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Special Issue Article

Cooperating Through Competition: EU Challenge and Support to the World Bank Focality in Multilateral Development Finance

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Abstract

Building on previous research on the relations between the European Union (EU) and the World Bank, this paper contributes to the debate on the World Bank focality in the regime complex for multilateral development finance. Adopting a historical-institutionalist perspective, the analysis focuses on the determinants and mechanisms of micro-institutional changes that have occurred in the context of EU-World Bank's interaction in non-core lending, particularly in World Bank trust funds and EU blending facilities. Most of the existing literature has focused on the ascendancy of new regional development banks outside the Bretton Woods camp, qualifying it as mostly conflicting or mostly cooperative. In contrast, this paper contends that a challenge has arisen also from within the group of core Bretton Woods-inspired institutions. In addition, it shows how the EU has both competed and cooperated with the World Bank in the area of fiduciary funding, across three broad phases, and in response to specific critical junctures and tipping points. The EU's innovation and quest for leadership in blended finance has replicated the World Bank's good practices on some counts, yet it has also challenged its focality in non-core lending.

Policy Implications

- To appreciate the impact of regional-global interplays in multilateral development finance, policy makers should factor in dynamics of cooperation and competition inside the group of Bretton Woods-inspired institutions.
- The future of the EU–World Bank relationship will be key to uphold Bretton Woods principles and lending templates in an increasingly plural global context.
- The EU and the World Bank should further cooperate to enhance the development impact of their evolving division of labour, maximizing the poverty and policy selectivity of their non-core aid facilities.
- The World Bank should keep building on its comparative advantage as a provider of global public goods, the EU should upgrade its technical ability in development finance and strengthen its voice in multilateral fora.
- Research on multilateral development finance should consider the ascending role of the EU as an orchestrator of blending facilities to finance infrastructure development in all the regions of the world.

Revisiting complexity in multilateral development finance: the World Bank, emerging donors and the European Union

Originally centred around the International Bank for Reconstruction and Development (IBRD) as its focal institution, the Bretton Woods regime for development finance has gradually evolved into a complex (Alter and Raustiala, 2018), featuring new actors and multi-level, deeper institutional layering. Some scholars have characterised increased complexity as a detrimental detour from core Bretton Woods principles, governance architecture and results (Kahler, 2017; Pratt, 2019; Weaver, 2015). In their opinion, the World Bank's leadership, championing of open multilateralism and pro-poor approach to development are challenged by new regional banks, their adverse poverty selectivity and diversion of resources. China in particular, and the remaining BRICS – Brazil, Russia, India and South Africa – have been singled out as prominent competitors, through the creation of the Asian Infrastructure and Investment Bank and of the New Development Bank (De Jonge, 2017; Ikenberry and Lim, 2017). In contrast, historical-institutionalist research has argued about the enduring focality of the World Bank and its Group,[1] its incremental adaptation to external changes, and its overall ability to guarantee a coherent upholding of early Bretton Woods principles and practices, even amid increased complexity (Custer et al., 2015; Heldt and Schmidtke, 2019). Both camps have focused primarily on the relationship between the World Bank, on one hand, and regional actors in emerging markets, on the other. They have also provided clear-cut readings of the latter's role (challengers, supporters).

This paper builds on previous research on the relationship between the EU and the World Bank (Baroncelli, 2010, 2011, 2013, 2019). First, it contends that, to shed light on the dynamics of competition and support to the World Bank's

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focality in multilateral development, attention should also be paid to the ascendancy of regional actors *within* the group of Bretton Woods-inspired elemental institutions and particularly to the EU, due to its top-position as a donor (OECD, 2018). Second, it argues that the EU has both supported and challenged World Bank's focality, and that oscillations between EU cooperation and competition in the area of World Bank-managed trust funds have responded to time-specific determinants across three broad phases. Different from the un-earmarked contributions supplied by member states to multilateral organisations (core financing), trust funds are ad hoc fiduciary facilities set up by multilaterals to channel additional resources (non-core) from members and non-members, public and private. As such, trust funds allow a plurality of donors to channel through multilaterals, focusing *ex ante* on specific countries, sectors or themes. With a share above 55 per cent between 2005 and 2015, the EU and its member states have been collectively the largest contributor to the World Bank trust funds system.[2]

A cooperative follower of the World Bank before 2000, the EU has subsequently started to re-contract the terms of their relationship in the area of trust funds. Between 2000 and 2005, this paper contends, critical junctures in the external environment and inside the EU have prompted increased assertiveness by the Commission. After 2005, the EU's enhanced contributions and strengthened normative leadership in multilateral development have combined with perceived delegation failure by the World Bank, leading the Commission to sponsor new EU-led institutional tools for loan-leveraging. Based on in-depth first-hand evidence (Baroncelli, 2013, 2019), this paper argues that strategic choices by management in both organisations provided key inputs to shape EU innovation through the creation of specific micro-institutions in blended finance, that is, tools to blend loans from a plurality of donors with EU grant instruments.[3] Meeting the same functional needs addressed by the World Bank's trust funds, these facilities have allowed the EU to target sectors and countries of interest directly, easing pooling constraints for capital-intensive, large infrastructure projects with regional-public goods components. Ultimately, these innovations have affected the balance between the EU's challenge to, and support of, the World Bank's focality in the regime complex for multilateral development finance.

In the context of this Special Issue, the next section builds on selected historical-institutionalist conceptualisations of regime complexity to lay out the analytical framework employed in this paper. Section 3 illustrates the World Bank and EU's roles in development finance, discussing the rationale for the latter's channelling through the World Bank's trust funds. Sections 4, 5 and 6 connect the main policies, ideas and institutional tools in EU-World Bank relations to specific critical junctures and tipping points that have occurred over three different phases – 1990–1999; 2000–2006; post-2007, respectively – to explain the evolving mix of cooperative and competitive postures taken by the EU *vis-à-vis* the World Bank in non-core aid. The conclusion reflects on the implications of their changing division of labour for the regional-global interplay in the regime complex for development finance.

Unpacking challenge and support to focality in multilateral development finance

Focality defines the extent to which an international organisation (IO) is the single and uncontested governance leader in a regime complex, including when other IOs accept its governance features, cooperate with it and learn from its expertise (Abbott et al., 2015, p. 24). Most analyses provide a yes/no prognosis on the World Bank's current focality in multilateral development finance. Instead, this paper argues that approximation to such an ideal-type is a matter of degree. More particularly, it contends that specific cross-time combinations of factors are responsible for fluctuations in the dynamics of challenge and support from other players, and for changes in the ability of an incumbent organisation to maintain leadership over a specific policy space. A focal IO is also one that shapes the creation of other institutions in the regime complex. Dimensions of focality incorporate the behaviour of both extant and novel institutions, pointing to the relevance of inter-agency dynamics. Negative variations in the degree of an IO's focality within a regime complex can be ascribed to (successful) oppositional moves, such as recontracting or complete exit, and creation of an alternative institution (Urpelainen and Van de Graaf, 2014). Conversely, positive variations have been attributed to mechanisms such as path dependency, orchestration and independent learning, all retained to have enhanced the World Bank's focality in multilateral development finance (Heldt and Schmidtke, 2019, p. 1170).

Early rational choice neo-realist and neo-institutionalist literatures have explained the creation of novel institutions as successful challenges by dissatisfied member states (Urpelainen and Van de Graaf, 2014), based on the belief that most IOs lack the authority to produce and enforce rules directly actionable on target actors. Overall, those approaches assume that IOs operate primarily upon delegation by states, and according to classic principal-agent (PA) modalities (Hawkins et al., 2006). By contrast, constructivist and historical-institutionalist analyses have argued about the autonomy of management bodies in IOs *vis-à-vis* member states (Avant et al., 2010; Barnett and Finnemore, 2004; Park and Vetterlein, 2010), theorising a variety of governance modes and dynamics of change.

In addition to PA delegation (indirect, hierarchical) and collaboration modes (direct, horizontal), cooperation between donors (or donors and financial intermediaries) in developing countries is often mediated by third parties and socialised through ancillary organisations or institutional arrangements. In several cases, 'augmented PA models' (across long delegation chains, in which the IO is both an agent of member states and the principal of other sub-delegated agents) or 'orchestration models' (in which the IO is also the orchestrator of another IO or other intermediaries) have been employed to analyse the evolving dynamics of regime complexes.

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Involving the creation, support and integration of a multi-actor system of indirect governance, orchestration pursues common goals that neither the orchestrator nor the orchestrated players would be able to achieve separately (Abbott et al., 2015, p. 4). As such, it has been relied upon by IOs to overcome specific limitations pertaining to traditional hierarchical (hard and direct) and delegation (hard and indirect) governance modes, which are normally performed by states. It is also employed as a substitute for direct collaboration when such modality is either less expedient or not available (Abbott et al., 2015, p. 11). Historical-institutionalist analyses have singled out orchestration as a key dynamic through which the World Bank has provided regional development banks with material incentives and rule templates, socialising them to its practices, and sharing with them its knowledge and educational resources (Heldt and Schmidtke, 2019, p. 1170).

In line with historical-institutionalist and constructivist readings, this paper claims that transformative dynamics in a regime complex through micro-institutional innovation is not necessarily led by member states but may be activated primarily by an IO's management. However, it argues that orchestration, learning and replication have been used selectively by the Commission in its relationship with the World Bank in non-core aid, oscillating between supportive and challenging positions to the latter's focality. To track the roots of such selective choices, Sections 4, 5 And 6 link key critical junctures and tipping points that have occurred in the past three decades to changes in the ideas, policies and cooperation schemes between the two organisations, focusing in particular on World Bank-managed trust funds and EU blending facilities.[4] Specifically, and in light of the previous theoretical review, the paper argues that the EU Commission has shifted from 'quiet principality' in World Bank-managed trust funds to more assertive monitoring, systematically recontracting the terms of its delegation, and at times exiting those facilities altogether. The evidence shows that the World Bank has also strategically adjusted the boundaries of its accountability, claiming either full implementation or mere fiscal responsibilities. This paper argues that ongoing recontracting has offered the Commission an opportunity to learn about the World Bank's lending schemes in non-core financing, providing key inputs into the Commission's choice to launch alternative EU-led lending facilities through outright competitive orchestration.

The World Bank, the EU and the rationale for non-core funding

Since 1948, the World Bank has retained incumbency in multilateral lending by virtue of its financial weight, normative influence and institutional leadership, providing loans worth more than $500bn, leveraged from reinvesting $14bn in subscribed shares.[5] In 2018 the Group disbursed a total of $45.724bn,[6] or 63.6 per cent in total multilateral lending, confirming its primacy among other finance multilaterals (United Nations, 2019). Governed by 189 member states, whose representatives sit in the Board of Governors (political apex) and in the Board of Executive Directors, the IBRD features a nearly universal membership. Its activities are financed by triple-A bonds – issued to lenders in more than a hundred countries, which has made the agency 'the largest non-resident borrower in virtually all countries where its issues are sold' (Driscoll, 1996, p. 2). Top-notch normative authority substantiates full-fledged focality: the World Bank is indeed considered as the most influential agenda setter in development financing, the 5th most helpful in reform implementation and 5th by usefulness of advice (Custer et al., 2015, p. 35).

The EU and its member states, in turn, are the largest donor worldwide (€74bn in 2018, or 57 per cent of global assistance; European Union, 2020, p. 1), with the EU institutions providing $16.4bn worth of development resources in 2018 (OECD, 2020a). Currently ranked 4th in 57 institutions by influence on agenda setting in aid policy making (Custer et al., 2015, p. 48), the Union has projected its internal solidarity plan outside, to encourage the development of 'overseas countries'. That process has made the EU a one-of-a-kind experiment in the external support to other countries' achievement of liberal democracy and prosperity.

Compared to the World Bank Group lending portfolio, the EU contributions are of a lower order ($16bn–$46bn). However, while World Bank disbursements include only a fraction of concessional lending (through the International Development Agency), EU grants are by design fully concessional. As a collector of grants from donors in the Development Assistance Committee (DAC), the EU has actually superseded the World Bank Group: in 2018 disbursements to EU institutions reached $14.292bn (OECD, 2020b), approximately 33.29 per cent on the total amount disbursed by DAC donors to all multilaterals. In that same year, DAC contributions to the World Bank Group reached $10.72bn, or 25 per cent of their total disbursement to all multilaterals.

Allocation through the Board (core contributions) ensures multilateral oversight by the World Bank's shareholders on work done by its management. These flows are merged into the organisation's pool of financial assets: in the process they lose their donor-specific identity and are not tied *ex ante* to projects for specific regions, countries, themes or sectors. By contrast, non-core resources (also termed earmarked funding, or bi-multi aid) accrue to the World Bank from both public and private donors, on the basis of discrete delegation contracts, regulating ad hoc fiduciary facilities, intermediated and managed by the World Bank. 'Vehicles for channelling aid resources from governmental and non-governmental donors to be administered by a trustee organisation ... dedicated sources of funding for programmes or activities agreed between the donor(s) and the trustee organisation' (IEG, 2011, p. vi), World Bank trust funds have allowed the Commission to delegate authority and resources to the Washington-based institution in the absence of shareholding rights. Allocation through the World Bank's core funding indeed is not available to the EU, which does not have a seat at the World Bank's Boards, its member states being spread across seven different constituencies.[7]

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trust Funds are chosen because of their flexibility in targeting specific beneficiaries, including non-sovereign partners that would be excluded from the regular Board lending process. World Bank multi-donor trust funds are normally selected based on the World Bank's unparalleled convening authority, guarantee provision and management abilities. Compared to core aid, channelling through trust funds also allows faster financing of large, innovative and often risky endeavours that go beyond intervention in specific countries, as in most cases of global public goods' provision and coordinated responses to global crises. Particularly relevant for the early EU choice to delegate to the World Bank, its trust funds allow the continuation of development support in highly fragile contexts without the direct involvement of politically sensitive donors. Generally, the EU delegation to non-core systems has privileged the United Nations over the World Bank Group.[8] However, in multi-donor trust funds, for which convening efforts and coordination costs are higher compared to single-donor trust funds, the EU has unequivocally privileged the World Bank system, which, between 2013 and 2016, has accounted for 53 per cent of total channelled funds by the EU Directorate General for International Cooperation and Development in that category (European Commission–DG DEVCO–EuropeAid, 2016).

Behind this static picture, dynamics of cooperation and competition have coexisted in the EU-World Bank relationship in the past 30 years, particularly in non-core aid. To explain such oscillation, the next three sections connect changes in policies, ideas and institutional cooperation schemes between the two organisations to critical junctures and tipping points that have occurred over that period.

1990–1999: the EU followership and the benefits of complementarity

In the 1990s the EU largely supported the World Bank's leadership in development lending. Delegation through the World Bank trust funds helped the Commission to minimize capture by some of its member states, reducing coordination problems arising from multiple principality (Baroncelli, 2013). During the Cold War, the EU approach to development had indeed replicated the special relationships between member states and their former colonies. Thus, until the 1990s, politicisation of bilateral aid was matched by a norm of 'political neutrality' in EU aid, with no explicit reference to security issues in the policy dialogue between the Commission and third countries (Furness and Gänzle, 2016). Only in 1993 did the Maastricht Treaty attribute explicit competence to the Commission on development policy, qualifying it as a 'shared competency' between the European Community and member states.

The end of the Cold War, and the power redistribution that ensued, marked a critical juncture in the regime for development finance. Part of a broader process at work in the international system, political shocks, increased issue density and task expansion (Biermann and Koops, 2017, p. 15; Bretherton and Vogler, 2006, p. 24) were behind the surge of EU-World Bank inter-organisational cooperation in this period. In candidate and prospective candidate countries, a Memorandum of Understanding was signed in 1998, which empowered the Commission to delegate development banks of its choice with supervision and administrative rights over EU's channelled funds (Baroncelli, 2019, p. 151). In 1999, a joint EC-World Bank office was created in Brussels to oversee the implementation of the Stability Pact for South-Eastern Europe. Funded by Commission resources and staffed with World Bank personnel, the office allowed the two organisations to develop a 'Ricardian' ('inter-sectoral') division of labour, with the Commission providing grants and political incentives, and the World Bank supplying financial intermediation and technical expertise. Complementing their respective strengths, the two organisations cooperated to support the Balkan partners in their dual transition, toward political democracy and market-based economic systems (Baroncelli, 2019, pp. 159–163). Over time, early schemes for economic integration were coupled with openly political incentives in the EU Association Agreements (Baroncelli, 2010). In parallel, the Commission intensified its reliance on World Bank's intermediation capacities, and started a learning process on development financing. In turn, flexible targeting of project and country financing through its Trust Fund system allowed the World Bank to maintain its business in prospective EU member states via loans and technical assistance to approximate the EU acquis.

EU support to the World Bank's endeavours in this phase was also based on a specific consonance of ideas, that enhanced the complementarity between the EU's political mission and World Bank development goals. Since the mid-1990s, criticism had mounted against the regressive results of Structural adjustment programmes informed by the Washington Consensus. Under the Presidency of James Wolfensohn (1995–2004), the World Bank incorporated that criticism, elaborating what would become known as the 'post-Washington Consensus', moving its focus from development support through 'market-correction' to poverty reduction via 'good governance promotion' (Baroncelli, 2019, pp.56–59). The shift was supported by new findings from internal World Bank research on the aid-growth link, which advanced the arguments of policy selectivity and good governance: lending should prioritise 'good' regimes to reduce poverty and activate virtuous cycles (Burnside and Dollar, 2000).

A similar change had occurred in EU's ideas and principles on development: human rights and good governance support were explicitly connected with poverty eradication efforts in the Maastricht Treaty. While at times critical of the World Bank's neo-liberal doctrines and Structural adjustment programmes in some African countries, the Commission itself often struggled to align member states' preferences with human rights principles and good governance criteria established in the Maastricht Treaty (Baroncelli, 2019, pp.201–205). In fragile countries with no incentive to accede, delegation through World Bank trust funds allowed the Commission to guarantee development support without direct political involvement.

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During this phase the World Bank led in the provision of lending templates and management expertise through its trust funds, particularly in fragile contexts, including non-sovereign entities (such as the occupied Palestinian territories), where human rights and democratic criteria were systematically violated. Channelling through the World Bank trust funds guaranteed the EU's neutrality, while ensuring the continuation of its development assistance (Baroncelli, 2019). Prior to the new millennium an 'inter-sectoral' division of labour enhanced the EU-World Bank cooperation in the Balkans. While formally a financial intermediary, the World Bank played an active role in the orchestration of the Brussels Office, during the early implementation of the Stability Pact for South-Eastern Europe.

In 1999 though, a critical juncture marked the trajectory of the EU's approach to development finance. A major institutional shock occurred, as the Santer Commission was forced to resign *en masse*, following accusations of corruption and fraud. Led by Romano Prodi, the succeeding Commission would take a much more active approach to the EU's role in development policy, as well as to its relationship with the World Bank, at both the Trust Fund and Board levels.

2000–2006: cooperation, competition and the neutrality-control dilemma in fragile countries

The new century ushered in a genuine 'creative destruction' inside EU development institutions: a new Directorate General for Development Cooperation was inaugurated, and an autonomous EU spending agency launched in 2001 (EuropeAid). Particularly pro-active apexes mobilised support to enhance the EU's role in development financing (Baroncelli, 2013, p.132; Carbone, 2007, p.79). Entrepreneurship on the side of the Commission combined during this period with the launch of the UN Millennium Development Goals in 2000, and the terrorist attacks of 11 September 2001.

Following up on the World Bank's previous blueprints for a post-Washington Consensus, the Millennium Development Goals amounted to a tipping point in the development regime complex, rallying donors around the need to strengthen the pro-poor effect of non-aid policies. In turn, the terrorist attacks of 9/11 marked a critical juncture: development goals became increasingly connected to stabilisation and security priorities in both World Bank programmes and EU policies (Baroncelli, 2019, p. 56–63), seemingly confirming the complementary roles and ideational consonance of the previous phase. With the Cotonou Agreements and the Everything but Arms Initiative, between 2000 and 2003 the EU linked aid allocation to the respect of human rights and attainment of governance benchmarks, adding an explicit security dimension to its development efforts in fragile and terror-torn states. Echoing the ideas of the World Bank's 'comprehensive development framework' and the Millennium Development Goals' emphasis on poverty eradication, the EU Consensus on Development of 2005 explicitly connected anti-poverty efforts to the reduction of state fragility and the prevention of conflicts (Baroncelli, 2019, p.55–63).

From 2000 to 2006, the relationship between the EU and the World Bank became increasingly institutionalised, at both formal and informal levels. Adding to the existing frameworks for the Eastern Neighbourhood and the Middle East and North Africa Region (Luxemburg Process 2000), a new scheme was launched to regulate their cooperation in Sub-Saharan Africa (Limelette Process 2003). Most relevant, a trust funds and Co-financing Framework Agreement (or Framework Agreement) was signed in 2001 to regulate the EU-World Bank delegation relationship in the World Bank's Trust Fund system. In 2003, pushing for indirect principality rights on EU member states at the World Bank, the Commission sponsored the creation of a 'World Bank Eurogroup', to support the elaboration of common positions among EU Executive Directors at the World Bank's Board (Baroncelli, 2019, p.106–129).

Across the same period, in fragile countries lacking accession incentives, cooperation coexisted with increasingly competitive dynamics between the two organisations. Before 9/11, the EU's reliance on World Bank trust funds had guaranteed neutrality, and had shielded the Commission from direct engagement with oppressive regimes that could diminish the Union's credibility in the pursuit of human rights and good governance agendas. After that critical juncture, however, aid securitisation and active EU entrepreneurship led the Commission to push for increased visibility in World Bank trust funds, to regain control over political dialogue with governments in fragile countries. Tensions over EU monitoring rights arose between the two governors, clustering in the early 2000s. In some cases, disagreement ended in the EU exit from World Bank trust funds (such as in Ethiopia in 2006, or Zimbabwe between 2000 and 2002; Baroncelli, 2013, p.144–148).

Overall the Commission opted for a double strategy. On the one side, it renegotiated the Framework Agreement twice, in 2003 and 2009. The revised versions strengthened the EU's monitoring rights, improved the targeting of World Bank trust funds to EU-preferred goals, tightened the World Bank's accountability, and increased the EU's visibility. Negotiations on the revisions were punctuated by tense discussions on the exact role of the World Bank in the management of delegated EU resources. The Commission required the World Bank to be accountable for both financial soundness (intermediation agency) and fund implementation (trustee). In turn, the World Bank management claimed sole fiduciary agency in recipient-executed trust funds (such as in direct budget support, where governments or agencies in partner countries are delegated with implementation responsibilities), and mere fiscal agency in Financial Intermediary Funds (where the World Bank rarely has implementation responsibilities). Both the World Bank and Commission's managements manipulated the uncertainty attached to the fluidity of those delegation contexts. The World Bank accused the EU of 'scope creep' due to its intrusive verification missions. It also strategised on its 'true agent type' (Baroncelli, 2013, p. 142), and engaged in redefining its accountability perimeters between the roles of fiscal agent, on the one hand, and trustee, on the other,

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depending on circumstances and priorities. The EU, in turn, oscillated between earlier neutrality needs and later priorities of political control.

On the other side, as demands for higher World Bank accountability had escalated inside the Union, so had the cost of recontracting *within* the EU–World Bank Framework Agreement. Tolerating delegation failure by the World Bank became all the more difficult for the Commission, ultimately increasing the perceived benefits of the creation of alternative, EU own lending facilities. Inside the EU, civil society and the European Parliament had questioned the accountability of funds channelled through the World Bank trust funds in highly fragile and conflict-affected countries. A prominent case was the EU channelling through the World Bank Trust Fund for Public Financial Management (PFM) in the occupied Palestinian territories, opposed at once by both aid conservatives and progressives. A major investigation was launched by the EU anti-fraud Office (OLAF) in 2003, on grounds of suspected financing of terrorist civil servants in the Hamas and Fatah-led regimes (Baroncelli, 2013, 2019, p. 186). While in the end no evidence emerged on the financing of illegal activities, the European Parliament further politicised the issue, lamenting poor legitimacy and low effectiveness. On the occasion of the discharge procedure by the EU Parliamentary Committee on Budget Control (Cocobu) in 2006, the Commission eventually agreed to set up its own system to monitor channelling through the World Bank (Baroncelli, 2019, p. 39).

2007 and beyond: orchestration by interaction and the new EU approach to blended finance

Internal EU demands for higher World Bank accountability constituted the tipping point that in 2007 led the Commission to orchestrate the creation of its first institutional facility to leverage and disburse development funds: the EU-Africa Infrastructure Trust Fund. While the World Bank had since long relied on trust funds to orchestrate non-core lending in strategic areas, the Commission had never actively orchestrated a loan-leveraging facility under its own aegis. Successful enlistment in that venture of member states that had been traditionally critical of the EU aid policy, such as the UK, also allowed the Commission to compact support around key ideas that it had incorporated in the Consensus of 2005: the explicit coupling of stability and prosperity to reduce poverty, and the need to harmonise EU and bilateral development efforts in a coherent framework. Targeting Sub-Saharan countries, the facility gained traction in the Joint Africa-EU Strategy in 2007. A major upgrade of the EU's role in development, the EU-Africa Infrastructure Trust Fund opened the way to a broader effort to generate in-house expertise to leverage loans from EU grants, and finance infrastructure development in countries and sectors of EU strategic interest (Baroncelli, 2019, p. 210–213). Subsequently, the EU created the Neighbourhood Investment Facility in 2008, and the Western Balkans Investment Framework in 2009, further extending its blending approach to Asia, Latin America and the Pacific between 2010 and 2012.

Nested within the EU architecture, these blending tools have been orchestrated by the Commission as public-private partnerships among a variety of donors. Operated under ad hoc Boards and Steering Committees, they are mostly managed by the European Investment Bank. 'Blending' refers to 'the strategic use of a limited amount of EU financial support to mobilise support from partner FIs [Financial Institutions – Note of Author] and other sources (including private sector) to enhance the development impact of investment projects' (European Commission, 2017b). A venture of remarkable proportions, the EU blending has provided between 2007 and 2016 a cumulated grant component of €3.4bn, mobilising a total of €57.3bn, with a leverage ratio of 16.8 (Baroncelli, 2019, p. 170). Compared to resources provided through the European Development Fund, blending instruments are more flexible, and have been used to address development financing in new concern areas – such as environmental or social sustainability, and to adapt to a wider audience of partners – 'too poor for all concessional but too rich for all grants' (European Commission, 2017a, p. 3).

Orchestration by the Commission has occurred in parallel with increasingly institutionalised interaction between the two organisations. In addition to enhancing the EU's monitoring and visibility rights in World Bank trust funds, the ongoing redefinition of the Framework Agreement (updated in 2014, 2016 and 2020) has offered the Commission a learning opportunity on pooling and disbursing non-core funds, which has strengthened its role in blended finance. Role swapping has also occurred, with the World Bank joining the Western Balkans Investment Framework as an associate member in 2011. Upon request by some EU member states, supported by several Commissioners, albeit largely sidelined by the European Investment Bank, the World Bank is currently a contributor to this EU-led facility. While the Commission has granted the World Bank the role of 'lead financial institution' in the Framework's activities in Kosovo (a fragile partner with substantial capacity needs), the case stands out as an exception. Non-European international financial institutions are admitted to EU blending schemes only as partners of (EU) lead financial institutions (most notably the European Investment Bank and the European Bank for Reconstruction and Development). Thus, 'infra-sectoral' dynamics are emerging, compared to the earlier 'inter-sectoral' division of labour between the EU and World Bank in the Stability Pact for South-Eastern Europe (grant provision and political leadership in return for financial intermediation and technical expertise). Through the Commission's orchestration, the EU now also sets standards for the donors to its blending facilities. In parallel, the World Bank has experienced a compression of its agency in financial intermediation and, more gradually, as a provider of technical assistance; functions that the Commission has re-delegated to the European Investment Bank or to newly hired staff. In this case, replication of World Bank templates has broadened the EU's potential 'footprint' in global development assistance (ADE, 2016, p. 45), with further EU visibility expected from the new External Investment Plan, to match

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the EU's incumbency in aid provision with enhanced political leverage (European Union, 2020).

Factors that are endogenous to the EU-World Bank relationship in trust funds also contribute to explain the genesis of the Commission's new approach to blended finance. In 2006, news of EU plans for an independent loan-leveraging scheme to finance infrastructure development in Sub-Saharan Africa elicited a critical reaction from the World Bank management, which received the Commission's decision as a 'war declaration' (Baroncelli, 2019, p. 211). The move was tantamount to the EU venturing into non-core lending, formerly the exclusive preserve of the World Bank. In the eyes of the World Bank management, the fact that the European Investment Bank – previously specialised in internal infrastructure finance – was the EU's financial intermediary of choice confirmed that the Commission was set on fundamentally upgrading the Union's role in development finance. Evidence from grey literature and interviews with managers in service at the time, indicates that World Bank reactions also influenced the EU's choices. Far from discouraging the Commission from embarking on the new venture, the criticism from the World Bank's management further strengthened officers in the Directorate-General for Cooperation and Development in their efforts to forge a new role for the EU in loan-leveraging for development (Baroncelli, 2013, pp. 148–151).

Post-2010, the Commission has increased the coherence of the new EU venture, creating an EU Platform for blending in External Cooperation. Instruments to finance infrastructure development in Africa were streamlined in 2015; a European Investment Platform integrated facilities for Sub-Saharan Africa and the Neighbourhood in 2016, financed since 2017 by the European Fund for Sustainable Development. With the added €1.5bn in guarantees, that fund has 'blended' €2.6bn from the Neighbourhood Investment Facility and the Africa Investment Framework with an expected €44bn of additional investment from leveraging (European Commission, 2017b, pp. 9–10).

The frequency and complexity of these micro-institutional innovations have added a new dimension to the EU-World Bank interaction in non-core lending, challenging the World Bank's focality in the regime complex for development finance. Since the launch of the Africa Infrastructure Trust Fund in 2007 and similar facilities for all regions of the globe, the Commission has gained unprecedented influence over EU development aims. Moreover, by orchestrating the creation of the EU blending system, it has worked to build a new role for the Union as an autonomous player in leveraging development finance. In this case, orchestration of the new instruments was set off by a proactive Commission, to the dissatisfaction of the World Bank partner, and in contrast to the creation of other regional development facilities where the World Bank had often played the role of core orchestrator (Heldt and Schmidtke 2019, p. 1173).

The EU-World Bank cooperative competition: implications for the regional-global interplay

Reconstructing the EU-World Bank relations over three different phases within the past thirty years, this paper has argued that cooperation has coexisted with competitive stances by the EU. Between 1990 and 1999, complementary efforts to help dual transitions in the post-Soviet space strengthened the World Bank's focality, but also allowed the EU to learn about the practice of development finance, enhancing its political visibility in the Neighbourhood. In the first half of the 2000s, the EU–World Bank cooperation became increasingly institutionalised and was extended to other regions of the world. An agreement was signed to regulate their interactions in the area of World Bank trust funds. Informal institutionalisation also occurred with the launch of the 'Eurogroup', orchestrated by the Commission to encourage cooperation among EU member states at the World Bank's Executive Board. During this phase, competitive dynamics emerged out of strengthened entrepreneurship by the Commission on development financing and aid effectiveness. Successful transitions in Eastern Europe in turn had reduced the need for World Bank lending, while enlargement plans had widened the EU's political influence. Overall, a peculiar cooperative competition was prompted by the post-9/11 aid securitisation and by the effects of the ideational shift to the post-Washington Consensus. Both organisations joined forces to prioritise poverty reduction in highly fragile countries. However, upon domestic (EU) calls for greater accountability, the Commission tightened its control on the World Bank's delegated duties, relying on the World Bank trust funds strategically, to avoid excessive politicisation of its efforts in highly fragile countries. After 2006, as the heightened cost of delegation failure by the World Bank combined with the securitisation of development finance, the Commission resorted for the first time to orchestration in the area of loan-leveraging, creating the EU-Africa Infrastructure Trust Fund in 2007.

Since then, the EU has matched its prominence in aid policy making with agency in non-core lending, stepping into a territory that had been hitherto dominated by the World Bank. The evolution of such regional-global interplay has challenged the focality of the World Bank in the regime complex for development finance. To face mounting accountability demands from the EU, in the first half of the 2000s the World Bank has strategised on the perimeter of its delegated duties, oscillating between its role as an agent on behalf of the principals to its trust funds, and that of an orchestrator of its managed facilities. In turn, the Commission has gradually approximated the ideal-type of a pro-active orchestrator, replicating lending schemes learnt through interaction with the World Bank.

The impact of these dynamics on the effectiveness of development finance has been mixed. Increased funding has eased portfolio diversification so that inter-agency competition has improved financial efficiency, particularly in the Western Balkans (European Commission, 2020, p. 4). However, the proliferation of lending schemes has multiplied accountability channels in regions and sectors where the EU and the World Bank operate in parallel, complicating accessibility for partner countries (ADE, 2016, pp. 58, 60). World Bank trust funds have successfully targeted both poverty eradication and good governance promotion, albeit with

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mixed results in fragile countries (Eichenauer and Knack, 2018), the litmus test for the neutrality-control dilemma that has shaken the EU-World Bank relationship in non-core aid post-9/11. In turn, EU blending instruments have mostly financed large infrastructure projects in middle-income countries, with limited pro-poor effects (ADE, 2016, pp. 68–70) and dubious financial additionality, that is, with respect to the value-added of the EU grant element in activating otherwise absent private investment (European Court of Auditors, 2014; Küblböck and Grohs, 2019).

Overall, the EU's ability to fulfil these new roles appears constrained by the dearth of in-house expertise. Since the launch of a new European Consensus on Development in 2017, bilateral strategies at the World Bank Board have been met with renewed calls for 'better coordination of EU positions in multilateral institutions' (European Commission, 2020, p. 3). Indicative of an ongoing mismatch between EU means and goals in development policy, these calls echo the requests advanced by the Commission and the European Parliament in the wake of the Lisbon Treaty (Baroncelli, 2019, p. 63–81).[9]

The extent to which the World Bank is willing to hold sway over, or give way to, the ascending influence of the EU is yet to be seen. While the World Bank has followed suit in selected EU-led blending facilities in countries of overriding EU political influence, the Union has confirmed its preference for the World Bank trust funds where the comparative advantage is perceived as higher (such as in Kosovo, or in fragile and conflict-affected countries, in the provision of direct budget support). The World Bank has also compensated reduced lending portfolios in new EU member states, and competition from the EU new blending facilities, by orchestrating a multitude of new trust funds to finance global public goods (Ravallion, 2016). As reconstructed in this paper, the World Bank has provided lending and normative templates that have informed the development regime complex in the past 30 years, transitioning from growth-enhancing investment lending to poverty-reducing and good-governance policy lending across the 2000s. In the 2010s, it has further strengthened its role as a knowledge provider, recently defining itself as a 'solutions bank'. Via an internal reform in 2013-14, it has also worked to secure a position not yet occupied by institutions that are, by design, regional in scope – even if multilateral in membership (Baroncelli, 2018). Currently, no other development bank matches its convening power, administrative capacity and wide-ranging expertise to finance multilateral responses to environmental change, health pandemics, or complex humanitarian-development challenges in conflict-affected countries.

Overall, the World Bank's global vocation and the EU's newly strengthened, multi-regional reach through blending, suggest that overlap in missions and tools is bound to grow. On the positive side, distinctive political actorness and progressive goals make the EU a strategic ally of the World Bank in supporting Bretton Woods principles and lending templates. Both governors share an allegiance to the pursuit of sustainable development, with priority attached to individual rights, good governance, reduced inequality and eradication of gender-based disparities. No similar goal-sharing exists in the programmes of the latest generation (post-2006) regional development banks that have, on the contrary, taken an explicitly ambiguous stance on aligning to globally shared norms along the Bretton Woods model (Wang, 2017). However, increased interaction and overlaps have also heightened tensions between the two organisations inside the Bretton Woods camp, so that the EU's earlier followership in development finance has gradually given way to more assertive challenging of the World Bank's leadership in non-core lending.

The previous analysis suggests that the EU-World Bank early division of labour, grant provision by the regional donor in return for ad hoc fiduciary intermediation by the global bank, may not be replicable in global-regional interplays where new development banks have been created in the first place as alternatives to the legacy organisation. Once learning and socialisation have occurred, search for control by the new entrants will inevitably rise. The tensions between neutrality and control needs that have emerged in the EU-World Bank relation in Trust Fund financing indicate that it will be even more difficult for the World Bank to accommodate the requests of new ascending donors, that want to loosen the standards of trust funds to which they are contributors. Thus, the World Bank's focality in development finance is currently challenged from both the inside and the outside. Strengthening the cooperative end of the EU-World Bank relationship in non-core aid, but also striving for better coordination of EU member states at the World Bank Board, are perhaps the best available alternatives to increase compliance by old and new donors with the global norms and lending templates that have developed out of the Bretton Woods legacy.

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Data availability statement

Additional information on the original data (Interviews) that support the findings of this study are referenced in Baroncelli (2010, 2011, 2013, 2019). Further details available upon request from the corresponding Author, subject to privacy restriction.

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Notes

1. When not otherwise indicated, the terms World Bank and World Bank Group are used interchangeably. The Group is currently composed of five institutions: IBRD, IDA (International Development Association), IFC (International Finance Corporation), MIGA (Multilateral Investment Guarantee Agency) and ICSID (International Centre for Settlement of Investment Disputes).
2. Out of total $29.56bn World Bank trust funds paid-in contributions between 2005 and 2015, EU member states supplied $24.96bn (or 47 per cent) Author's calculation from World Bank (2017a). EU institutions contributed $4.57bn (8.6 per cent), *vis à vis* the United States' contribution worth $3.2bn, approximately 6 per cent of all World Bank trust funds across the same period. Between 2015 and 2019, the EU institutions have supplied $2.8bn to IBRD, IDA and IFC trust funds, or 11 per cent of World Bank Group trust funds, Author's calculation from World Bank (2019a).
3. 38 interviews were held between 2008 and 2011 with World Bank and EU officials. See Baroncelli (2010, 2011, 2013). Research Projects: 'The external Image of the EU at the World Bank' within GARNET FP6-2002-Citizens-3, and 'The EU at the World Bank: assessing effectiveness', within EUPERFORM, Ref. No. 09-ECRP-015.
4. Critical junctures are short duration occurrences that have long-term path-dependent consequences; tipping defines 'a point at which the cumulative cause finally passes a threshold and leads to a rapid change in the outcome' (Capoccia and Kelemen, 2007, p. 351).
5. Cumulated amount for IBRD alone (World Bank, 2017b).
6. IBRD, IDA, RETF – recipient executed trust funds, IFC core and non-core, as well as MIGA issuances World Bank (2019b).
7. According to the Articles of Agreement (the IBRD founding charter) only sovereign entities are allowed to subscribe as shareholders. In the EU Treaties development cooperation is a shared competency, whereby the EU cannot prevent its member states from exerting their sovereign prerogatives (Baroncelli, 2019, pp.63-67).
8. Between 2013 and 2016, DG DEVCO EuropeAid allocated €6.6bn to UN trust funds, and €2.9bn to World Bank Group trust funds, over a total €11.7bn (European Commission–DG DEVCO–EuropeAid, 2016).
9. On the EU's performance in IOs post-Lisbon see Jørgensen et al. (2011).

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