EUROPEAN PPP EXPERTISE CENTRE

PUBLIC-PRIVATE PARTNERSHIPS
IN SECURITY AND DEFENCE

April 2025

European Investment Bank

PUBLIC-PRIVATE PARTNERSHIPS

in security and defence

April 2025

European
Investment Bank

Public-private partnerships in security and defence

European Investment Bank
98-100, boulevard Konrad Adenauer
L-2950 Luxembourg

For further information on the EIB's activities, please consult our website, www.eib.org.
You can also contact our Info Desk, info@eib.org. Get our e-newsletter at www.eib.org/sign-up.

Published by the European Investment Bank.

Printed on FSC® Paper.

TABLE OF CONTENTS

Terms of use of this publication

Data collection and methodology

The data used in this publication are EPEC's own aggregation of information collected from a variety of sources, in particular Inframation, Partnerships Bulletin, IJ Global and Inspiratia. Where appropriate, the data have been cross-checked against the EIB's own project files. The list of public-private partnership projects forming the dataset has been reviewed, where possible, by EPEC members. Project data contained in this publication may be subject to future revisions due to the late availability of information or corrections to previously reported values. The data and the findings of this publication should therefore be treated with appropriate caution.

This publication covers:

- Transactions that have reached financial close in the EU27 countries, the United Kingdom, Israel, Türkiye and countries of the Western Balkans (Albania, Bosnia and Herzegovina, Kosovo[1], Montenegro, North Macedonia and Serbia);
- Transactions structured as design-build-finance-operate transactions, design-build-finance-maintain transactions or concession arrangements that feature a construction element, the provision of a public service and genuine risk sharing between the public and the private sector and can include regulated assets;
- Transactions financed through project financing;
- Transactions of a value (see definition below) of at least €10 million.

The project values quoted in this publication refer to the external financing requirements for projects at the time of financial close (the sum of debt and equity) and exclude public capital contributions. Readers should note that the external financing requirement of a project can be significantly different to its capital investment cost (the latter being difficult to obtain on a consistent basis).

[1] This designation is without prejudice to positions on status and it is in line with UNSCR 1244/1999 and the ICJ Opinion on the Kosovo declaration of independence.

INTRODUCTION

Strengthening support for Europe's peace and security is a key strategic priority of the European Investment Bank (EIB) Group and the Bank continues to adapt to address the evolving challenge.

In 2022, the EIB launched the Strategic European Security Initiative (SESI) to foster the development of dual-use research, innovation, and infrastructure projects focused on areas such as cybersecurity, New Space, artificial intelligence (AI), and quantum technologies. SESI aimed to enhance Europe's security capabilities in response to emerging threats and to advance strategic technological developments that serve both civilian and security purposes.

By June 2023, in response to evolving geopolitical conditions and rising demand, the EIB significantly increased its funding for security and defence projects to €8 billion. Following extensive consultations with the EIB's shareholders, financial markets, and other key stakeholders, and in alignment with the European Council's mandate to improve access to finance for security and defence firms, the EIB Group formally adopted a new action plan in May 2024.

As part of this plan, the EIB Group established the Security and Defence Office, a one-stop-shop to accelerate and coordinate the financing of security and defence projects across the Group. The EIB Group also introduced new rules for financing small and medium-size enterprises in the security and defence sector and updated requirements for dual-use projects. With the Strategic Roadmap for 2024–2027, the EIB Group made supporting Europe's security and defence industry one of its eight core lending priorities.

In March 2025, the Board of Directors agreed to further expanded EIB Group eligibilities for financing Europe's security and defence industry and infrastructure, to ensure that excluded activities are as limited as possible in scope, in line with the proposals endorsed by EU leaders at the Special European Council on 6 March 2025. This will enable the EIB Group to respond to financing needs in a manner which safeguards its operations and a strong financial position for security and defence projects and investments in areas such as barracks and storage facilities, land and aerial vehicles, drones and helicopters, radars and satellites, advanced avionics, propulsion and optics, land border protection, military mobility, critical infrastructures, de-mining and de-contamination, space, cybersecurity, anti-jamming technologies, military equipment, seabed infrastructure protection and research.

The EIB's existing €8 billion Strategic European Security Initiative (SESI) will be integrated into a cross-cutting and permanent public policy goal, which will complement the existing public policy goals. There will be no predefined ceiling for financing in this area, which will be determined annually in the EIB Group Operational Plan.

It should be noted that the financing of weapons and ammunition are still considered to be excluded activities. Equipment or infrastructure dedicated to military and police use are allowed for EIB Group's financing, insofar as it is not classified as weapons or ammunition.

In particular, in the context of possible public-private partnership projects in the security and defence sector, the EIB can now invest in security infrastructure and support projects that protect critical infrastructure, enhance emergency responses, and minimize disruptions to our societies.

This includes, among others, projects within:

- Military bases and barracks
- Border control
- Protection of critical infrastructure against physical and cyber threats

- Resilience of communication networks
- Military hospitals
- Military training centres and academies
- Military warehousing/storage
- Strategic lift capabilities
- Reinforcement of bridges
- Upgrade of rail infrastructure

This note focuses on the use of public-private partnerships in the delivery of security and defence-related assets, and also analyses the nature, scale and complexity of the European market, some of the key players, and briefly describes some project examples.

This report illustrates that the public-private partnership model is being used across various sub-sectors, including equipment, information and communications technology (ICT), utilities, and various forms of accommodation, such as military housing. Based on the information available it is evident that public-private partnerships are widely used in six EU Member States: Belgium, Denmark, France, Germany, Lithuania and the Netherlands. Outside the EU, a significant proportion of the European public-private partnership activity is in the United Kingdom. In terms of financial sector participation, there is widescale involvement among commercial lenders but more limited participation among national promotional banks and insurance companies.

DEFINITION OF A PUBLIC-PRIVATE PARTNERSHIP IN THE CONTEXT OF SECURITY AND DEFENCE

The term ‘public-private partnership’ can be used to describe a very wide range of partnerships between the public sector and entities in the private sector or even those in the third sector, such as NGOs and cooperatives, among others. However, this note focuses more specifically on public-private partnerships that are set up to deliver security and defence infrastructure and equipment, and which involve a long-term contract between a public authority and a private partner, private financing of the required upfront capital investment, the allocation of risks between the two parties, and payments made by the public security and defence authority to the private partner based on the delivery of contractually-defined service outputs throughout the term of the public-private partnership contract. Other forms of public-private partnership in the security and defence sector may involve joint venture arrangements between public and private parties in various areas, for instance in weapon research and development. However, these joint venture arrangements are not the focus of this note.

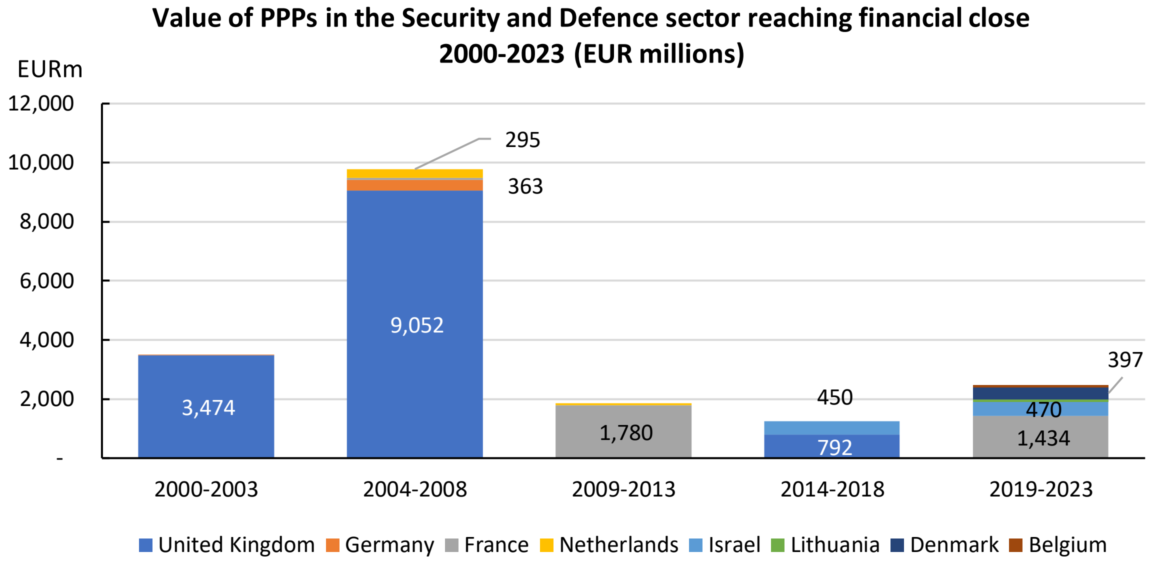
WHY USE PUBLIC-PRIVATE PARTNERSHIPS IN THE SECURITY AND DEFENCE SECTOR?

There are several reasons why defence ministries may consider using a public-private partnership approach:

- **Cost efficiency**: Public-private partnerships can leverage private sector expertise and resources to reduce costs and deliver security and defence projects and services more efficiently.
- **Focus on core activities**: Public-private partnerships can allow a security and defence authority to focus on the delivery of core services rather than engaging significant resources in more routine activities related to simple operations and maintenance.
- **Innovation**: Private partners can often bring innovation and advanced technology to security and defence projects, which can enhance military capabilities.
- **Timely delivery**: Security and defence projects can often experience significant delays and overruns. A public-private partnership approach can provide greater certainty around on-time and on-budget delivery.
- **Long-term maintenance**: Public-private partnerships can result in better long-term maintenance of assets due to the contractualisation of such aspects and the payment on performance concept inherent in a public-private partnership.
- **Increase supply side capacity**: Using a public-private partnership approach can widen the market of potential participants and can draw in private expertise on a global rather than local basis. In the context of European security and defence, the ability to draw in experienced international players in the delivery of projects in smaller countries without a sizeable domestic security and defence ecosystem may be important.
- **Scrutiny**: The use of project financing typically implies greater third-party scrutiny and due diligence which can improve the quality of project preparation and outcomes.
- **Risk sharing**: Public-private partnerships allow for a more efficient allocation of risks between the public and private sectors and ultimately better long-term management of risks. This is because via a public-private partnership-type structure, the private partner can be allocated risks that they are better-placed to manage. This can mitigate financial risks for governments while incentivising private investment.
- **Accelerated investment**: In the current circumstances, which require spending on security and defence infrastructure in Europe to be stepped up quickly, a public-private partnership approach could help to mobilise significant additional financing from the private sector. Moreover, it may be especially useful where government budgets are constrained because depending on the allocation of risks, financing under a public-private partnership may be classified as off-balance sheet in terms of fiscal reporting.

ANALYSIS OF THE MARKET SIZE FOR SECURITY AND DEFENCE PUBLIC-PRIVATE PARTNERSHIPS

The European Public-Private Partnership Expertise Centre (EPEC) maintains a database of public-private partnership transactions that have reached financial close across EU Member States and a number of key public-private partnership markets in the region, which includes the United Kingdom, Türkiye and Israel. See the table below.

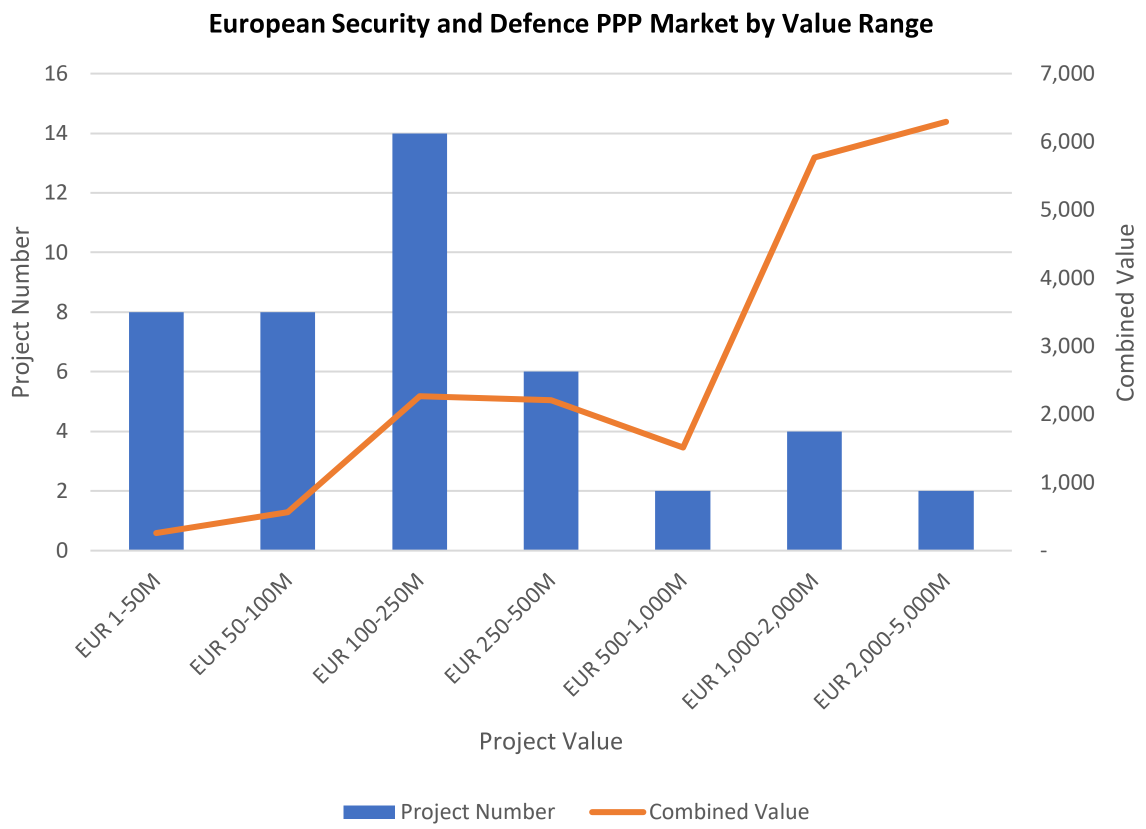


Source: EPEC PPP database

According to the data, the total capital expenditure of public-private partnerships related to security and defence in the region amounted to €18.9 billion between 2000 and 2023, of which €4.6 billion took place in EU Member States.

There has been a fall in public-private partnership activity in the last decade. Between 2000 and 2010 public-private partnership projects worth €13.4 billion reached financial close. In contrast, between 2010 and 2023, the value of such projects was €5.5 billion.

The number of public-private partnership projects that reached financial close between 2000 and 2023 was 44. This points to an average project capital expenditure of €429.5 million.



While 82% of public-private partnership projects had a capital expenditure below €250 million, a number of large transactions were closed over this period which affects the data. These include:

- Skynet 5, a €1.76 billion Private Finance Initiative (PFI) project in the United Kingdom, which involves taking over and operating the existing Skynet 4 satellite and launching the two Skynet 5 satellites;
- Allenby/Connaught Barracks, a €2.7 billion PFI project to develop accommodation for army personnel on a 35-year design-build-finance-operate-maintain basis in Aldershot and the Salisbury Plain in the United Kingdom;
- Future Strategic Tanker Aircraft (FSTA), a €3.6 billion private finance initiative (PFI) for the procurement of a fleet of Airbus A330 MRTT (Multi-Role Tanker Transport) aerial refuelling and air transport aircraft for the Royal Air Force;
- Balard-Défense, a €1.55 billion public-private partnership involving the design-build-finance-operate-maintain of a 320 000 square metre headquarters for the French Armed Forces and the Ministry of the Armed Forces under a 30-year concession;
- CEGELOG, a €1.4 billion public-private partnership for a design-build-finance-operate-maintain contract for French military accommodation. It comprises the energy efficient renovation and improvement of around 8 500 housing facilities and the construction of a further 2 500 new housing units for French military personnel and their families.

ANALYSIS OF ACTIVE COUNTRIES

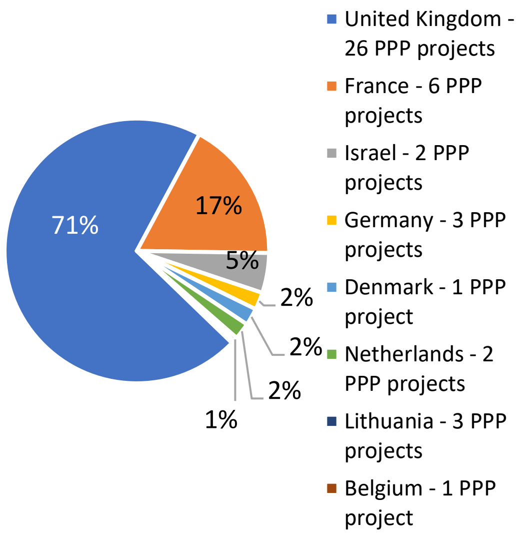
The United Kingdom is by far the most active market for public-private partnerships in security and defence in terms of the number of projects, with 26 to date. These include projects across a range of sub-sectors, including both infrastructure projects – such as barracks – as well as equipment-type projects incorporating advanced technologies.

In the European Union, France is the most active market, with six public-private partnership projects. These have spanned a range of project types, including the €1.55 billion Balard-Défense project and the €1.2 billion CEGELOG housing project, which was part-financed by the EIB (see below for more details on this project). Up to now, CEGELOG is the only public-private partnership project in security and defence that has received EIB financing.

Denmark has developed new facilities for its Defence Intelligence Service with a capital expenditure of €397 million. Lithuania has used the public-private partnership model to develop projects on a smaller scale, delivering three military accommodation projects in the Vilnius, Šiauliai and Šilalė districts with capital expenditure values between €30 million and 34 million.

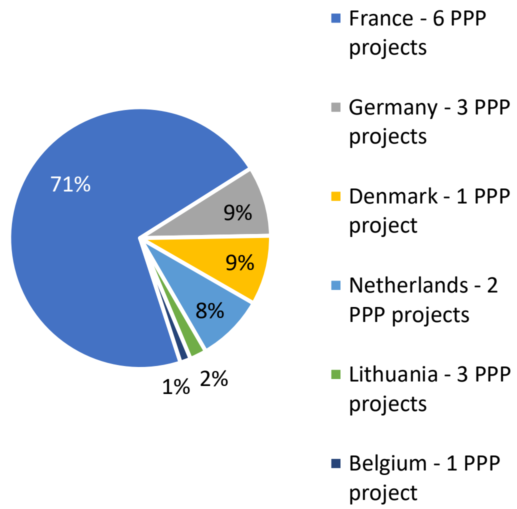
The data presented in the figures below show public-private partnership project numbers and values in the security and defence sector across active countries. The chart on the right relates to projects in the European Union. The chart on the left shows available data for Europe overall, which includes projects in the European Union, countries in the Western Balkans, namely Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia and Serbia, as well as Israel, Türkiye and the United Kingdom.

Value of PPP projects in Defence sector
(% split per country)



Source: EPEC PPP database

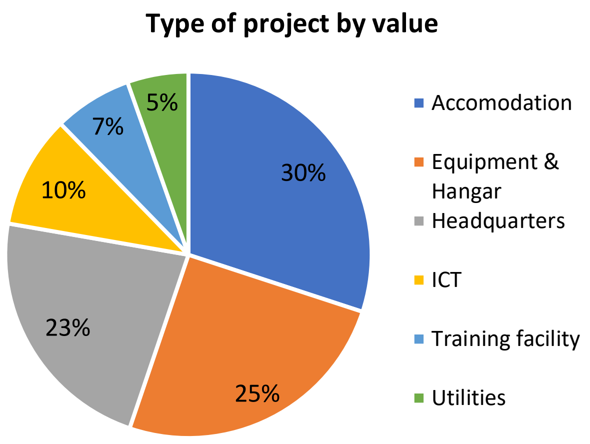
Value of PPP projects in Defence sector
(% split per country)



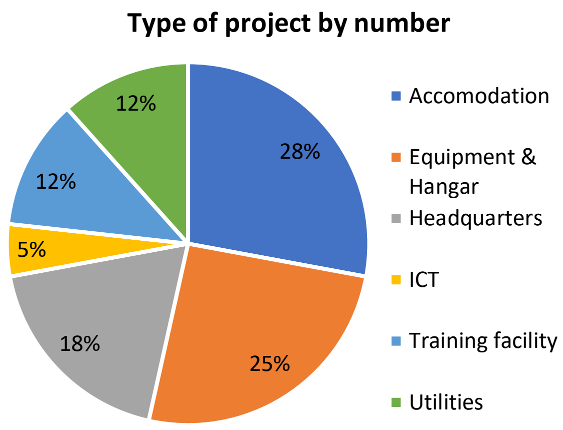
Source: EPEC PPP database

ANALYSIS OF SUB-SECTORS/PROJECT TYPES/MODELS

The data in the EPEC database is more granular in nature than NATO-published data and is classified in line with the United Nations sector/subsector categorisations. This allows analysis across a range of security and defence sector project types. As can be seen below, the majority of public-private partnerships in the region relate to infrastructure-type projects, such as accommodation, headquarters, utilities, training facilities and hangars, among others. The United Kingdom has used public-private partnerships to procure around €5.4 billion of security and defence equipment such as transportation ships, strategic tanker aircrafts, mobile generators, construction vehicles and heavy equipment transporters.



Source: EPEC PPP database



Source: EPEC PPP database

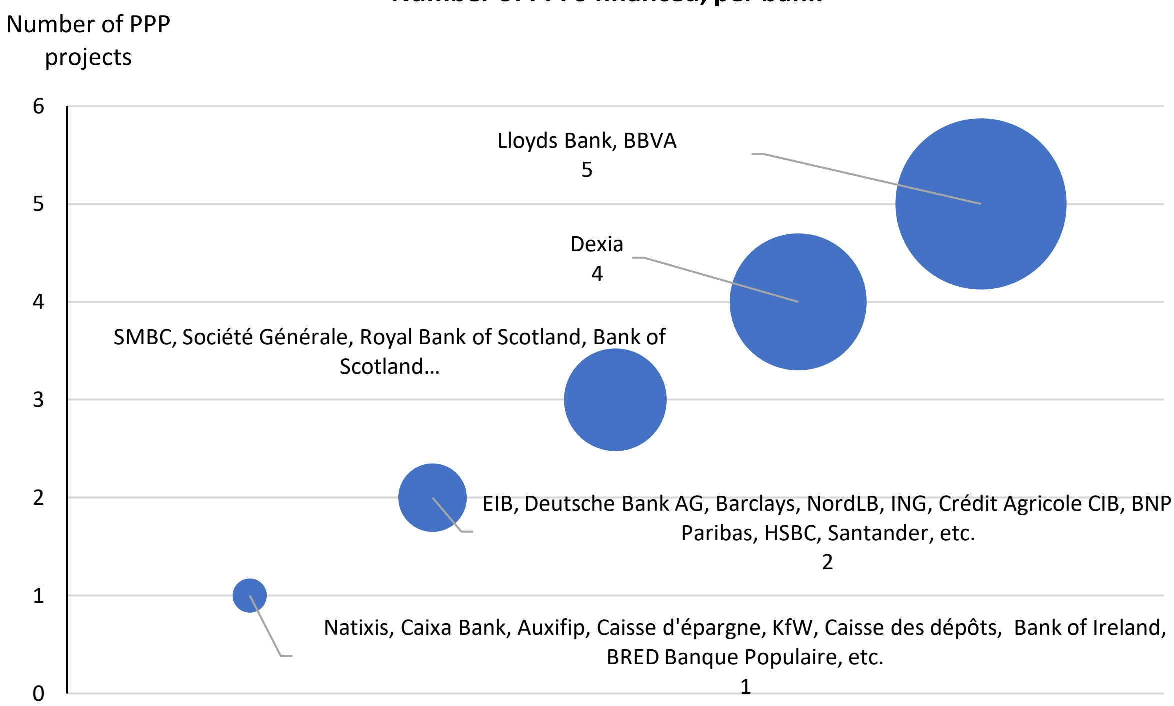
Looking at the data across the EPEC public-private partnership database, it is evident that the vast majority of security and defence public-private partnerships have been procured using an availability-based approach, often referred to as design-build-finance-maintain projects. This involves demand/revenue/utilisation risks being taken by the public partner and typically represents a lower-risk financing opportunity for lenders. The private partner must ensure that the public-private partnership asset is available and functional in line with the contracted specifications, typically for a period of 25 years. 44 availability-based public-private partnerships have been identified in the EPEC database, four have been identified as revenue/demand risk concessions, often referred to as design-build-finance-operate projects. One further project was identified as having 'mixed' characteristics.

It is also worth noting that national security concerns need not limit the involvement of the private sector in delivering even the most sensitive military infrastructure. Examples include the headquarters for the United Kingdom's intelligence, security and cyber agency (GCHQ), and more recently the Danish Defence Intelligence Service's new base in Copenhagen, which is expected to be delivered in 2027 under a €397 million, 30-year public-private partnership contract.

BANKS AND INVESTORS INVOLVED IN EUROPEAN SECURITY AND DEFENCE PUBLIC-PRIVATE PARTNERSHIPS

According to EPEC data, 27 banks have participated in at least one security and defence public-private partnership project in the region. This suggests that a wide range of lenders have become comfortable financing such projects in the sector and the data show that some banks have participated in numerous deals.

Number of PPPs financed, per bank



Source: EPEC PPP database

Looking at the nature of the lenders in more detail (see below), commercial banks have participated in the financing of security and defence public-private partnership projects on 65 occasions, followed by national promotional banks and insurance companies.

Type of financiers in security and defence public-private partnership projects

Typology	Number of occasions of participation in a public-private partnership financing
Commercial bank	65
National Promotional Banks	7
Insurance company	4

A SELECTION OF PUBLIC-PRIVATE PARTNERSHIP EXAMPLES

1. The **CEGELOG project** – supported with €484 million in financing from the EIB in 2022 as part of a total €1.3 billion package – involves the renovation of 4 000 housing units and the construction of a further 3 000 for low-income civilian and military personnel. The public-private partnership involves a 35-year concession arrangement between the French Ministry of Armed Forces and a two-member consortium, which included a specialist social housing manager. The private consortium is responsible for the renovation, construction, rental management, operation and maintenance of the housing units. To ensure that houses are available at an affordable rent to users, the public authority provides an operating subsidy to cover the difference compared to the market, as well as a construction subsidy. Investment in the renovated and new housing units also focuses on meeting high environmental and energy performance standards, as well as reducing regional inequalities and improving the environment and quality of life in neighbourhoods where the urban regeneration initiatives will be implemented. It therefore also helps to address the shortage of affordable housing for low and middle-income households in France.
2. Although not financed by the EIB, the **Strategic Sealift public-private partnership project** in the United Kingdom is an early example of a public-private partnership approach for the provision of dual-purpose military equipment. The project involves a long-term contract – that was signed in 2000 and is currently being extended until 2030 – between the United Kingdom's Ministry of Defence and a consortium of shipping companies involving £175 million of private finance. The project originally provided six transport ships (built in Germany and the United Kingdom) to deliver military vehicles and other equipment around the globe. The public-private partnership also allows for the private partner to generate revenue by employing two of the ships in the commercial market, while ensuring that they are available at 30 days' notice for defence tasking in an emergency. This arrangement helps to make the overall scheme more affordable for the public authority. The ships are also nominally available to the NATO Sealift Consortium, which includes 11 European nations. The UK Treasury is the insurer of last resort for the ships that may have to enter war zones where normal marine insurance would be invalid. The public-private partnership has been described by the UK National Audit Office as 'extremely effective', with the construction and delivery of all six ships completed around 18 months ahead of the original schedule – a notable feat for the security and defence sector, in which delays and cost-overruns are frequently observed.
3. 3. The **NH90 Helicopter Programme** involved a number of European countries developing and procuring a multi-role military helicopter with private partners. The project includes the use of a €250 million public-private partnership to provide three training centres in Germany (EPEC database) under a 14.5-year design-build-finance-operate contract. The training centres, which use flight simulators, were developed for Germany's Ministry of Defence in the towns of Buckeburg, Fassberg and Holzdorf. Under the contract, the private partner is able to offer training services to the other nations purchasing the helicopter. The awarding authority is the German Ministry of Defence, which awarded the concession in December 2004 to a four-party consortium, each with a 25% stake. The public-private partnership company delivers turnkey training services to NH90 aircrews with the German government paying an hourly rate. Financing comprises a €175.5 million debt package involving seven banks (five German, one British and one French).

USE OF PUBLIC-PRIVATE PARTNERSHIPS IN SECURITY AND DEFENCE OUTSIDE EUROPE

The use of public-private partnerships to deliver security and defence-related assets is not confined to Europe. In the United States of America, public-private partnerships have been used many times to deliver military facilities and housing for military personnel. For example, the US Navy is currently using a public-private partnership for its NAVWAR project in San Diego, which involves upgrading military facilities and a major regeneration of the housing and transport infrastructure on a military site spanning 28 hectares. This appears to fit with the trend in the United States of America of combining real estate elements and public-use purposes in public-private partnership projects and the monetisation of public land.

Another example is the Family Housing for Service Personnel (FHSP) public-private partnership launched in 2016 that involves a $1.8 billion concession that has delivered almost 22 000 homes across 19 military bases in the United States of America. The business model is based on a secure revenue stream up until 2052, which comes from directly reassigning the government's Basic Allowance for Housing (BAH) payments – which is usually paid to the service personnel who live on the bases – to the public-private partnership developer. More broadly, the Military Housing Privatization Initiative (MHPI), which was launched in the mid-1990s, has mobilised $28 billion of private investment up to now, to deliver 80 MHPI projects involving 200 000 housing units across the United States of America.

Australia is another well-developed public-private partnership market and has also used the model in the security and defence infrastructure sector, although in a more limited way. Currently under approval is the Bundock Street military housing project for 62 military families in an area of Sydney spanning 2.7 hectares that is being procured by the Australian Ministry of Defence. Earlier examples include a public-private partnership to deliver the General John Baker Complex Defence Joint Operations Command Headquarters, and the LEAP 2 project to deliver 3 015 accommodation units on 14 bases across mainland Australia, under a 33-year design-build-finance-maintain public-private partnership contract, which was signed in 2011.

SCALE OF OVERALL SECURITY AND DEFENCE INFRASTRUCTURE EXPENDITURE ACROSS EUROPE[2]

As described above, infrastructure and equipment are the two main categories of expenditure for which public-private partnerships are typically used in the security and defence sector. The total combined security and defence expenditure of the 23 EU countries who are NATO members was €273.5 billion[3] in 2023. Spending on security and defence by these countries has been increasing steadily since 2015, and has picked up even further since Russia's invasion of Ukraine. Expenditures are distributed across four categories: personnel; equipment; operations and infrastructure.

Infrastructure spending by these countries totalled €9.5 billion in capital expenditure in 2023. 75% of this figure is accounted for by just a handful of countries: France, Germany, Poland, Italy and the Netherlands. In addition, long-term maintenance expenditure is usually included under a public-private partnership arrangement, therefore the potential scope for public-private partnerships would be slightly larger than that indicated for infrastructure expenditure alone. Equipment expenditure among the European Union's NATO members totalled €78.9 billion in 2023. France, Germany, Italy, Poland and Spain, which all spent more than €5 billion, make up 75% of the total.

2 Please note that this analysis relates to NATO data rather than EU27 data. The relevant countries are Belgium, Bulgaria, Croatia, Czechia, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Italy, Latvia, Lithuania, Luxembourg, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia and Spain.

3 NATO - News: Defence expenditure of NATO countries (2014-2023), 14-Mar.-2024

CONCLUSIONS

For over 20 years, public-private partnerships have been used successfully to deliver projects for security and defence infrastructure and services in several EU Member States. Their use has been concentrated in a number of key markets. When applied in the right way for the right kind of projects, public-private partnerships can help governments allocate risk more efficiently and mobilise the technical and financial resources of the private sector. This is particularly important in the security and defence sector, where cost overruns and delays can be problematic.

Supporting Europe’s security and defence is a key priority for the EIB Group. The Group’s new action plan for the security and defence sector combines financial and technical expertise and the EIB Group’s role as one of the world's largest project finance lenders. This puts it in a unique position to help accelerate the delivery of security and defence public-private partnerships in Europe.

PUBLIC-PRIVATE PARTNERSHIPS
in security and defence

April 2025

European
Investment Bank

2024-0222