



SHOULD DEFENSE HAVE A PLACE IN SUSTAINA- BLE FINANCE?

Background and Positioning



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In response to shifting geopolitical realities, the **European Commission** and the German government have clarified that **sustainable finance frameworks do not inherently restrict funding for the defense sector**: *“The EU sustainable finance framework is fully consistent with the Union’s efforts to facilitate the European defense industry’s sufficient access to finance and investment. It does not impose any limitations on the financing of the defense sector.”* (European Commission)

Both the Commission and the German government emphasize that access to capital for the European defense industry is essential for strategic resilience and peacekeeping. Meanwhile, the European Securities and Markets Authority (ESMA), in its guidance on sustainability terminology and exclusion criteria, notably avoids direct reference to conventional defense activities, focusing solely on controversial weapons. This reframing signals a paradigm shift: **military buildup is increasingly being portrayed as a precondition for peace—and by extension, for sustainable development.**

For investors, this development prompts a fundamental reassessment: **Are investments in armaments and weapons, in light of today’s geopolitical context, justifiable within the boundaries of sustainable investing?** We have assessed this issue through two guiding questions:

1. Are investments into armaments and weapons sustainable?

At ESG-AM, we define sustainable investments as those aligned with overarching sustainability goals and compliant with the “Do No Significant Harm” (DNSH) principle. The defense sector could arguably contribute to peace if—and only if—it remains **within the boundaries of deterrence**. This rationale collapses once weapons are used, which by definition causes significant harm.

In theory, **distinguishing between defensive and offensive weapons** could support a nuanced approach to integrating defense-related investments. In practice, however, this distinction cannot be applied consistently across contexts and is further hindered by a lack of standardized data. Furthermore, there is no assurance that a state building up its military capacity today for defensive purposes will not eventually choose to deploy that capacity offensively in the future.

2. Are private investors—particularly those with sustainability commitments—the appropriate stakeholders to finance the expansion of the defense sector?

It is, of course, conceivable—and even somewhat appealing—to imagine that sustainability-focused investors, once engaged in the defense sector, might leverage their influence to promote stronger social and environmental standards within the industry. However, this perspective rests on the assumption that sustainability priorities can be meaningfully integrated into an industry whose core purpose inherently involves the potential for harm.

There is a concern that investors in armaments may inevitably develop **a stake in the demand for such products, and, by extension, their use**. We believe that the private sector, particularly actors with sustainability commitments, must resist any drift toward normalizing or incentivizing militarization. This requires unwavering adherence to **clear, transparent, and restrictive investment policies on armaments and weapons**.



One could argue that investors with strong sustainability commitments are well-positioned to promote positive change in the defense industry. Through active ownership, they might seek to improve aspects such as gender equality, diversity, or human rights due diligence. However, the

defense sector poses significant structural challenges to such efforts. National security considerations restrict transparency and limit investor access to essential information, including company practices and the end use of products. This **constrained accountability framework significantly limits the potential for meaningful engagement**. More critically, **any improvements in less material sustainability areas cannot offset the inherent risks associated with the core business of the defense sector**. Consequently, engagement on such issues falls short of aligning defense companies with the core principles of responsible or sustainable investing.

At ESG-AM, our position is that sustainable investment strategies must be guided by a credible, consistent, and forward-looking vision of **positive societal transformation**—one that upholds the **long-term integrity and stability of what sustainability stands for**. We recognize the political and strategic pressures that shape the current debate, but we maintain: **sustainable finance is not the appropriate vehicle for channeling capital into the defense sector**. In line with this position, ESG-AM upholds its exclusion criteria for investments in armaments and weapons.

SOURCES:

- **European Commission: A new European Defence Industrial Strategy: Achieving EU readiness through a responsive and resilient European Defence Industry**, available at: [CRITICAL INFRASTRUCTURE PROTECTION & RESILIENCE - A new EU Defence Industrial Strategy and Programme](#), 5 March 2024, last accessed on 11 April.
- **Die Bundesregierung (Deutschland): Nationale Sicherheits- und Verteidigungsindustriestrategie**, available at: [Sicherheits- und Verteidigungsindustriestrategie](#), 04 December 2024, last accessed on 11 April 2025.
- **European Securities and Markets Authority (ESMA): Guidelines on funds' names using ESG or sustainability-related terms**, available at: [Guidelines on funds' names using ESG or sustainability-related terms](#), last accessed on 2 April 2025.

FURTHER READING:

- **PRI Blog: The defence sector in focus: Common ESG risks**, available at: [The defence sector in focus: Common ESG risks | PRI](#), 16 September 2024, last accessed on 15 April 2025.
- **FNG, Investitionen in Rüstung und Nachhaltigkeit**, available at: [FNG_Pressemitteilung_Statement_zu_Ruestungsinvestitionen.pdf](#), December 2024, last accessed on 11 April 2025.

 **Contact**

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For further inquiries, please reach out to our Sustainability team, headed by Caroline de Leeuw den Bouter: caroline.deleeuwdenbouter@esg-am.com

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