COMMENTARY

Canada Wants to Build a Bank Behind the Arsenal

Canada has been chosen to host a proposed multinational defence bank. The real test is whether sovereign-backed finance can turn spending promises into factories, suppliers and production.

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Illustration: Nasty Canuck / AI-assisted.

The proposed Defence, Security and Resilience Bank would use sovereign backing to help finance allied defence production. Canada was unanimously chosen to host its future headquarters, putting a spotlight on one of the country's quieter strategic assets: institutional trust. Now the bank has to prove it can turn financial capacity into industrial capacity.

Canada is trying to build a defence institution whose most important weapon may turn out to be its credit rating.

The proposed **Defence, Security and Resilience Bank**, or DSRB, will not manufacture missiles, drones or ships. Nobody will be walking into a branch to refinance a tank, and there probably won't be a complimentary toaster. The idea is less visible but potentially just as important: use the financial backing of participating governments to raise capital, finance defence and security projects, and make it easier for private lenders to put money into companies that need to scale.

Canada, Albania, Belgium, Greece, Latvia, Luxembourg, Romania, Türkiye and Ukraine announced their shared intention to establish the bank at the NATO Summit in July. Earlier negotiations in Montréal produced founding Articles of Agreement, and the participating countries unanimously selected Canada to host the future headquarters. They want the bank operating as early as 2027.

That is considerably more than a press release with a logo attached, but it is not yet a functioning bank. Governments still have to complete their domestic processes, commit capital, settle governance arrangements and establish a credit profile strong enough to make the model worthwhile.

The missing piece between spending and production

Governments across NATO are promising substantially more defence spending. That creates demand for ammunition, drones, ships, sensors, cyber systems, electronics and the thousands of specialized components underneath them. But there is an inconvenient gap between announcing that you intend to buy more military equipment and having factories capable of producing it.

Companies often have to expand before the finished product rolls out the door. They buy machinery and materials, hire workers, finance research and carry inventory before major contracts generate cash. For smaller suppliers, the problem can become especially awkward: governments may say their technology is urgently needed while lenders see a company facing long sales cycles, uncertain procurement decisions and expensive equipment built for a very specialized customer.

NATO now identifies financing as part of the industrial-capacity problem. Its July Innovation Scale-Up Package calls for more private capital in defence, including loans, guarantees and equity, while urging governments to provide clearer demand signals and use public institutions to reduce investment risk. NATO says private capital allocated to defence has increased considerably but still represents only a marginal share of the broader private-capital market.

Canada has plenty of companies sitting in that gap. Small and mid-sized businesses account for 92% of firms and 40% of employment in Canada's defence industrial base. They are increasingly the businesses being asked to develop drones, sensors, software, communications systems and specialized components — and they are less likely than the defence giants to have enormous balance sheets available while governments consider their options.

The DSRB is supposed to help bridge the distance between **we should build this** and **we can afford to build this at scale**.

A bank without tellers

The model is closer to the World Bank and other multilateral financial institutions than anything you'll find beside the neighbourhood coffee shop. Member governments would provide capital and sovereign backing, with the proposed bank using that financial foundation to raise money in global markets and provide long-term financing.

The DSRB Development Group says the bank is also being designed to provide guarantees that would reduce the risk faced by commercial lenders financing defence and security firms throughout the supply chain. The participating governments say the DSRB is intended to expand access to capital, reduce financing costs and increase industrial capacity while complementing, rather than duplicating, existing programs.

The guarantee function may prove more important than lending to governments. Consider a smaller Canadian company trying to triple production of an autonomous system. A conventional lender sees more than clever engineering. It sees a business dependent on government procurement schedules, uncertain contract volumes, specialized assets and a customer that can sometimes spend several years deciding what it urgently needs.

Put credible sovereign backing behind part of that risk and the calculation changes. The company still has to be viable. Lenders still have to do their homework. Nobody gets a suitcase of public money because somebody added the word *defence* to a pitch deck. But some of the risk becomes easier to carry, which can mean more available credit, longer terms or lower financing costs — and potentially another production line.

Canada already has money in the fight

There is an obvious question: **don't we already do this?**

Yes, at least partly. Six months after launching its dedicated Defence Platform, BDC had supported 130 Canadian small and medium-sized businesses and was approaching $1 billion in loans and investments. Export Development Canada said it had provided approximately $2 billion in financing and insurance-related support to defence and security companies since expanding its activity in the sector, including $1.1 billion to more than 60 companies during 2026.

Canada is also trying to repair the procurement side. The Defence Drone Initiative has created a pre-qualified supplier pool for uncrewed and autonomous systems, communications, engineering, testing and related capabilities. Volatus Aerospace is now among the qualified suppliers.

But being pre-qualified is not the same thing as receiving a production order. Getting onto a supplier list is not the same as receiving a meaningful contract, and receiving an initial contract is not necessarily enough to finance a production line. Giving companies access to capital while leaving procurement slow and unpredictable merely moves the bottleneck.

The DSRB therefore has to offer something BDC, EDC and equivalent institutions in other countries cannot easily provide on their own: **multinational scale, pooled sovereign backing and financing capable of following industrial supply chains across member countries.** If it simply recreates domestic lending programs with a nicer letterhead and more flags in the lobby, we can save everyone the trouble.

The numbers still have to work

The ambition is substantial, although the capitalization remains a work in progress. Reuters reported in late August that proponents are seeking roughly **€100 billion in financial capacity**, based on about €20 billion in paid-in capital and another €80 billion in callable capital. About €5 billion in commitments had reportedly been secured at that point.

The DSRB also wants a **triple-A credit rating**. That is not corporate vanity. A strong rating would allow the bank to borrow in global markets at favourable rates and use that advantage to offer better financing to members and industry.

But Germany, Britain and Japan have not committed to joining. Reuters reported that the absence of additional large, highly rated economies has raised questions about whether the initial group can secure the AAA rating proponents want. Potential members have also questioned how much capital they would have to provide and whether the bank overlaps with existing European and British defence-financing initiatives.

Those concerns go to the heart of the model. A highly rated government can already borrow cheaply, so if the DSRB's strongest proposition is simply that it can lend sovereign governments money, some of them may reasonably wonder why another institution is necessary. The more persuasive argument may be farther down the supply chain: sovereign governments rarely struggle to get a banker's attention; a 130-person company trying to turn a clever prototype into 10,000 deployable units might.

Canada's underrated asset: trust

Then there is the question that deserves more attention here at home: **Why Canada?**

Canada does not have the largest military among the countries involved. We do not have Europe's biggest defence industry, and nobody has ever accused Canadian defence procurement of moving at dangerous speed. Yet when the participating countries had to decide where the new institution should live, Canada was the unanimous choice.

We should be careful about putting words in their mouths. The participating governments have not published a joint explanation saying Canada's banking system, regulatory culture or rule of law was the reason for that decision.

Ottawa, however, was making precisely that case before the headquarters vote. In March, Finance Canada said Canada's role as a trusted partner in collective defence and security, combined with its robust financial sector and growing defence industrial base, was driving interest in locating the institution here. After Canada was selected, the government again pointed to Canadian strengths in finance, defence, aerospace, advanced manufacturing and innovation.

Governments tend to be enthusiastic when writing their own brochures, so it is worth checking the pitch against independent evidence. The International Monetary Fund's most recent full assessment described Canada's financial system as strong and well-regulated and said it had demonstrated resilience in recent years. Canada is not immune to financial risk — household debt and housing exposure remain legitimate vulnerabilities — but the system has substantial capital and liquidity buffers.

OSFI provided another useful snapshot in June. Canada's six largest banks had average Common Equity Tier 1 capital ratios of 13.5%, comfortably above the regulator's 11% supervisory expectation. OSFI described the banks as having sustained strength and resilience with substantial capacity to absorb losses.

Canada also ranked 13th out of 143 jurisdictions in the World Justice Project's 2025 Rule of Law Index. That does not prove why other governments chose Canada, nor does it mean Canadian institutions are flawless. It reinforces the broader point that predictable laws, functioning institutions and enforceable rules are national assets when countries are trying to build a sovereign-backed financial institution.

We tend to think of strategic assets as things we can dig out of the ground, manufacture in a factory or sail through the Arctic.

Trust is an asset too.

Canada has spent decades building a reputation for relatively predictable institutions, professional financial regulation and working within rules-based alliances. It is not flashy. Nobody cuts a ribbon when a contract is honoured exactly as written. But a bank is ultimately an institution built on promises about money.

In an institution built on credit, contracts and sovereign guarantees, boring competence is not boring. It is collateral.

Money can't fix procurement

None of this fixes a bad customer. Canada has spent decades demonstrating how slow, fragmented and unpredictable defence procurement can become. A manufacturer being asked to invest millions in production capacity needs more than a speech saying demand will eventually arrive. It needs enough certainty to hire people, order machinery and commit capital.

Canada's Defence Industrial Strategy is trying to address that through more predictable demand, faster purchasing, the Defence Investment Agency and its **Build-Partner-Buy** approach. NATO's scale-up strategy makes essentially the same point: investors need credible demand signals, contracting and procurement if they are expected to finance industrial expansion.

A DSRB guarantee cannot tell a company which drone Canada will eventually buy. It cannot stop specifications changing halfway through a procurement. It cannot turn every promising startup into a viable manufacturer, nor should it try.

The bank can help finance the factory. Somebody still has to order what it makes.

That is why financing reform and procurement reform have to move together. Solve one without the other and the bottleneck simply moves down the hallway.

What Canada gets if this works

Hosting the headquarters is nice. The larger prize is giving Canadian companies access to a financing system and industrial network that extends beyond Canada's own defence budget.

A Canadian company selling almost entirely to Ottawa is constrained by the size and speed of Canadian procurement. A company able to pursue work across several member-country supply chains has more potential customers, greater opportunities to specialize and potentially larger production volumes.

That matters because Canada is trying to rebuild defence capacity while confronting a broader economic problem: **too many important relationships depend on too few doors remaining open.** As we have argued elsewhere, Canada's long game is about building more choices, not severing valuable relationships.

The answer is not to shut the American door. The United States will remain Canada's largest and most important defence and economic partner.

The answer is to build more doors.

A multinational defence bank headquartered in Canada could become one of them — linking Canadian capital, engineering and manufacturing with partners that also need more suppliers, more production and more resilience. That is much more interesting than the headquarters plaque because Canadian companies might ultimately get more customers.

Judge the bank by what gets built

The DSRB has moved far enough beyond the concept stage to deserve serious attention. Nine governments have declared their intention to establish it. Founding Articles of Agreement have been negotiated. Canada has been unanimously selected as the prospective host, and proponents want operations to begin as early as 2027. Finance Minister François-Philippe Champagne was still promoting the initiative and its “next phase” at G20 meetings this week.

Those are meaningful milestones, but they are not €100 billion sitting in a bank account. Canada should keep pushing the project forward while asking the awkward questions that determine whether it will actually be useful: How much capital must each country contribute? How much will be paid in and how much callable? Who chooses projects? What happens when loans go bad? Which companies qualify? How does financing connect to procurement? Can the bank attract additional highly rated members? And what does it provide that national programs and existing European mechanisms cannot?

Those questions are not evidence that the project is failing. They are evidence that it has reached the point where serious people should stop admiring the concept and start testing the machinery.

The underlying challenge is real. Governments want companies to move from prototypes to production, from boutique suppliers to scalable manufacturers, and from peacetime inventories to industrial capacity capable of responding when the world becomes less friendly. That requires money, but money alone is not industrial policy. It also requires contracts, factories, workers, customers and governments willing to make decisions before the emergency arrives.

If the DSRB can help a good Canadian, Belgian, Latvian or Ukrainian company expand because allied demand is credible and the capital required to meet it is actually available, Canada will have helped build something useful.

And that is how this bank should eventually be judged — not by the announcement, the acronym, the headquarters or even the impressive number attached to its proposed balance sheet.

By what eventually comes off the line.
