JCMS JOURNAL of COMMON MARKET STUDIES UACES

JCMS 2022 pp. 1–19 DOI: 10.1111/jcms.13442

Catalytic Power Europe: Blended Finance in European External Action

ANDREA PRONTERA[1] and RAINER QUITZOW[2]
[1]Department of Political Science, Communication and International Relations, University of Macerata, Macerata [2]Institute for Advanced Sustainability Studies, Potsdam

Abstract
The global influence of the European Union (EU) has been debated in overlapping strands of literature as 'normative', 'regulatory' and 'market power'. They identify the diffusion of its rules and standards as a vehicle of European power. We argue that European power extends beyond its regulatory capacities and includes new 'catalytic' capacities in the realm of financing and network building. We analyse blended finance as an instrument of 'catalytic power', defined as the mobilisation of partners and their resources to pursue external objectives. The analysis reveals that financial leverage, the original motivation behind the tool's creation, has declined in importance. Instead, blended finance is designed to facilitate and structure cooperation with other European and multilateral financial institutions, positioning the European Commission as a central node in international cooperation and increasing its influence in this sphere. The article closes with a discussion of blended finance as a tool of catalytic power and related trade-offs.

Keywords: development assistance; European Union; finance; global affairs; international political economy; regulatory power

Introduction

Changes in the international political economy have reinvigorated policy debates in the European Union (EU) about its role in international affairs. The rise of China and its state-dominated economic development has led to heightened geoeconomic rivalry between Washington and Beijing, leaving the EU struggling to define its stance in global affairs. Amongst other things, it is placing pressure on the EU to confront the challenge posed by China's engagement with external partners along its Belt and Road Initiative, giving rise to the EU–Asia Connectivity Strategy and more recently the Global Gateway Strategy (Flint and Zhu 2019). The latter can help the EU better position itself in the global infrastructure and connectivity race by supporting investment projects that are aligned with its strategic goals (Tagliapietra 2021).

These changes have provided the basis for renewed reflection within the 'EU-as-a-power' debate, adding important perspectives to the agenda on Normative Power Europe (e.g. Manners 2006) and Regulatory Power Europe (e.g. Bradford 2012; Damro 2012, 2015; Young 2015; Lavenex et al. 2017; Goldthau and Sitter 2018). These conceptualisations connect the EU's external influence to its internal nature, based on the norms and values enshrined in its treaties as well as the EU's core identity as a so-called regulatory state. According to this line of thinking, the externalisation of its

The authors confirm that the article has only been submitted to JCMS and is not published, in press or submitted elsewhere.
The authors confirm that there is no funding information to be reported.

market-liberal policies and the use of regulatory tools are the main assets through which the EU can pursue its external objectives and promote its interests in international economic affairs (Damro 2012). More recently, it has been acknowledged that this regulatory power can also be employed in a more targeted manner via regulatory diplomacy (e.g. Damro 2015; Young 2015; Lavenex et al. 2017) and can be deployed selectively to reach specific geopolitical goals (Goldthau and Sitter 2018).

Building on this discussion, this article proposes that the concept of regulatory power is no longer sufficient to characterise the EU as an actor in international affairs. Though it remains crucial for understanding its global influence, we argue that the EU has added significant new capacities, which warrant a more thorough reconsideration. More specifically, we focus on the EU's evolving toolbox in the sphere of external financing and the growing role of so-called blended finance. Blending refers to a collaborative approach to financing based on the combination of grant-based components with loans or equity from other public and/or private sources. Building on previous work on the EU as a catalytic state (Prontera 2019; Prontera and Quitzow 2022), we argue that blended finance exemplifies efforts by the EU to overcome its constraints as an actor in international affairs and exert 'catalytic power' in its foreign engagements. Catalytic power resonates with the concept of 'collaborative power' and related notions of network diplomacy (Slaughter 2009, 2011, 2017; see also Hocking 1999). Collaborative power relies less on actors' own resources and more on mechanisms of connectivity and mobilisation for achieving foreign policy objectives (Slaughter 2011). As our empirical analysis demonstrates, blended finance represents not only a tool for leveraging private finance. Rather, first and foremost, it represents a means for exploiting the EU's catalytic power by mobilising and aligning action amongst its partners for pursuing its desired goals. This discussion not only offers an important new conceptual perspective for understanding the EU as an actor in global affairs. It also closes an important empirical gap in the literature by offering a detailed analysis of the development and governance of blended finance, which has emerged as one of the central financing approaches in European external action.

The article is organised as follows. Section 1 begins with a brief illustration of the catalytic state model. Based on this, it develops the framework of Catalytic Power Europe – that is, the EU as a catalytic state/catalytic power – to complement the still dominant idea of Regulatory Power Europe, which is linked to traditional conceptualisations of the EU as a regulatory state. Section 2 then applies this thinking to the case of blended finance. It highlights how this instrument of EU external financing has grown and evolved over the past 15 years and discusses its role as a means for exerting catalytic power. In Section 3, we discuss broader implications and trade-offs of blended finance specifically and Catalytic Power Europe more generally. The article concludes by proposing relevant avenues for additional research in the field.

I. From Catalytic State to Catalytic Power

The catalytic state model highlights emergent dynamics of EU economic governance overlooked by the regulatory state perspective. Whilst the latter implies an indirect approach to economic governance by means of setting the rules of the game, the traditional, positive (or interventionist) state pursues policy objectives by direct intervention. The catalytic state occupies a middle ground between these two extremes. As Lind has put it, 'A catalytic state is one that seeks its goals less by relying on its own resources than by acting as a dominant element in coalitions of other states, transnational institutions and private sector groups, while retaining its distinct identity and its own goals' (Lind 1992: 3). It highlights the catalytic role that states can play by enabling and guiding action by other state or non-state entities through the use of non-regulatory instruments, such as public financing, informational tools, networking and alliance building. In doing so, states can extend their capacities via the activities of these actors. To achieve this goal, tools are often deployed in combination with each other in a mutually reinforcing manner. They frequently take shape in new, hybridised governance arrangements with the government as a central node within a network of actors (Prontera 2019; Prontera and Quitzow 2022; see also Weiss 2014).

In the EU, this catalytic state model emerged as a pragmatic response by the European Commission to a new set of challenges following the global financial crisis, whilst remaining constrained by its nature as a quasi-state and its lack of key competences, such as independent revenue-raising capabilities. After a more traditional approach was pursued directly after the financial crisis, EU-level action has become increasingly interventionist over time. As Mertens and Thiemann (2019) have pointed out, the new financial instruments of the so-called Juncker Plan – that is, the Investment Plan for Europe and the European Fund for Strategic Investments – have given rise to the 'nucleus' of a European 'investment state'. Centred on the idea of financial leverage, it utilises cooperation with the European Investment Bank (EIB) and national development banks to catalyse investment by actors from the private and public sector. This has been particularly visible in the sphere of climate and energy, where EU governance has shifted from a narrow market-liberal approach to an increasingly expansive approach, addressing infrastructure bottlenecks and innovation in climate-friendly technologies (Quitzow et al. 2022).

In the remainder of the article, we argue that the catalytic state, as manifested in the EU's internal governance, has simultaneously taken shape within EU external action. Building on the concept of the EU as a regulatory state, scholarly debate on the EU stance in international affairs has mainly focused on the idea of regulatory power. This notion stresses that the EU's influence in the global political economy is related to the attractiveness of its large internal market, the EU's regulatory capacity and the ability of the Commission to deploy its regulatory toolbox and export its rules and regulatory regimes (Bach and Newman 2007; Bradford 2012; Damro 2015). Regulatory Power Europe works through a range of mechanisms that imply both a more 'passive' and 'active' use of the EU's market might (Lavenex 2014). In the former case, it is the mere existence of the single market that produces alignment and adoption of EU rules and standards by third countries, even absent any direct pressure. This is what Bradford (2012, 2015) indicates as the 'Brussels effect', which works through a process of 'unilateral regulatory globalization' triggered by market mechanisms (Bradford 2015: 159). A more active use of EU regulatory power provides for a targeted and strategic enforcement of the EU's regulatory toolbox. This is intended not to pursue a liberal international agenda but to achieve specific (geo)political goals, such as reducing energy dependency from Russian supplies (e.g. Goldthau and Sitter 2018; Siddi and Kustova 2021). A more active use of EU regulatory power also includes the exercise of (positive and negative) conditionality (Schimmelfennig and Sedelmeier 2004; Lavenex 2014). As illustrated by the literature on the EU's external governance, this mechanism is crucial to explain the export of EU regulatory regimes in the EU's near-abroad. In this vein, the EU has been depicted as a 'global regulator' that seeks, through the tools of negative and positive conditionality, to leverage its large market to externalise its rules (e.g. Damro 2015; Young 2015).

Rather than focusing on the enforcement and externalisation of the EU's rules, the Catalytic Power Europe perspective highlights how the EU has translated an expanding set of catalytic state capacities into mechanisms for pursuing objectives beyond its borders. In this vein, catalytic power refers to the mobilisation of partners and their resources to pursue external objectives. A key notion of the catalytic state model is that the state can seek to extend its capacities though collaboration with other actors. In this sense, catalytic power resonates with Slaughter's conceptualisation of 'collaborative power' (Slaughter 2009, 2011, 2017). This form of power relies less on actors' own resources and more on mechanisms of mobilisation and connectivity. Mobilisation in this context refers to the ability of EU governmental agents to activate additional non-state resources and capacities to pursue its foreign policy goals. As suggested by the catalytic state model, the deliberate combination of different types of tools, including informational, organisational and financial instruments, can serve as a catalyst to mobilise action by other actors. Connectivity refers to the ability of EU governmental agents to create networks of actors, including state and non-state actors from inside and outside the EU, and exploit information and knowledge resources to achieve the desired goals within these actor constellations. These networks can enable the EU to expand its 'boundaries' beyond its geographical borders and strengthen its actorness and presence in international affairs (e.g. Filtenborg et al. 2002).[1]

In this vein, catalytic power manifests itself through practices of network diplomacy. Network diplomacy refers to a new mode of diplomacy deployed by governments to gain influence in an international economic environment characterised not only by the liberalisation of trade relations but also by the fragmentation of the state and increasingly complex state–society relations (Hocking 1999; Lee and Hocking 2010). It highlights the increasing number of players, ranging from local public and private actors to international financial institutions (IFIs), which play a role in international partnerships and diplomatic exchanges. The concept also highlights the transformation of the very purpose of diplomatic practices from signing international agreements to facilitating policy processes and investment projects (Heine 2013; Tussie 2013).

Moreover, network diplomacy differs from the modes of diplomacy associated with both the regulatory and positive state (see Table 1). The former can unfold in multilateral as well as bilateral settings, though mainly involving state actors – governments or regulators – and aiming to promote international agreements and rules transfer (e.g. Lavenex et al. 2017). The latter resembles Susan Strange's triangular diplomacy framework, which rests on classical, bilateral, government-to-government and company-to-government interactions and sees states mainly involved in backing national champions abroad (Stopford and Strange 1991). Like triangular diplomacy, network diplomacy focuses on

[1]The concept of catalytic power differs from the perspective of the Orchestrator–Intermediary theory (Abbott et al. 2015). The latter envisages a linear relation among three categories of actors (Orchestrator → Intermediary → Target), whereas the former considers a multiplicity of actors connected in a non-linear, networked mode. Moreover, Orchestrator–Intermediary theory draws on global governance scholarship, whereas the catalytic power/network diplomacy perspective is rooted in the studies of economic diplomacy and foreign policy (on the differences between these two strands of literature, see Cooper et al. 2008).

Table 1: Forms of state and modes of economic diplomacy

Forms of state	*Modes of economic diplomacy*	*Actors*	*Actor types*	*Main purpose*
Positive state	Triangular	Few	Governments, companies	Back national companies
Regulatory state	Multilateral/ bilateral	Few	Governments, regulators	Promote international agreements and rules transfer
Catalytic state	Network	Many	Governments, companies, international organisations, IFIs, NGOs, local governments	Facilitate policy processes and project implementation

Source: Authors' own elaboration.
IFIs, international financial institutions; NGOs, non-governmental organisations.

Table 2: Regulatory Power Europe and Catalytic Power Europe

	EU focus	*Mechanisms*	*Capabilities*	*EU means*
Regulatory Power Europe [EU as a Regulatory state]	Rules	Enforcement Market Conditionality	Regulatory capacity	Promotion of regulatory tools Positive and negative conditionality: e.g. trade and cooperation agreements, granting preferences, suspending agreements, increasing tariffs and quotas Regulatory diplomacy: using incentives/disincentives to push EU standards and rules in multilateral and bilateral settings
Catalytic Power Europe [EU as a Catalytic state]	Projects	Connectivity Mobilisation	Collaborative capacity	Deployment of financial instruments and facilities Promotion of alliances and partnerships Network diplomacy: using incentives and procedural instruments (e.g. political agreements, platforms, information, networks formation) to promote coalition-building and implementation of investment projects

Sources: Authors' own elaboration.
EU, European Union.

'doing things' rather than 'promoting rules'. However, the latter recognises that states need the collaboration of a larger number of players to achieve their objectives.

Like the notion of regulatory diplomacy, network diplomacy is not a mechanism of Catalytic Power Europe per se. Rather, it includes the various (procedural) instruments and governance arrangements that EU governmental agents can deploy to build coalitions amongst different state and non-state actors, facilitate investment projects beyond EU borders and promote the bloc's external objectives and interests. Table 2 summarises the key differences between the Regulatory Power Europe and Catalytic Power Europe conceptualisations in terms of focus, mechanisms, capabilities and means for achieving EU's external objectives (Table 2).

II. Catalytic Power in EU External Action: The Case of Blended Finance

Several scholars have recognised the emergence of networked diplomatic patterns with regard to the EU's engagement in international affairs (e.g. Hocking and Smith 2011). The idea has also gained explicit recognition in key EU policy documents over the past years. The 2016 EU Global Strategy points to the need for partnerships with 'the private sector' and 'mobilising' the EU 'economic weight' (European External Action Service [EEAS] 2016). It seeks to build 'unparalleled networks' and act as 'a connector, coordinator and facilitator within a networked web of players' to increase the EU's influence in international affairs (EEAS 2016: 43). More recently, this has also taken shape in its Team Europe approach, launched by the EU in response to the Covid-19 crisis in April 2020. By increasing cooperation across EU institutions, member states and European financial institutions, the new approach seeks to strengthen the EU's influence and leverage its impact both in partner countries and within multilateral fora, such as G7, G20 and the UN. This is combined with the ambition to utilise development funds to 'catalyse strategic investment through public-private partnerships' (EEAS 2016: 26). Both the 2017 European External Investment Plan (EIP) and the 2018 EU's Action Plan for Financing Sustainable Growth highlight the central importance of leveraging EU resources to mobilise additional finance for investments in infrastructure and other sustainable development projects.

Against this background, 'blended finance' represents a central vehicle for extending the scale and impact of its financial cooperation. Together with the increased use of guarantees,[2] the EU employs blending to leverage additional financial resources and catalyse investments in partner countries in the European Neighbourhood and the developing world. As the EC indicates in its *Guidelines on EU Blending Operations*, its aim is to 'do more with less' by increasing the overall volume of funding in target sectors, thereby enhancing the overall development impact of EU finance (European Commission 2015). The EU started experimenting with blending in its overseas financing as early as 2006 with the establishment of the Global Energy Efficiency and Renewable Energy Fund (GEEREF), which predates the shift towards financial leveraging within the EU following the financial crisis. Since then, the role of blending within EU external action has not only grown in scope but also evolved considerably, providing important insights into the development of the EU as a catalytic power.

The remainder of this section provides a detailed review of blended finance in the context of EU external action. It discusses its emergence as a major instrument of EU external financing and how it has evolved as a means for exerting catalytic power. The review builds on primary sources from the European Commission as well as evaluations and reviews conducted by the European Court of Auditors on behalf of the European Parliament and by independent thinktanks. These sources have been complemented by a series of interviews with various actors within the European Commission, the European External

[2]Similar to blending, the EU has increased the use of guarantees for financial leverage. It has lagged behind blending in terms of volume, however, and has not been managed actively by the EU until recently. In this article, we therefore focus primarily on the EU's blending operations.

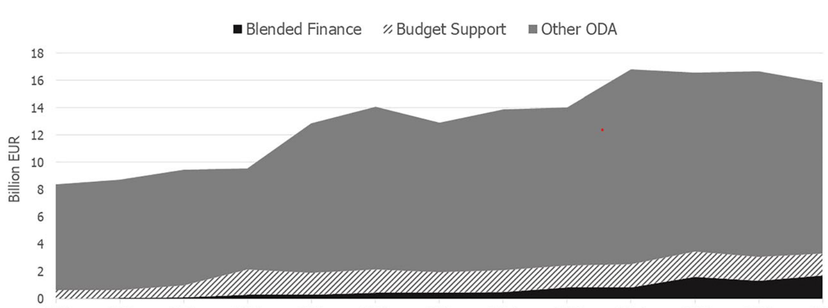
Action Service (EEAS) as well as European development finance institutions. These actors have been selected as they are representative of the main institutions directly involved in the governance and implementation of the EU's blended finance operations (see list in the Appendix).

The Emergence of Blended Finance in EU External Action

The development of blending approaches is part of a more general increase of EU development financing, aimed at enhancing the influence and impact of EU external action. EU overseas development assistance (ODA) more than doubled between 2007 and 2016, rising from €8.36 billion to more than €16 billion, and has remained relatively stable since then. This has gone in tandem with the development of new forms of aid delivery (see Figure 1). In a first step, the EU significantly increased its use of so-called budget support. This grew from approximately €0.6 billion in 2007 to more than €1.5 billion in 2009 and has remained over that threshold since. Budget support represents a direct transfer of funds to a partner's treasury and is not linked to any specific investment programme. Instead, it allows the EU to engage with partner countries in a dialogue at the policy level. Its aim is not to replace project-based support but rather to complement it by engaging in dialogue on broader policy issues.

At the same time that the EU started scaling up budget support, it also began experimenting with blended finance. It launched its first blending facility in 2007, the Africa-EU Infrastructure Trust Fund (later upgraded into the African Investment Facility/African Investment Platform), followed by the Neighbourhood Investment Facility [now Neighbourhood Investment Platform (NIP)] and the Western Balkans Investment Framework (WBIF) in 2008. As a result, blending grew from €39 million in 2007 to €361 million in 2010. With the new multi-annual budget period, the EU allocated €5 billion for blending for the period from 2014 to 2020 (see Figure 2; Hultquist 2015). This resulted in another increase in annual blending disbursements, bringing the total to more than €500 million in 2014. This trend was further reinforced with the launch of the EIP in 2017. The centrepiece of the EIP, the European Fund for Sustainable Development (EFSD), focused on the use of EU funds to leverage additional funding from other

Figure 1: Evolution of European Union (EU) external financing, in billion euros. [Colour figure can be viewed at wileyonlinelibrary.com]



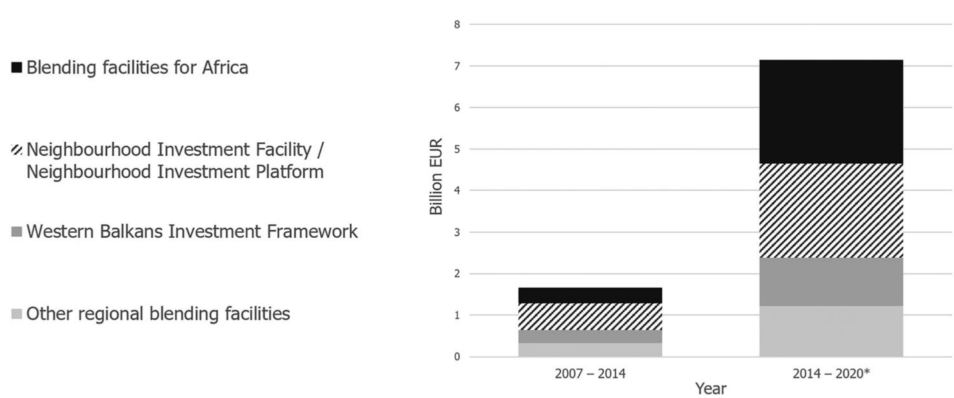
Source: OECD Creditor Reporting System Aid Activity database.

sources to support large-scale investment projects in cooperation with development financial institutions. It included an additional €2.6 billion for blending operations, increasing annual expenditures to €1.6 billion for the year 2017. Since then, budget support and blending have accounted for more than 20 percent of total ODA, more than double the corresponding share in 2007. This trend is expected to continue with the 2021–2027 multiannual financial framework, which no longer specifies a maximum allocation to blending operations. For the WBIF, which is subject to a separate negotiation process involving various partners, it includes an initial funding commitment of €1.185 billion for the period of 2021–2023, more than the total for the entire previous multiannual financial framework (European Commission 2021b).

Blended Finance as a Vehicle for Mobilising Partner Resources

Whilst budget support represents an explicit entry point for policy dialogue with partner countries, blending operations can be seen as a vehicle for mobilising partner resources, whilst aligning them with the goals of the EU. By catalysing large-scale investment projects, the European Commission aims to act as a central node with a high degree of visibility and impact in partner countries. By doing so, it also seeks to gain increased weight in policy dialogue. Indeed, in addition to the European Commission's aim of leveraging additional financial resources, it identifies four major (non-financial) objectives for its blending engagement: *non-financial leverage, policy leverage, visibility* and *aid effectiveness* (European Commission 2015). *Non-financial leverage* refers to the additional value that an EU grant can offer to a given investment operation by enhancing its sustainability and development impact, whilst *policy leverage* refers to the additional influence it provides for promoting

Figure 2: Major European Union (EU) regional blending facilities, volumes of financing in the multi-annual financial framework (2007–2020). [Colour figure can be viewed at wileyonlinelibrary.com]



Sources: Operational reports of EU regional blending facilities. Notes: *Total for the period 2014–2020 does not include 2020 data for the Neighbourhood Investment Platform (NIP) and Africa Investment Platform (AIP), which has not been reported.

policy reforms in line with EU objectives. The latter is reinforced by increasing the *visibility* of EU development funding. Finally, *aid effectiveness* refers to the role of blending operations as a vehicle for facilitating cooperation and hence coordination amongst donor agencies. By acting as a leader within these operations, the EU seeks to enhance its influence not only with partner governments but also within the donor community.

Since the introduction of blending in 2007, the various non-financial objectives have come to overshadow the aim of financial leverage, the initial driver behind the blending concept (Interview 1). This original aim was formulated in the so-called 'Patient Capital Initiative' launched by the European Commission in 2004 to support investment in renewable energy in developing countries. Out of this initiative grew the first EU blending operation, the GEEREF (European Commission 2006). The GEEREF represented a so-called Fund-of-Funds, which provided public equity in order to attract additional private equity to a series of regional funds for investments in renewable energy and energy efficiency. With €132 million in equity from the EU as well as the Norwegian and German governments, GEEREF has mobilised €1 billion in additional public equity and €500 million in private equity and further €1.5 billion in project-level lending from public and private sources (EIB et al. 2020). This approach, focused on leveraging private finance for investments in sustainable projects, has continued, though at a relatively modest scale. According to an independent evaluation, equity accounted for only 11% of the EU's largest blending facility, the Neighbourhood Investment Facility (NIF) (Poldersman and Pereira 2020).

The majority of operations represent large-scale infrastructure investments, which are supported via investment grants or technical assistance for project preparation. These operations are not primarily motivated by the aim of leveraging private sector funding. Indeed, only a small share of investments is co-funded by private entities. In 2017, only 13% of the funds leveraged by EFSD came from private sources, with the remainder coming from development finance institutions (DFIs).[3] To lead the implementation of an EU-supported blending operation, financial institutions have to pass through an assessment process. This has led to a relatively short list of mainly European DFIs that have achieved eligibility for the development of EU blending operations. Moreover, European DFIs are given priority as lead institutions in blending operations. In practice, this means that the vast majority of blending operations are led by the EIB, the European Bank for Reconstruction and Development (EBRD), French AFD (*Agence française de développement*) and German KfW (*Kreditanstalt für Wiederaufbau*) (European Commission 2015). Other multilateral (regional) development banks such as the African Development Bank (AfDB), the Asian Development Bank (ADB) or the Inter-American Development Bank (IADB) and the Development Bank of Latin America (CAF) are also involved, though not at the same scale. By mobilising these entities, the European Commission seeks to increase the scale of its engagements in partner countries whilst ensuring that the operations adhere to its external objectives. The EU can rely on the networks that the development banks have in partner countries as well as on their expertise in project development and implementation, thereby allowing it to extend its external reach and influence (Interviews 1, 2, 8 and 9).

This collaboration amongst the EU, the development banks and partner countries has been instrumental in promoting several large infrastructural projects, mainly in the

[3]Authors' own calculations based on the EFSD Operational Report 2017.

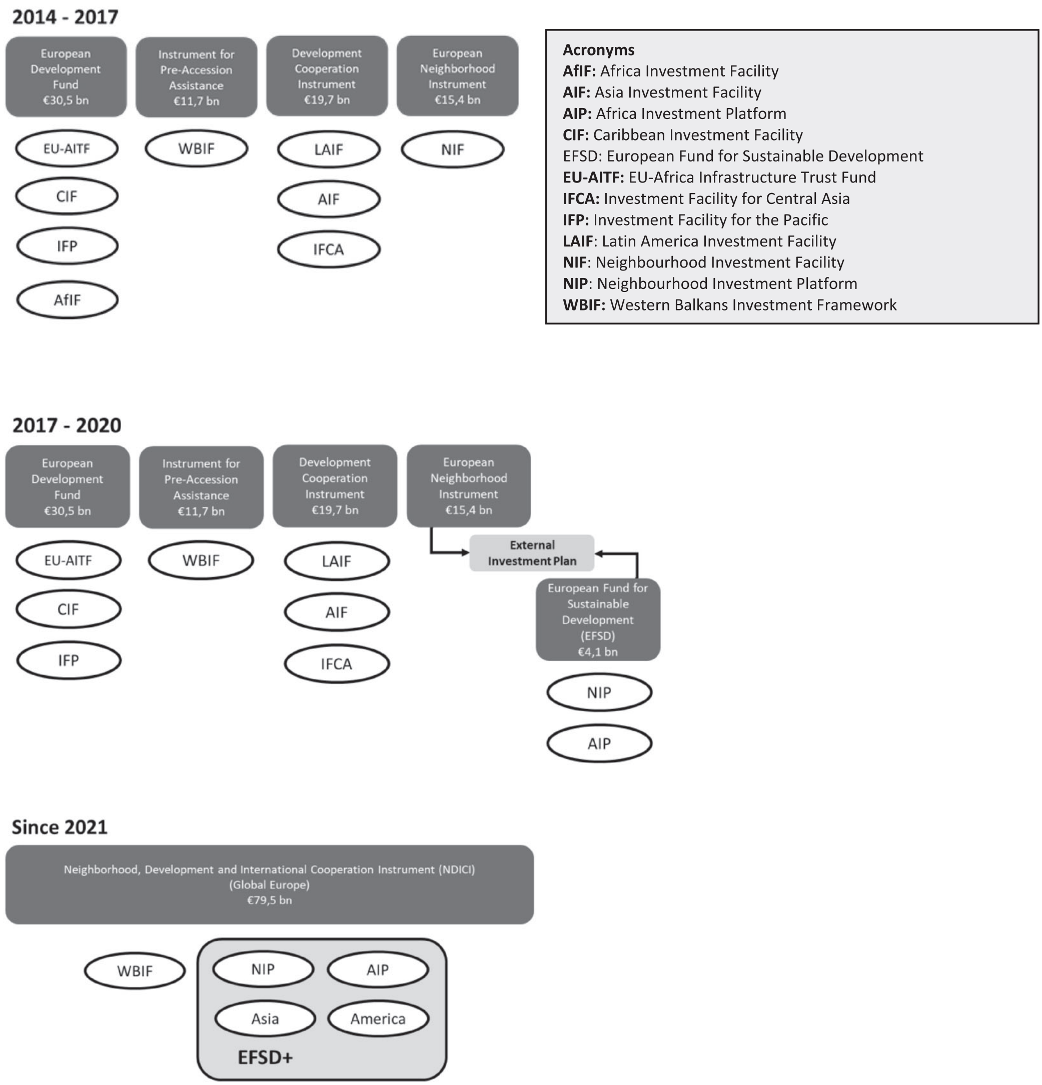
transport and energy sectors. Major examples (in terms of financial resources allocated under the NIF/NIP) include the NOOR solar power plant in Morocco or the Wind Farm Gulf of Suez project in Egypt. Both these projects have been supported by the EIB, KfW and AfD (as well as AfDB in the case of NOOR solar power plant) and have been developed in cooperation with national renewable energy agencies (MASEN for Morocco and NREA for Egypt). These projects serve different priorities of the EU's external action, such as supporting climate objectives and enhancing energy security, economic development and stability in its neighbourhood (European Commission/EEAS 2014). Another important example in this vein is the Moldova–Romania electricity link. This infrastructure project, supported under the NIP by the EIB, the EBRD and the World Bank, aims at increasing Moldova's energy security and better connect this country with the European electricity network. The strategic importance of this has become particularly evident in the wake of Russia's invasion of Ukraine.

Governing Blending Operations

Reflecting the growth in funding volume, the EU has developed an increasingly streamlined governance framework to facilitate the steering of its growing portfolio of blending operations (Interviews 1, 2 and 4; Gavas and Timmis 2019). Initially, blending operations were developed within a series of regional blending facilities, each with its own governance arrangement (see Figure 3). In a first step towards strengthening the influence of the European Commission and the EEAS, the EIP consolidated the two largest blending facilities for the European Neighbourhood (NIP) and Africa [Africa Investment Platform (AIP)] within the EFSD. In a second step in 2021, it created the Neighbourhood, Development and International Cooperation Instrument (NDICI, also referred to as Global Europe) with the EFSD+ as its centralised vehicle for blending operations (European Commission 2021a). The EFSD+ comprises four regional investment platforms for the European Neighbourhood (NIP), sub-Saharan Africa (AIP), Asia and the Pacific and the Americas and the Caribbean. Only the WBIF, which supports EU accession countries in the Western Balkans, has retained a separate governance system (European Commission 2021b). Given the important interlinkages to accession proceedings, the WBIF represents a unique case, where the EU is increasingly linking its catalytic power to its traditional regulatory power. Whilst a detailed discussion goes beyond the scope of this article, it represents a highly relevant avenue for future research.

Like its predecessor, the EFSD+ is based on a three-tier architecture composed of a strategic board, regional operational boards and corresponding technical committees (Interviews 4, 7 and 12; European Commission 2020) (Figure 4). The central strategic board is responsible for setting the overall (political) strategic directions for the EFSD+, which combines all major blending facilities. It is jointly chaired by representatives of the DG for International Partnerships (DG INTPA, former DG DEVCO), the DG for Neighborhood and Enlargement Negotiations (DG NEAR) and the EEAS. In addition, the member states and the EIB are represented, whilst partner countries and other stakeholders may participate as observers upon request (the European Parliament also participates as observer). Operational Boards are responsible for issuing opinions on project proposals and approving individual grants for the regional facilities. They include the Commission,

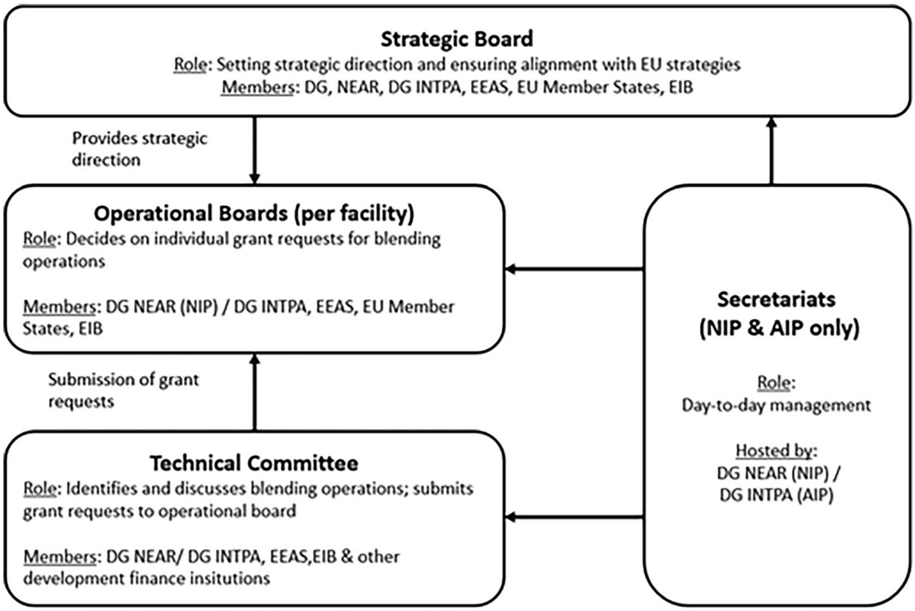
Figure 3: Evolution of European Union (EU) external financing instruments and blending facilities. [Colour figure can be viewed at wileyonlinelibrary.com]



Note: The figure shows the EU's largest funding instruments. The EU-Africa Infrastructure Trust Fund (EU-AITF) represent a multi-donor blending facility, including contributions from the EU and member states. Consolidated investment platforms for the Americas and Asia have been defined under EFSD+ but have not been officially launched. Source: Authors' own elaboration, based on Gavas and Timmis (2019) and official EU sources.

the EEAS and the member states as voting members and financial institutions as observers. Finally, technical committees, consisting of the Commission, EEAS and financial institutions, meet regularly to establish a project pipeline and select projects to be

Figure 4: The governance system of the European Union (EU) blending facilities under the EFSD+.



Source: Authors' own elaboration.

presented to the Operational Board for approval. Both the NIP and the AIP are managed by Secretariats hosted by DG NEAR and DG INTPA, respectively.

This governance system reflects an effort at political steering by the European Commission that balances various priorities represented by both internal and external stakeholders (Interviews 1, 2, 3 and 4). DG NEAR and DG INTPA are guided primarily by clearly defined thematic goals, guided by the Sustainable Development Goals as reflected in the multi-annual funding priorities of the EIP, and are responsible for the management of blending operations based on the principles and rules governing EU overseas funding. DG NEAR is also guided by the evolving priorities of the European Neighbourhood Policy (Interviews 4, 7 and 10). For example, after 2014, a stronger focus on energy security and energy market integration was included in the NIF 'strategic orientations' (European Commission/EEAS 2014). The EEAS has the role of articulating broader foreign policy objectives and can exert its influence by promoting the selection of projects considered of strategic importance as well as requesting amendments to proposed projects (Interview 12). In addition, the EU delegations abroad, in cooperation with partner countries, are involved in the process of proposal preparation, which is led by eligible financial institutions. Before reaching the technical committee, it is common practice that project proposals are considered for approval and support by EU delegation in partner countries (Interviews 8 and 9; see also European Commission 2015).[4]

[4]For the NIP, approval by the EU delegation and the partner country is mandatory for bilateral DFIs but not for the three eligible multilateral DFIs, that is, EIB, EBRD and the Council of Europe Development Bank.

According to officials interviewed for the paper, the governance system has favoured increased coordination amongst the different EU actors involved in the blending instruments. The governance system has also institutionalised interactions between the Commission and the financial institutions that lead project preparation. According to interviewees, this has allowed the Commission to increase coordination and coherence between the EU and these actors over time (Interviews 1, 4, 5, 6, 8, and 11; see also European Commission 2020). However, the ability to influence project preparation and set political priorities remains a challenge, given the important role played by financial institutions. Cooperating with these actors for implementing complex financial instruments requires a set of capabilities that are still underdeveloped within the Commission and its services, which were mainly used to provide direct grants and budget support (European Commission 2020; see also European Parliament 2022).

III. Catalytic Power Europe: Potentials and Trade-Offs

As this review demonstrates, the EU has not only significantly increased its overseas financing, it has also developed new modalities to increase its stance in international affairs. By connecting a variety of actors and mobilising different resources – both financial resources and expertise – the EU can facilitate the realisation of investment projects that, in turn, can help the EU achieve its external objectives. In doing so, it is mirroring the catalytic state capacities that it built up in the aftermath of the financial crisis and has recently extended in response to the Covid-19 crisis (Prontera and Quitzow 2022; Quitzow et al. 2022). After a first phase of experimentation, the EIP, which was based on the experience of the Investment Plan for Europe, initiated a phase of consolidation. This consolidation was completed under the framework of NDICI or Global Europe, by creating a joint framework for European external financing and combining the various blending facilities within a single governance system (with the exception of the WBIF). It signalled the shift of blending from a niche of overseas financing to an established instrument for exerting catalytic power. It provides a concrete manifestation of the EU's ambition to act as 'a connector, coordinator and facilitator' to increase the EU's influence in international affairs (EEAS 2016: 43).

As such, the example of blended finance also highlights the trade-offs that this evolving dimension of European power implies. Though developed as an instrument for leveraging private investment, it no longer serves this initial objective. Rather, it provides the Commission with the ability to structure networks of European donor agencies and DFIs and mobilise their resources for the implementation of projects that align with the EU's goals and priorities in partner countries. This ambition is both complemented by and supports the Team Europe approach, which promotes cooperation and coordination across European aid agencies more broadly. At the level of the partner countries, the increased alignment of European financing activities should lead to an increased visibility of these activities as well as greater influence within those areas targeted by blended finance operations. The EU can catalyse financial resources that partner countries need to fill investment gaps for major infrastructure projects. As a central player in these schemes,

[4]For the NIP, approval by the EU delegation and the partner country is mandatory for bilateral DFIs but not for the three eligible multilateral DFIs, that is, EIB, EBRD and the Council of Europe Development Bank.

the EU can augment its influence and compete with other potential providers, such as China. This aim has been explicitly recognised in the Global Gateway Strategy, which identifies the EU financing as a 'positive offer' for supporting major investments around the world (European Commission/EEAS 2021: 1). Though not an explicit aim, blended finance operations frequently also support European business interests. European companies like Siemens (Germany) and Vestas (Denmark) have been key players in the realisation of the Moroccan and Egyptian renewable energy projects cited above.

This deployment of the EU's catalytic power through blended finance is closely linked to its nature as a supranational actor. Lacking the authority to directly control the overseas activities of its member states, it derives its power from its role as the only actor with the legitimacy and capacity to act as a coordinator of its members. In this context, the instrument of blended finance has been deployed as a tangible incentive for other actors within the European and international development finance community to align their activities with those of the EU, facilitating the elusive task of donor coordination.

At the same time, unlike traditional grants and budget support, blending instruments reduce the Commission's direct influence on project development and implementation. To counterbalance this loss of control, the EU has developed a more structured governance framework for steering blending operations. Moreover, it has introduced a rigorous assessment procedure for selecting eligible financial institutions. This, however, has led to a relatively low level of private sector participation in investment projects. Instead, the Commission has emphasised coordination amongst the EU donor community and, in selected cases, other regional and multilateral development banks. In spite of these advances in increasing the EU's influence over its development partners, the more fundamental question remains whether this has indeed increased the Commission's ability to pursue strategic foreign policy goals. In the past, the regulations creating the EFSD and other external financing instruments defined principles and objectives in alignment with the fundamental principles of the EU, such as supporting sustainable development, democracy and the rule of law in recipient countries and supporting the implementation of multilateral agreements, most notably the SDGs and the Paris Agreement. These have offered important guidance for EU officials. Whilst ensuring the alignment with the EU's norms and values, it has not necessarily provided a framework for ensuring more targeted economic and political interests. This is, however, beginning to change with the launch of the NDICI, which is supposed to help the EU respond rapidly to crises and to 'Union foreign policy needs and priorities' (EU Regulation 2021/947, Article 3, Paragraph 2d). This strengthens the voice of the EEAS within the governance system of external finance generally and blended finance specifically. The launch, in 2021, of the EU's Global Gateway Strategy marks a further shift towards network diplomacy – with the EU focusing on facilitating the implementation of infrastructure projects abroad in cooperation with a variety of both public and private entities – and a more strategic use of the EU external financing. Its stated aim is to promote sustainable projects that 'can be delivered with high standards, good governance and transparency' (European Commission/EEAS 2021:1) but also to enhance the EU's 'own interests' and 'strengthening the resilience of its supply chains' (European Commission/EEAS 2021: 3). The latter represents an important pillar of the EU's drive towards 'open strategic autonomy' (Szczepański 2021). It remains to be seen, however, to what extent these adaptations will enable the EU to yield its catalytic power to more effectively pursue strategic foreign policy goals. In any case, the growth and consolidation of blended finance clearly indicate that the Commission and the member states consider the new tool a success. In other words, it is seen to be an effective tool for deploying catalytic power, albeit with a mainly non-financial leverage effect. In parallel, the growing importance of guarantees within the NDICI (with the EFSD+)[5] suggests that the Commission is now re-emphasising its original objective of leveraging private sector finance. The aim of these guarantees is explicitly to mobilise financial resources from the private sector, including domestic investment in the target countries. In contrast to blending operations, the Commission does not screen each investment, but it works with eligible entities to establish dedicated funding programmes in alignment with its broader priorities. Whilst this facilitates the mobilisation of resources outside the traditional donor community, it also implies a lower degree of political control by the Commission. Similar to the case of blended finance, it is likely that the governance of external guarantees will continue to evolve to ensure the desired balance between political steering and financial leverage.

Conclusions

The developments in the sphere of blended finance are part of a broader trend within the EU to confront its limited influence in international affairs. Whilst the EU remains constrained by its nature as a quasi-state entity, it is also actively developing governance approaches that seek to overcome these limitations. Where the EU lacks the competence to directly mandate action by member states, it deploys its collaborative capacity, underpinned and complemented by its growing financial power. This financial capacity has seen an additional boost in the wake of the Covid-19 crisis (Quitzow et al. 2022). The EU has not only launched large-scale funding programmes both internally and externally. More significantly, it has also obtained strongly expanded capacities to raise financial resources on financial markets and to raise revenues directly. This increase in financial autonomy is likely to further bolster its role as a catalytic power in international affairs.

In this vein, the further evolution of the EU as a catalytic power offers a rich ground for further research. The deployment of new forms of catalytic power raises questions regarding the specific design and governance of related policy approaches as well their trade-offs in achieving stated EU objectives. As the case of blended finance reveals, the nature and aim of this instrument differ considerably from the original objective of leveraging large volumes of private finance. This in turn raises questions of accountability. As the scope of EU funding continues to increase in response to geoeconomics pressures, the salience of these questions will continue to grow. As Mertens and Thiemann (2019) have pointed out, the EU is developing into a 'hidden investment state', raising fundamental questions of transparency and democratic oversight. With the launch of the EFSD, the European Parliament has been granted an observer status within the EFSD Strategic Board (a status confirmed with the EFSD+). Moreover, the European Parliament fostered the insertion of an obligation for the Commission to ensure an independent external evaluation of the EFSD (European Parliament 2022). It also obtained that the Commission engages in an annual consultation with external stakeholders and civil

[5]With the EFSD+, the Commission has consolidated its guarantees for external action under a single financing instrument whilst increasing funding to over €10 billion. This allows the Commission to guarantee operations with a funding volume of up to €53.5 billion in total.

society organisations. However, the complex governance of financial instruments like blending and guarantees – as well as the involvement of several institutional actors (EU and national) and financial entities in the decision-making – render accountability a difficult challenge (e.g. Andersen et al. 2019).

Another key challenge is related to the new capabilities that the EU should develop as a catalytic power. Cooperating with a variety of actors in the deployment of complex financial instruments like blending proved to be a difficult task for the Commission. First and foremost, this requires 'positive coordination' (Peters 2018); this means that EU governmental agents should go 'beyond simply avoiding conflicts' and coordinate their efforts to target those actors needed to foster the EU's external objectives. Dedicated governance arrangements, such as those developed for blending instruments, can improve positive coordination amongst the EU actors involved. However, further analytical and empirical work is required on the capacities that can increase the effectiveness of Catalytic Power Europe.

Finally, this article offers an important new avenue for exploring the relationship of the EU as a catalytic power to its well-established yet evolving role as a regulatory power. Are these strategies mutually reinforcing or may they also be at odds? Developments in the Western Balkans where the EU has attempted to align its regulatory and catalytic power offer a fertile ground for investigating this question. Similarly, the carbon border adjustment mechanism represents an important case for investigating the intersection of its regulatory and catalytic power. It has been designed both as an instrument for expanding the EU's fiscal autonomy and as a new, more coercive vehicle for leveraging its market power and promoting its regulatory model abroad. Indeed, the field of climate and energy policy represents a sphere of particular interest, given the importance of both regulatory and investment-oriented approaches to foster the transition to climate neutrality, both in Europe and abroad. Against the background of the ongoing Covid-19 crisis and an emerging debt crisis in developing and emerging economies (Kose et al. 2021), the use of financial support to countries in the Global South as a vehicle for increasing climate policy stringency over time is becoming both more urgent and more delicate. This has been further complicated by rising energy security concerns in the wake of the invasion of Ukraine by Russia. As these and other questions of the EU as an actor in international affairs continue to gain in political salience, it is imperative to foster a corresponding scholarly debate and strengthen and refine the conceptual arsenal for understanding the role of the EU in global affairs.

Acknowledgements

The authors would like to thank the various interviewees from the European Commission, the European External Action Service and European financial organisations for their support in carrying out the research. They would also thank Bruno Naredo Guastavino for his support in collecting data on the EU's blending facilities.

Open Access funding enabled and organized by Projekt DEAL.

Correspondence:
Rainer Quitzow, Institute for Advanced Sustainability Studies, Berliner Str. 130, 14467 Potsdam, Germany.
email: rainer.quitzow@iass-potsdam.de

References

Abbott, K.W., Genschel, P., Snidal, D. and Zangl, B. (2015) *International Organizations as Orchestrators* (Cambridge: Cambridge University Press).

Andersen, O.W., Basile, I., De Kemp, A., Gotz, G., Lundsgaarde, E. and Orth, M. (2019) Blended finance evaluation: Governance and methodological challenges. Paris, OECD Development Co-operation Working Papers No. 51.

Bach, D. and Newman, A.L. (2007) 'The European Regulatory State and Global Public Policy: Micro-Institutions, Macro-Influence'. *Journal of European Public Policy*, Vol. 14, No. 6, pp. 827–846.

Bradford, A. (2012) 'The Brussels Effect'. *Northwestern University Law Review*, Vol. 107, No. 1, pp. 1–68.

Bradford, A. (2015) 'Exporting Standards: The Externalization of the EU's Regulatory Power via Markets'. *International Review of Law and Economics*, Vol. 42, pp. 158–173.

Cooper, A.F., Hocking, B. and Maley, W. (eds) (2008) *Global Governance and Diplomacy: Worlds Apart?* (New York: Palgrave Macmillan).

Damro, C. (2012) 'Market Power Europe'. *Journal of European Public Policy*, Vol. 19, No. 5, pp. 682–699.

Damro, C. (2015) 'Market Power Europe: Exploring a Dynamic Conceptual Framework'. *Journal of European Public Policy*, Vol. 22, No. 9, pp. 1336–1354.

European External Action Service (EEAS). (2016) Shared vision, common action: A stronger Europe. A global strategy for the European Union's foreign and security policy. European External Action Service, Brussels.

European Commission. (2006) Mobilising public and private finance towards global access to climate-friendly, affordable and secure energy services: The Global Energy Efficiency and Renewable Energy Fund, SEC(2006) 1224. European Commission Staff Working Document.

European Commission (2015) Guidelines no.5: Guidelines on EU blending operations. available at: https://op.europa.eu/en/publication-detail/-/publication/4a5eaccd-10f1-11e6-ba9a-01aa75ed71a1/language-en (accessed 5 April 2022).

European Commission (2020) 'Implementation report of the EFSD and the EFSD guarantee fund', Final Report, 14 January 2020. available at: https://ec.europa.eu/eu-external-investment-plan/sites/default/files/efsd-implem_report-external_support_study-final.pdf (accessed 8 May 2022).

European Commission (2021a) 'Global Europe: The neighborhood development and international cooperation instrument', Brussels, 9, June 2021.

European Commission (2021b) 'Annex 1 to the Commission implementing decision on the financing of the multi-country annual action plan in support of the Western Balkans investment framework 2021–2027 and the provisioning of the ELM legacy portfolio for past EIB operations for IPA beneficiaries', Brussels, 21.12.2021.

European Commission/EEAS (2014) 'Neighbourhood investment facility. Strategic orientations 2014–2020'. available at: https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/neighbourhood/pdf/key-documents/nif/20150731-nif-strategic-orientations-2014-2020.pdf (accessed 25 April 2022).

European Commission/EEAS (2021) 'The global gateway', Brussels, 1.12.2021 Join (2021) 30 final.

European Investment Bank (EIB), GEEREF and European Investment Fund (2020) Global energy efficiency and renewable energy fund impact report 2020: A catalyst for clean power, GEEREF.

European Parliament (2022) 'The new EFSD+ and the EIB's external lending mandate', Policy Department for Budgetary Affairs. available at: https://www.europarl.europa.eu/RegData/etudes/STUD/2022/729264/IPOL_STU(2022)729264_EN.pdf (accessed 10 June 2022).

Filtenborg, M.S., Gänzle, S. and Johansson, E. (2002) 'An Alternative Theoretical Approach to EU Foreign Policy: Network Governance and the Case of the Northern Dimension Initiative'. *Cooperation and Conflict*, Vol. 37, No. 4, pp. 387–407.

Flint, C. and Zhu, C. (2019) 'The Geopolitics of Connectivity, Cooperation, and Hegemonic Competition: The Belt and Road Initiative'. *Geoforum*, Vol. 99, pp. 95–101.

Gavas, M., and Timmis, H (2019) The EU's financial architecture for external investment: Progress, challenges, and options, CGD Policy Paper 136, Washington, DC.

Goldthau, A. and Sitter, N. (2018) 'Regulatory or Market Power Europe? EU Leadership Models for International Energy Governance'. In Godzimirski, J.M. (ed.) *New Political Economy of Energy in Europe* (Power to Project, Power to Adapt) (London: Palgrave Macmillan), 27–47.

Heine, J. (2013) 'From Club to Network Diplomacy'. In Cooper, A.F. (ed.) *The Oxford Handbook of Modern Diplomacy* (Oxford: Oxford University Press), 54–69.

Hocking, B. (1999) 'Catalytic Diplomacy: Beyond Newness and Decline'. In Melissen, J. (ed.) *Innovation in Diplomatic Practice* (London: Palgrave Macmillan), 97–116.

Hocking, B. and Smith, M. (2011) 'An Emerging Diplomatic Dystem for the EU? Frameworks and Issues'. *Cuadernos Europeos de Deusto*, Vol. 44, pp. 19–42.

Hultquist, I. (2015) Mapping of blending, UTV Working Paper 2015:1, Swedish International Development Cooperation Agency.

Kose, M.A., Nagle, P., Ohnsorge, F. and Sugawara, N. (2021) *Global Waves of Debt: Causes and Consequences* (World Bank).

Lavenex, S. (2014) 'The Power of Functionalist Extension: How EU Rules Travel'. *Journal of European Public Policy*, Vol. 21, No. 6, pp. 885–903.

Lavenex, S., Krizic, I. and Serrano, O. (2017) 'EU and US Regulatory Power under Strain? Emerging Countries and the Limits of External Governance'. *European Foreign Affairs Review*, Vol. 22, No. 2, pp. 1–17.

Lee, D. and Hocking, B. (2010) 'Economic Diplomacy'. In Denemark, R.A. (ed.) *The International Studies Encyclopaedia* (Wiley-Blackwell: West Sussex, UK), 1216–1227.

Lind, M. (1992) 'The Catalytic State'. *The National Interest*, Vol. 27, No. Spring, pp. 3–12.

Manners, I. (2006) 'Normative Power Europe Reconsidered: Beyond the Crossroads'. *Journal of European Public Policy*, Vol. 13, No. 2, pp. 182–199.

Mertens, D. and Thiemann, M. (2019) 'Building a Hidden Investment State? The European Investment Bank, National Developments Banks and European Economic Governance'. *Journal of European Public Policy*, Vol. 26, No. 1, pp. 23–43.

Peters, B.G. (2018) 'The Challenge of Policy Coordination'. *Policy Design and Practice*, Vol. 1, No. 1, pp. 1–11.

Poldersman, R. and Pereira, J. (2020) Implementation report of the EFSD and the EFSD guarantee fund. DG for International Cooperation and Development, European Commission.

Prontera, A. (2019) *Beyond the EU Regulatory State: Energy Security and the Eurasian Gas Market* (London: Rowman&Littlefield-ECPR Press).

Prontera, A. and Quitzow, R. (2022) 'The EU as Catalytic State? Rethinking European Climate and Energy Governance'. *New Political Economy*, Vol. 27, No. 3, pp. 517–531.

Quitzow, R., Bersalli, G., Lilliestam, J. and Prontera, A. (2022 forthcoming) 'Green Recovery: Catalyst for an Enhanced Role of the EU in Climate and Energy Policy?' In Rayner, T., Szulecki, K., Jordan, A. and Oberthür, S. (eds) *Handbook on European Union Climate Change Policy and Politics* (London: Edward Elgar).

Schimmelfennig, F. and Sedelmeier, U. (2004) 'Governance by Conditionality: EU Rule Transfer to the Candidate Countries of Central and Eastern Europe'. *Journal of European Public Policy*, Vol. 11, No. 4, pp. 661–679.

Siddi, M. and Kustova, I. (2021) 'From a Liberal to a Strategic Actor: The Evolution of the EU's Approach to International Energy Governance'. *Journal of European Public Policy*, Vol. 28, No. 7, pp. 1076–1094.
Slaughter, A.-M. (2009) 'America's Edge: Power in the Networked Century'. *Foreign Affairs*, Vol. 88, No. 1, pp. 94–113.
Slaughter, A-M. (2011) 'A new theory for the foreign policy frontier: Collaborative power', The Atlantic, 30 November 2011, available at: https://www.theatlantic.com/international/archive/2011/11/a-new-theory-for-the-foreign-policy-frontier-collaborative-power/249260/, accessed 15 June 2022.
Slaughter, A.-M. (2017) *The Chessboard and the Web: Strategies of Connection in a Networked World* (Yale University Press).
Stopford, J. and Strange, S. (1991) *Rival States, Rival Firms: Competition for World Market Shares* (Cambridge: Cambridge University Press).
Szczepański, M. (2021) 'Resilience of global supply chains: Challenges and solutions', European Parliamentary Research Service, Briefing PE 698.815, November 2021.
Tagliapietra, S. (2021) 'The Global Gateway: a real step towards a stronger Europe in the world?. available at: https://www.bruegel.org/2021/12/the-global-gateway-a-real-step-towards-a-stronger-europe-in-the-world/ (accessed 12 June 2022).
Tussie, D. (2013) 'Trade Diplomacy'. In Cooper, A.F. (ed.) *The Oxford Handbook of Modern Diplomacy* (Oxford: Oxford University Press), 625–642.
Weiss, L. (2014) *America Inc.? Innovation and Enterprise in the National security state* (Ithaca, NY: Cornell University Press).
Young, A.R. (2015) 'The European Union as a Global Regulator? Context and Comparison'. *Journal of European Public Policy*, Vol. 22, No. 9, pp. 1233–1252.

Appendix: List of Interviews

Interview 1: DG DEVCO, 05.10.2020, Former Director
Interview 2: DG ENERGY, 11.12.2020, Senior Policy Officer
Interview 3: DG CLIMA, 21.09.2020, Former Senior Policy Officer
Interview 4: DG NEAR, 22.01.2021, Senior Policy Officer
Interview 5: EIB, 28.01.2021, Senior Policy Officer
Interview 5: DG ENERGY, 7.05.2021, Senior Policy Officer
Interview 6: EIB, 19.05. 2021, Senior Officer
Interview 7: DG NEAR, 21.05.2021, Programme Manager
Interview 8: National development bank, Senior Policy Officer
Interview 10: DG NEAR, 18.06.2021, Programme Coordinator
Interview 11: EBRD, 24.6.2021, Head of Unit
Interview 12: EEAS, 10.09.2021, Policy Officer