systemic geopolitical transition.

References

OMFIF (2026): How to finance Europe's defence needs.

Harding, R (2025): “The World at Economic War: How to rebuild security in a weaponised global economy.” London Publishing Partnership.

Illustrative example — Romania: A DSRB loan of €1bn over 10 years, at the projected 10-year DSRB rate of approx. 3.31% versus approx. 5.94% market financing (spread of approx. 263 basis points), reduces annual interest costs by around €26m of effective additional purchasing power. Romania can only deploy this advantage within the Bank’s Membership; if the UK is a member, these procurement Euros can flow to UK suppliers.

See for example: Becker, D. and Dunne, P. (2023) ‘Components of defence expenditure and growth’, Defence & Peace Economics; Olejnik, A. (2023), Journal of Comparative Economics 51(3); SUERF (2025) Buy guns or roses? SUERF Policy Note No. 372.

UK Government — Chancellor backs Britain’s financial services to drive development and kickstart economic growth.

Harding, R. (2025): Financing Defence for Growth and Resilience.

Harding, R (2025): “The World at Economic War.” London Publishing Partnership.

As the GDP of the UK is about 1.7 times the GDP of Canada, the UK would de facto obtain membership at a significant discount.

RUSI — Talking Strategy podcast, Episode 18: Bullion & Bullets — mobilising financial markets.