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Private capital – including private equity (PE), venture capital (VC), and infrastructure funds – can play a critical role in strengthening Europe's defence industrial base. Invest Europe welcomes the Commission's intention to increase funding flexibility, support innovation, and facilitate the scaling of strategic capabilities through the amendments proposed under the mini omnibus for defence.

Our members have a long-standing track record of successfully investing in companies active in defence, security, and dual-use technologies – backing innovation, growth, and industrial resilience. They stand ready to continue using their expertise and capacity in the defence sector.

Recognising the Role of Private Equity and Venture Capital

The defence industry is increasingly reliant on high-tech, dual-use innovation often developed by start-ups and SMEs. These are the same companies that PE and VC funds regularly finance, scale, and professionalise. Opening EU programmes like Horizon Europe (EIC Accelerator), the European Defence Fund (EDF), and the Digital Europe Programme (DEP) to entities working on dual-use and defence-relevant technologies is a welcome step. It is essential that implementation guidelines explicitly acknowledge that companies backed by PE/VC are eligible for such funding. Without this clarity, promising European innovators risk being excluded from funding.

Clarify Fund Eligibility Criteria

While the amendments improve flexibility (e.g. combining EDF funding with other EU programmes), ambiguity remains regarding eligibility for companies controlled by non-EU fund managers. While we fully support maintaining EU security standards, we encourage the Commission to clarify that EU-established companies with transparent EU governance, even if owned or backed by non-EU capital (such as institutional investors in PE funds), should not be automatically excluded. The same principle should apply across STEP, EDF, Horizon Europe and DEP.

As we've long argued, around 50% of the capital raised by European managers comes from outside Europe. Moreover, some of the EU-based fund managers with non-EU owners may well have the longest and deepest experiences in investments in the defence industry. Defence-related funding should also not be limited to specialist funds. Many generalist PE and VC managers already back technologies like AI, cybersecurity, and semiconductors that are critical to defence. Excluding them would limit capital flows and scale-up opportunities. It is crucial to ensure that we continue to capture this capital and competences and ensure it is directed into productive investments – including in defence.

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Public-Private Risk Sharing and Exit Pathways

To mobilise more capital into defence, co-investment or risk-sharing vehicles (e.g. under InvestEU or the EIF's Defence Equity Facility) are essential. We encourage the Commission to further explore how equity-based support could be structured for longer-duration and higher-risk investments typical in the sector. Facilitating secondary sales, such as continuation fund models, could also help address liquidity constraints and exit risks, especially where IPOs or industrial sales are less feasible.

As the EIF prepares to scale its activities, the scale and structure of support must match market needs. Current ticket sizes are too small, particularly for growth and buyout strategies, and decision-making processes lack transparency and sometimes cause delays without clear communication or closure. Time-bound review cycles and holding deal teams accountable for timely delivery would alleviate such concerns. If additional investment committee (IC) meetings are required to review more proposals, these meetings should occur more frequently to match demand.

Finally, equity—not just guarantees—is essential for scaling defence SMEs and mid-caps. As an example, a €10–20 billion mobilisation target, through EIF or a dedicated EU equity platform, would send a stronger market signal and match the scale of Europe's ambitions.

Legal and Administrative Simplification

The introduction of a fast-track permitting regime is a positive step and should be extended to private industrial infrastructure financed by long-term investors. Likewise, clearer definitions of what constitutes defence-relevant versus prohibited activities (e.g. under the sustainable finance framework) will enhance predictability and reduce compliance risk for fund managers and their limited partners. The proposed guidance under sustainable finance should be extended for all EU funding programmes as well as the EIB Group (EIB and EIF), which has already expanded eligibilities for financing Europe's security and defence industry and infrastructure, tripling its investment since last year.

However, ambiguity remains in how ESG frameworks (particularly SFDR) treat defence investments, especially regarding definitions of "controversial" weapons. Our members report that even the EIF's interpretation, while evolving, does not always align with LP requirements. A clearer EU-level baseline, setting out what *can* be financed under ESG-compliant strategies, would help both GPs and LPs navigate these constraints. Minimum standards—rather than exhaustive definitions—could offer needed flexibility while ensuring ethical consistency across the investment chain.

Procurement and Market Access

PE-backed companies seeking to enter or grow in the defence sector frequently encounter hurdles in public procurement – often due to opaque national practices or preference for legacy suppliers. As the Commission revises procurement frameworks, we urge greater focus on opening opportunities to innovative SMEs and scale-ups, including those backed by private funds, while upholding security and quality standards.

However, current requirements—such as minimum years in operation, capital raised, or employee count—often exclude promising startups that are well-financed by private capital but do not meet arbitrary thresholds. EU-level procurement bids should prioritise technical merit instead and default to English. To support early-stage companies, procurement-based funding (contracts) should be favoured over grants. Commercial contracts have a greater impact on valuation and sustainability than non-dilutive grants alone.

Conclusion

This proposal marks a key moment for aligning EU regulatory and financial instruments with the evolving role of private capital in supporting strategic autonomy. Clear eligibility criteria, access to blended finance tools, and consistent implementation at national level will be critical to realising the EU's defence readiness objectives.

We encourage the Commission to provide not only legal clarifications, but also operational guidance for the financial industry—covering ESG classification, clear definitions and EIF/EIB engagement. A balanced "minimum standards" approach could support responsible defence investing while avoiding fragmentation and compliance fatigue. Moreover, scaling the EIF's equity tools will be critical—many high-potential defence companies will not reach scale through grants or guarantees alone.

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