



ADDRESSING WEAPONS FINANCING WITHIN MULTILATERAL DEVELOPMENT BANKS

Engagement Case Study



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Bonds of Multilateral Development Banks offer unique sustainable investment opportunities but, much like corporate issuers, these entities can occasionally be associated with controversies.

In September 2024, ESG-AM was alerted to an NGO report alleging financial ties between European financial institutions, including the European Investment Bank (EIB), and large arms manufacturers. The report argued that such investments could inadvertently support arms manufacturers involved in activities that may exacerbate conflicts and contribute to human rights violations.

We immediately launched in-depth research focusing on the financial institutions' policies relating to the financing of controversial weapons, and of weapons used in conflict areas with high likelihood of human rights abuses. Our goal was to ensure that the financial institutions included in our portfolios and implicated in the allegations have robust policies on controversial weapons financing and comprehensive human rights due diligence frameworks for defence sector financing. In cases where our research was not conclusive, we reached out to financial institutions for clarification.

In this context, we also reached out to the EIB with the aim to clarify the bank's policies and due diligence processes regarding financing in the defence sector. EIB swiftly responded to our inquiry and confirmed that, per its policy¹, all weapons are excluded from financing with no exceptions. Projects financed by the EIB shall be dual-use products, services, or technologies that benefit both civilian purposes and law enforcement or military applications. A previous requirement that projects eligible for EIB financing must derive more than 50% of their expected revenue from civilian uses has been waived.

In terms of due diligence, the EIB confirmed that it follows a comprehensive human rights-responsive approach within its Environmental, Climate, and Social (ECS) standards². This due diligence process involves screening and assessing human rights risks, especially in projects located in conflict-prone areas or regions with high risks of rights abuses. The EIB requires project promoters in the defence sector to integrate human rights considerations in all phases, from initial impact assessments to ongoing monitoring³. In high-risk cases, the EIB applies enhanced due diligence, mandates further mitigation measures, and may even refuse financing if risks cannot be adequately managed. Monitoring is ongoing, utilizing reports from project promoters, independent consultants, and, when necessary, specialized experts to ensure standards are upheld, including compliance with the EU Global Human Rights Sanctions Regime.

The clarifications provided by the bank offered us confidence in the EIB's weapons exclusion policy and commitment to enforce compliance with EU and international human rights standards in its defence sector financing. As a result, we closed the inquiry while maintaining an ongoing commitment to monitoring developments in this area.

CONTACT

We are committed to continuous improvement and value feedback from our stakeholders. We invite readers to share their feedback on this case study via engagement@esg-am.com. For further inquiries on our engagement framework, please reach out to our Engagement Manager, Paula Krol: paula.krol@esg-am.com



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ENDNOTES

- ¹ European Investment Bank (2022). *EIB eligibility, excluded activities and excluded sectors list*. European Investment Bank. Available at: https://www.eib.org/attachments/publications/eib_eligibility_excluded_activities_en.pdf (Accessed on 16 June 2025).
- ² European Investment Bank (2022). *EIB Group Environmental and Social Policy*. European Investment Bank. Available at: <https://www.eib.org/en/publications/eib-group-environmental-and-social-policy> (Accessed on 16 June 2025).
- ³ European Investment Bank (2023). *The European Investment Bank's approach to human rights: Information note*. European Investment Bank. Available at: https://www.eib.org/attachments/lucalli/20220268_the_eibs_approach_to_human_rights_en.pdf (Accessed on 16 June 2025).