

Funding Rules in Institutional Design: Explaining Design and Change at the United Nations

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Funding rules that govern member states' financial commitments to international organizations (IOs) are among the most consequential elements of institutional design. Funding rules dictate whether states are legally obligated to provide financial support and allocate burden sharing across members. They specify whether donors can dictate the terms of support by attaching conditions to financial contributions or, conversely, whether they must rely on the decisions of governing bodies to distribute funds. In doing so, funding rules affect the authority of IO governing bodies, the ability of donors to translate financial contributions into influence,¹ the predictability of funding, and the ability of IO staff to engage in long-term planning and provide consistent financial support to programs and projects.²

Funding rules have also proven politically controversial. In the United States, mandatory rules and the commitments they entail periodically provoke opposition in the Congress.³ In a recent example from 2012, House Resolution 2829 stated that it was the position of the United States that the United Nations should replace its mandatory funding system with a voluntary one.⁴ At numerous IOs, including the World Bank, World Health Organization, and a number of United Nations institutions, heated debate takes place in response to an increased reliance on contributions earmarked by donors, a practice permitted by funding rules at many contemporary IOs.⁵ In recent statements, the President of the UN General Assembly indicated that reliance on earmarked contributions undermines the multilateral character of the UN System.⁶ Others argue it reduces efficiency and leads deserving programs underfunded.

¹ ECOSOC 2012; UNGA President, 2012.

² UNSG Report 2012, 35ff.

³ For a prominent example, U.S. Foreign Relations Act of 1985, Kassebaum-Solomon Amendment.

⁴ U.S. House of Representatives 2012. H.R.2829.

⁵ ECOSOC 2012; Mahn 2012; Sridhar and Woods 2013.

⁶ Statement by UNGA President Nassir Abdulaziz Al-Nasser, 2012.

While the prevalence of donor earmarking at numerous IOs has given rise to scholarship that aims to explain donor funding patterns and their consequences,⁷ attention to the *design* of the rules that permit or prohibit different donor practices has thus far been absent. In fact, funding rules vary considerably across international organizations. Some IOs employ rigid, *mandatory* rules that require financial contributions as a legal obligation of membership to cover all costs. Others rely exclusively on more flexible, voluntary rules that merely invite states to contribute as they see fit. *Restricted voluntary* rules provide further flexibility to the donor, allowing states to place project and country-specific conditions on the financial contributions they provide. Other, *unrestricted voluntary rules* explicitly prohibit the practice. Rules also vary over time at individual IOs. Institutions with mandatory rules often add more flexible rules at a later date.

What explains funding rule design and change? I present a theoretical framework for explaining why and under what conditions states design different funding rules and for understanding the conditions that cause funding rule change. My argument centers on variation in state preferences over the *size* and *substance* of IO activity to explain variation in design. For member states the potential cost of mandatory rules is that IO governing bodies will require financial contributions at levels the state views as excessive or for activities it does not approve. The size of IO activity captures state preferences regarding appropriate costs and burden sharing, while substance refers to state preferences on the appropriate policy and political content of IO activity. When member state preferences on these issues are homogeneous—that is, they largely agree on questions related to financial costs as well as policy and political substance of IO activity—the rigid commitment inherent in mandatory rules poses little risk. However, when preferences on these issues diverge, that is no longer the case. Divergent preferences mean that individual member states may disagree with the decisions made in governing bodies. In the

⁷ Sridhar and Woods 2013; Michaelowa et al. 2014; Eichenauer and Hug 2014.

presence of known disagreements over size and substance, member states have incentives to insist on the flexibility inherent in voluntary rules to avoid undesirable commitments.

Preferences over size and substance also help to explain funding rule change over time. Member state preference configurations may change as membership size grows and new issues are introduced on the IO agenda. Emerging disagreements can cause states that initially supported more rigid funding rules to become dissatisfied at a later date. Dissatisfaction with funding rules is a necessary condition for change, but it is not a sufficient one. The theoretical framework draws attention to the content of dissatisfied states' preferences to explain when institutional change occurs. States that hold *expansionary* preferences with regard to the size and substance of IO activity, rather than those that seek to constrain the IO, are more likely to pursue rule change. The introduction of more flexible funding rules allows states with expansionary preferences to pursue the robust IO agenda they prefer without provoking opposition from more conservative member states. This process of rule change runs counter to the prevailing wisdom that voluntary rules are primarily used by states seeking to *constrain* IO activity to limit commitments and avoid unwanted obligations.⁸

From the theoretical framework I derive hypotheses on design and change and develop observable implications for funding rule outcomes and causal process implications related to the design process. I test the hypotheses using a longitudinal case study of UN institutions for economic development that includes four outcome observations of funding rule design and change across three UN institutions: The Expanded Program on Technical Assistance (1949), the UN Special Fund (1958) and the UN Development Program (1966). State preferences regarding the size and substance of IO activity are recovered from archival documents that recount debates taking place in United Nations venues—including the General Assembly, the Economic and

⁸ For example, Alger 1973.

Social Council, and the UNDP Governing Council—in the years surrounding the design and change in funding rules. The evidence allows me to identify state preferences regarding UN economic development institutions across years and venues to trace whether and how state preferences translate into funding rule choice. The detailed case studies are supplemented by original funding rule data collected for 26 contemporary UN institutions. The institutional history of each case was traced to identify original rules and rule change over time. The data serves to provide a broader picture of funding rule trends at the United Nations, demonstrates the generalizability of the case studies, and provides material for a secondary probe of selected observable implications. The empirical analysis reveals substantial support for the theory. The introduction of more flexible funding rules for economic development emerged primarily as a response to member state disagreements over the acceptability of rising costs, and later, over the political substance of UN programs. In each instance, more flexible rules were pursued by states with a pro-UN orientation that sought to expand activity to new levels and in additional areas.

The paper makes a number of contributions to the study of international institutions. First, it expands the scope of the institutional design literature to include an important design component that has thus far escaped scrutiny. It illuminates the importance of funding rules, outlines relevant parameters of variation, and provides a framework for explaining variation and change. Second, it contributes to a burgeoning literature on flexibility in institutional design. Empirically, it proposes voluntary funding rules as a flexibility mechanism to protect against undesirable outcomes that is distinct from others, for example, escape clauses, and limited duration provisions, discussed in the literature.⁹ In contrast to previous work that understands flexibility primarily as a solution to uncertainty problems,¹⁰ the framework developed here

⁹ Rosendorff and Milner 2001; Koremenos 2005; Pelc 2009; Koremenos and Nau 2010.

¹⁰ Koremenos et al. 2001.

theorizes that flexibility can also solve a distinct, divergent preferences problem. Third, it considers the dynamic element of institutional design and change by drawing out empirical implications of the design process and by considering how initial design choices affect the possibilities for change. Finally, the case study in combination with original data on funding rule change across UN institutions sheds light on when, why, and how this consequential shift occurred throughout the UN System.

The paper proceeds by introducing funding rules as an important component of design and dependent variable of interest. The next section develops the theoretical framework centered on member state preferences over the size and substance of IO activity. It develops hypotheses on design and change, outlines observable implications, and considers alternative explanations. The third section discusses case selection, describes how state preferences are identified, and discusses data collection. Two empirical sections follow. The first presents the broad picture of funding rule change at the UN. The second section tests the theory using a detailed longitudinal case of UN economic development institutions and assesses alternative explanations. A final section considers implications, limitations, and future research.

Funding Rules in Institutional Design

Funding rules represent an important facet of institutional design that has received little attention in IR scholarship. To date, investigations of IO financing have focused primarily on explaining funding practices, for example, the tendency for donors to earmark contributions,¹¹ rather than on explaining the design of funding *rules* that enable or prohibit different practices. Funding rules govern the financial relationship between an international organization and its member states. From the donor perspective, funding rules can be rigid—requiring a strict commitment—or more flexible, to protect against the potential for undesired outcomes. Rules have a wide range of

¹¹ Alger 1973; Sridhar and Woods 2013; Michaelowa et al. 2014; Eichenauer and Hug 2014.

implications for practical matters, for example, the ability of IO staff to plan long-term projects, and for more fundamental questions of governance.¹² This section outlines how funding rules vary along with the advantages and shortcomings of different rule types.

Broadly speaking, funding rules fall in two categories: mandatory and voluntary. Mandatory rules require financial contributions as an obligation of membership. Relevant governing bodies (e.g. a governing council of member states) apportion burden sharing among members using agreed upon formulas. For example, the United Nations uses the “capacity to pay” formula that emphasizes national income and population size, whereas the IMF allocates “quotas” based on weighted averages of GDP, economic openness, economic variability, and international reserves.¹³ At many institutions, members provide funding under mandatory rules to finance a wide range of programs, however rules can vary with regard to scope. Some institutions limit the use of mandatory rules to cover administrative costs, for example.

Mandatory rules constitute legal obligations for member states and thus, a rigid commitment. The payment of contributions is compulsory even if a member state finds their assigned share excessive, is dissatisfied with institutional performance, or disagrees with the positions staked out by governing bodies. Although states may choose to violate their commitment by withholding dues, they do so at a cost. Standard penalties include the forfeit of voting rights, but states can also incur reputation costs by violating legal obligations and can inflict financial damage on institutions they otherwise value.¹⁴ As a result, states tend to withhold mandatory dues only when other methods to influence change have failed.¹⁵ Mandatory rules

¹² Author 2014.

¹³ <http://www.imf.org/external/np/exr/facts/quotas.htm>

¹⁴ Guzman 2002.

¹⁵ For example, USSR withholding at the UN in 1960 sparked by opposition to UN peacekeeping missions, came after years of complaints regarding growing financial obligations. Similarly, US withholding in the 1980s came after other strategies, including coalition building to oppose budget increases, failed to curb US obligations.

offer several advantages. They provide a reliable flow of resources that facilitates planning and allows commitment to long-term projects. They protect against free riding and conversely, against undue influence that may result when one state provides a disproportionate share of the budget.

Voluntary funding rules mitigate the monetary commitment between an institution and its member states. Rather than bind members to specific contribution levels, voluntary rules allow each donor to decide whether and how much to contribute. In the language of the rational design literature, voluntary rules increase donor flexibility.¹⁶ They protect member states against unwanted commitments by granting donors discretion to contribute when they see fit. Different voluntary rules provide different levels of flexibility. *Unrestricted* voluntary rules remove states' obligation to contribute, however, donors are not allowed to restrict how the funds they supply are used. Contributions from all donors are co-mingled and distributed according to priorities set by governing bodies.

Restricted voluntary rules offer greater flexibility by empowering donors to earmark how contributions they supply are used. Members can place negative earmarks on contributions, specifying how funds *cannot* be used. Alternatively, donors can use positive earmarks by contracting with IO staff to support or create programs they most prefer. Both negative and positive earmarking allowed by restricted rules provide donors with the discretion to ignore budgetary priorities set by intergovernmental bodies to fund and create programs they find most desirable. Voluntary rules are often credited with increasing donor contributions. At the same time, IO staff indicate that heavy reliance on restricted contributions is inefficient and can lead to important issues failing to garner funds. The next section introduces a theoretical framework to explain the initial design and change in IO funding rules.

¹⁶ Koremenos et al. 2001; On flexibility also see, Marcoux 2009; Thompson 2010.

Preferences, funding rule selection, and change

The proliferation of international institutions in world politics and variation in their form has led scholars to the explanatory question, “Why do international institutions have the features they do?”¹⁷ As scholarship on institutional design progresses, some elements of design, for example, escape clauses and finite duration provisions, have received considerable attention.¹⁸ Others, like funding rules, have escaped scrutiny despite being widely recognized to have important policy consequences and being the subject of significant political controversy. This section provides a theoretical framework to explain funding rule design and change. The theory conforms to the basic rational design premise that “states use international institutions to further their own goals, and they design institutions accordingly.” However, its emphasis is distinct in two ways. First, the theory emphasizes state preferences over the *substance* and *size* of IO activity as the primary independent variable of interest. In doing so, it responds to a critique that rationalist theories of design have had too little to say about how divergent actor preferences influence design choices.¹⁹ Second, the theory focuses attention on questions of institutional change in addition to initial design. I develop expectations about when and how alterations in preferences interact with constraints imposed by previous institutional bargains to produce rule change. Hypotheses regarding both design and change are developed along with observable implications for both dependent variable outcomes and the design *process*. In doing so, the paper responds to the methodological critique that the design literature has focused on assessing outcomes without evaluating the design process, for which theories of design have clear implications.²⁰

Preferences and funding rule design

¹⁷ Koremenos et al. 2001, 762.

¹⁸ Rosendorff and Milner 2001; Koremenos 2005; Pelc 2009.

¹⁹ Duffield 2003, 419; Thompson 2010, 289.

²⁰ See especially Thompson 2010.

As the causal force in liberal IR theory, state preferences are employed to explain a diverse set of outcomes in IR, including the prospects for cooperation and regime formation.²¹ They also figure prominently in literature that treats IO bureaucracies as actors in world politics. For example, the relative heterogeneity of member state preferences influences whether states choose to delegate to IO bureaucracies, and when they are able to hold bureaucracies accountable.²² However, in explanations of institutional design, preferences have lingered in the background. The Rational Design (RD) project assumes that state preference configurations can be derived from the underlying cooperation problem that states face, for example with regard to distribution or enforcement.²³ While this may often serve as a useful starting point, the approach has received criticism for ignoring variation in preferences over design outcomes that appear independent of a given cooperation problem.²⁴ Recent work indicates that other factors, including identity, regime type, and even the characteristics of decision-makers, affect state preferences over design outcomes.²⁵ Building on this research, I argue that state preferences over the appropriate *substance* and *size* of IO activity are central to explaining funding rule design and change.

Debates over the *substance* of IO activity have long been at the center of IO politics. Different views staked out in recent debates—for example, on the importance of World Bank’s “greening” its poverty alleviation projects, or the appropriateness of UN involvement in neo-trusteeship—were preceded by earlier disputes over whether these institutions should prioritize poverty alleviation or engage in peacekeeping *at all*. State preferences on these and other issues related to the policy and political substance of IO activity are not always homogenous. For

²¹ Moravcsik 1997; Moravcsik 2000.

²² Nielson and Tierney 2003; Copelovitch 2010.

²³ Koremenos 2001b, 1072.

²⁴ Duffield 2003; Thompson 2010; Allee and Peinhardt 2014.

²⁵ Wendt 2001; Rathbun 2011; Allee and Peinhardt 2014; Hafner-Burton et al. 2014.

example, states long disagreed over whether the World Health Organization should limit its role to coordination and norm diffusion activities or support a more robust operational mandate to build local health systems.²⁶ Variation in preferences was anchored by divergent beliefs about policy effectiveness and on political ideology, with some in the West associating the health systems mandate with socialist doctrine. Member states' economic status can also influence preferences over substance, for example on the question of whether middle-income countries should receive IO development assistance or on the question of whether environment projects need to produce global or only local benefits. Both questions have divided parties to the UN Framework Convention on Climate Change and members of the Global Environment Facility.²⁷

Preferences over the *size* of IO activity refer to the overall costs associated with the IO budget and to questions of burden sharing. Member states might agree that IO activity is appropriate, but disagree about how much financial backing is needed and who should pay. States often register concern that IO bureaucracies do not use resources efficiently. This means that debates about budget size can occur even over otherwise apolitical issues like administrative costs. The discussion separating size and substance does not suggest that the two are independent. On the contrary, states that oppose a subset of IO activities are more likely to view the budget as excessive. Yet conceptually, the two are distinct and affect whether states' select restricted or unrestricted voluntary rules.

Whether states agree or disagree on the size and substance of IO activity influences funding rule design. When there is agreement on size and substance, rigid funding rules pose little risk. Agreement means that governing bodies are unlikely to make decisions that states oppose. In contrast, when state hold divergent preferences, they are less likely to pursue strict,

²⁶ Litsios 2002.

²⁷ UNFCCC 2001.

rigid rules in institutional design.²⁸ When preferences diverge, the likelihood that governing bodies will make decisions that individual member states disagree with increases. As a result, they are more likely to insist on the flexibility inherent in voluntary rules. This logic is reflected in the *divergent preferences hypothesis*.

Divergent preferences hypothesis (H1): When preferences over the size and substance of IO activity diverge, member states have incentives to design voluntary funding rules that provide flexibility to donors.

Specific expectations about DV outcomes are summarized in Table 1. First, when state preferences over size *and* substance are homogeneous, mandatory rules are the most likely choice. Under these conditions, the rigid commitment should not be an undesirable one, since states agree on questions of burden sharing and political substance. Second, when states agree on the substance of IO activity, but diverge on questions of budget size and burden sharing, the selection of mandatory rules is unlikely. Cautious of costs associated with IO programs, states will eschew rigid commitments, instead selecting voluntary rules. So long preferences are homogenous on substance, states are most likely to select *unrestricted* voluntary rules. Unrestricted rules avoid rigid commitments but allow the IO governing body, rather than individual donors, to determine how contributions are used. Third, when preferences over the substance of IO activity diverge, states are likely to select *restricted* voluntary rules. Restricted voluntary rules avoid the financial rigidity of mandatory rules as well as the substantive rigidity of unrestricted voluntary rules by allowing donors to earmark contributions. One might argue that when states disagree over policy substance the creation of a new institution is unlikely. But while this may be true when the purpose of a proposed institution is controversial, more commonly, disagreements emerge not over general goals (e.g. economic development) but over the details of how to achieve them. By allowing donors to tailor contributions to fund preferred

²⁸ Abbott et al. 2014.

activities, restricted funding rules may allow states to create new institutions even when disagreement over substantive details exists.

[Table 1 about here]

Preferences and funding rule change

Although states agree on rules when an institution is established, preference configurations can change over time in ways that cause some states to be dissatisfied with the status quo. Preferences may change for a number of reasons. New domestic leadership or learning about effectiveness may alter state preferences over time.²⁹ In addition, preferences often change when new issues are introduced onto the IO agenda and when new states become members. New issues are particularly important since they typically require IOs to expand the substance of their activity into new areas and demand additional financial resources.

When rule change does not keep pace with changes in preferences, dissatisfied actors are likely to emerge. But in contrast to moments of institutional creation, states no longer face a blank canvas for their designs.³⁰ Instead, they must work within the constraints of the previous institutional bargain. This can be difficult; institutional rules typically produce beneficiaries with a stake in rule persistence.³¹ For example, states that are net recipients of IO funding will be reluctant to terminate mandatory funding rules for fear of losing aid. Further, high thresholds for change often buoy stakeholders of the status quo. With some exceptions,³² rule change requires that supermajorities vote in favor the change, empowering substantial minorities to block change and only broad coalitions to push through reform.

²⁹ Koremenos, Lipson, Snidal 2001b, 1074

³⁰ Colgan et al. 2012.

³¹ Keohane 1984, 101; Koremenos et al. 2001b, 1076; Pierson 2004.

³² For example, most UN institutions require a two-thirds majority on “important questions.” In some circumstances a rule change can result from a new interpretation of an old rule by relevant judicial bodies.

The logic of H1 implies that when preferences diverge between T1 and T2 dissatisfied states have incentives to introduce more flexible funding rules. However, whether rule change occurs depends whether dissatisfied states hold *expansionary* or *status quo* preferences over the size and substance of IO activity. Member states can become dissatisfied with rigid funding rules for two very different reasons. The first group hold status quo preferences, they become dissatisfied when rigid rules require contributions at levels they view as excessive or for activities they do not approve of. This complaint is familiar in the United States where the Congress frequently complains about its mandatory dues at the United Nations. The second group of states holds expansionary preferences. They are dissatisfied not because rigid rules require them to give too much, but because the rules serve to constrain IO activity at levels they view as too conservative. These states—think of Sweden or Denmark—are willing to contribute *above* levels approved by IO governing bodies. They are dissatisfied because they believe IO activity should be expanded, not narrowed or maintained at current levels.

Given institutional constraints and the presence of divergent preferences, it is states with expansionary preferences, rather than those that favor the status quo, that have incentives to introduce flexible funding rules. To clarify, consider two examples. In the first, a new issue is introduced at an IO with mandatory funding rules. States in the majority hold *status quo* preferences with regard to the new agenda item; they oppose the financial commitment required by the expansion. Dissatisfied states hold *expansionary* preferences; they are dissatisfied not because they disapprove of IO activities being funded, but rather because the governing coalition blocks an expansion to cover activities they value. Dissatisfied states would prefer to expand under mandatory rules to maximize contributions, however, they are constrained by the previous institutional bargain. Under these conditions, dissatisfied states have incentives to introduce

more flexible, voluntary rules to *supplement* the mandatory rule status quo. Flexible rules have the advantage of being more palatable to states that are agnostic about the substance of activity, but oppose additional financial obligations. They may also appeal to states with status quo preferences eager to shift the conversation away from expanding commitments under mandatory rules. In essence, voluntary rules allow dissatisfied states with expansionary preferences to appeal to appease a greater number of actors by removing the financial obligation associated with expanding IO activity.

In a second example, a new issue is again placed on the agenda of an IO with mandatory funding rules. State preferences diverge; but this time the preferences of the majority and minority are reversed. The majority holds *expansionary* preferences with regard to the new agenda item, but a small minority of dissatisfied states holds *status quo* preferences, opposing the expansion. Will institutional change occur? Assuming majoritarian rather than consensus voting rules, institutional change is unlikely because the majority can expand activity under mandatory rules already in place. In this case, despite the presence of divergent preferences, funding rule change will not occur and dissatisfied states are left with the choice between non-compliance or providing financial support inconsistent with their preference.

Under certain conditions, dissatisfied states in the minority may succeed in blocking an expansion under mandatory rules. First, when consensus-voting rules are in place, dissatisfied state(s) can refuse to allow the expansion. Second, when dissatisfied states possess significant political leverage they may exercise that leverage to persuade the majority that expansion under mandatory rules will be costly to them in other areas.³³ If dissatisfied states in the minority are successful, states with expansionary preferences have incentives consistent with those in the first

³³ Political leverage allows dissatisfied states to engage in issue linkage necessary to prevent institutional change they oppose.

example. That is, they have incentives to introduce flexible rules as a compromise to appease dissatisfied states while achieving the expansion of IO activity. This leads to a hypothesis regarding institutional change:

Expansionary preferences hypothesis (H2): When preferences diverge, states that hold expansionary preferences have incentives to introduce rules that offer greater flexibility.

This hypothesis—that the pursuit of more flexible rules will come from those with a preference to expand IO activity rather than from those who want to constrain it—runs counter to the prevailing wisdom that voluntary rules are used primarily by powerful states that seek to constrain IO activity.³⁴ Table 2 summarizes specific dependent variable outcomes associated with H2. H2a indicates that when dissatisfied states hold status quo preferences, no change is expected and rules selected at T1 persist. The “no change” outcome is expected unless dissatisfied states possess the leverage necessary to block the expansion of activity under more rigid funding rules. In contrast, H2b expects that when dissatisfied states hold expansionary preferences, they will work to introduce more flexible rules in order to expand activity.

[Table 2 about here]

Evaluation of expected outcomes has been the primary method used to assess design theories in IR. However, theories ultimately speak to the *process* of institutional design and change by proposing distinct mechanisms that link independent and dependent variables.³⁵ For example, H1 expects that (1) matters of policy substance and questions of financial size and burden sharing are present in negotiations over institutional design, and (2) that member states select funding rules based on known disagreements (or the absence of disagreements) over the size and substance of IO activity. Developing theoretically informed observable implications

³⁴ Alger 1974; Taylor 1991; Mahn 2012.

³⁵ For an excellent discussion on this point, see Thompson 2010.

with regard to “context, process, or mechanism” complements the outcome-focused approach.³⁶ Causal process observations provide distinct leverage in causal inference and can offer strong evidence for or against a theory by providing a “smoking gun” that links the IV and DV as proposed or, conversely, an “airtight alibi” that provides strong evidence against the theory.³⁷

The expectations of H1 and H2 with regard to causal process are summarized in Table 3. Both hypotheses require that discussion and debate about IO policy substance, financial size and burden sharing are present in design negotiations and are central to discussions of funding rule design. To demonstrate this, member states should not only select outcomes consistent with expectations in H1a-H1c, but should also indicate that rule selection is influenced by these discussions and disagreements over the size and substance of activity. H2 is premised on the logic that when preferences over size and substance diverge it causes actors to be dissatisfied with the rigidity of funding rules in place. Further, and critically, H2 expects that actors with expansionary preferences over size and scope will pursue the introduction of more flexible funding rules. The empirical record must bear this out. Actors with expansionary preferences should be states in good financial standing with the institution that are also on the record supporting the expansion of the institution’s activity and indicating they will provide financial support. Finally, a specific path of change follows from H2 in which more flexible rules *supplement*, rather than replace, rigid ones. This pattern of change is consistent with institutional layering as discussed in the political development literature.³⁸ Because actors that pursue flexible rules want to expand IO activity rather than constrain it, they have no interest in replacing rigid rules already on the books. Indeed, they support those rules fully. Observable implications for causal process are summarized in Table 3.

³⁶ Seawright and Collier 2004, 277.

³⁷ Collier et al. 2004, 252ff; Mahoney 2010, 124.

³⁸ Schickler 2001; Hacker 2004; Mahoney and Thelen 2010.

[Table 3 about here]

Alternative explanations of design and change

Three sets of alternative explanations are worthy of consideration. The first places primary importance the interests of powerful states. Associated with the realist approach to international institutions, the alternative expects that funding rule design and change will be driven by powerful states and that those rules will conform to their interests.³⁹ This produces distinct observable implications. Homogeneous preferences among the vast majority of states should not be required to select rigid rules. Rather, the preferences of powerful states should be determinant. As the hegemon in the postwar era, US preferences should be particularly important. Similarly, change should be pursued by powerful states, rather than by actors with expansionary preferences.

A second set of alternative explanations emphasizes the importance of norms in determining funding rule design and change. Two normative explanations are relevant. The first emphasizes a logic of appropriateness in which design choices conform to widely accepted norms of appropriate behavior.⁴⁰ For example, mandatory funding rules conform more fully to the norm of multilateralism because authority to determine burden sharing and distribute financial contributions is determined by IO governing bodies, whereas restricted voluntary rules allow individual donors to dictate how contributions are used.⁴¹ However, since multilateral norms are generally understood to characterize the entire postwar period,⁴² they cannot account for variation in funding rules across the same period. An additional normative explanation could

³⁹ For example, Krasner 1991; Gruber 2000.

⁴⁰ March and Olsen 1998; Paris 2003.

⁴¹ Sridhar and Woods 2013; Author 2014.

⁴² Ikenberry 2001.

place scope conditions on H1 and H2. Over time, different funding rules could become “normal” such that their inclusion in new institutional designs does not require contemplation. Rather, the inclusion of certain funding rules might come to represent boilerplate design elements implemented across institutions as standard practice.⁴³ If this is the case, as the use of a given rule becomes “normal,” its inclusion may no longer be influenced by member state preference configurations.

Finally, although voluntary funding rules are not among the flexibility mechanisms contemplated by the Rational Design volume, RD flexibility conjectures may be relevant to explaining funding rule design. RD conjectures expect that flexibility will increase with “uncertainty about the state of the world,” “uncertainty about preferences,” and “the severity of the distribution problem,” and to decrease with “number.” The causal effect of “number” and “uncertainty about preferences” are particularly amenable to comparison because they produce observable implications that are both clear and distinct from the expectations of H1 and H2. “Number” is often an indicator of heterogeneity. As the number of actors increases, preferences are more likely to diverge. Whereas H1 expects increased flexibility as number increases, the RD conjecture expects the opposite. Likewise, H1 expects flexibility to be incorporated in funding rule design in response to known disagreements between member preferences rather than *uncertainty* regarding others’ preferences. These alternative explanations are considered below.

Case selection and research design

The purpose of the empirical section is to provide a test of both the outcome and causal process expectations implicated by the theory. The test relies primarily on a longitudinal study of UN economic development institutions that covers four outcome observations of funding rule design and change. This includes the original, “Regular” Technical Assistance Program under

⁴³ Hopf 2010.

mandatory funding rules (1947), the expansion of that program under unrestricted voluntary rules at the Expanded Program on Technical Assistance (EPTA, 1949), the creation of the UN Special Fund (1958), also with unrestricted rules, and, following the merger of EPTA and the Special Fund to establish UNDP, the introduction of restricted voluntary rules in 1966.

The longitudinal case holds a number of advantages. First, it offers two types of variation on the independent variable of interest. As UN membership grew and decolonization progressed, UN demographics shifted. New states brought new demands for economic assistance and these increased the prevalence of divergent preferences in governing bodies over time. Second, the groups of states that hold expansionary and status quo preferences also vary over time, allowing for a test of process expectations about which actors pursue institutional change. The case also holds important, and potentially confounding, variables constant.⁴⁴ Though the issue area of economic development does broaden over time, its primary aim of improving the economic outlook of developing states remains constant. Other aspects of institutional design are also held constant. Of particular import, all four relevant governing bodies employ majoritarian voting rules.⁴⁵ This eliminates the possibility that variation in voting rules across institutions causes variation in funding rule change. Third, as the first empirical section demonstrates, the case of UNDP and its predecessor programs is representative of a common path of change among UN institutions, increasing the likelihood that findings can be generalized across cases. Finally, the selected cases are relevant in terms of financial size and political substance. Today UNDP is the second largest UN agency recipient of contributions accepted under restricted voluntary rules⁴⁶

⁴⁴ On the strength of longitudinal cases in this regard, see Lijphart 1971, 689 and George and Bennett 2004.

⁴⁵ UNDP Governing Council rules aim for consensus but defer to the majoritarian rules of ECOSOC when a vote is necessary.

⁴⁶ Referred to at UNDP as non-core resources.

(USD 1.8 billion in 2008) and it is at the center of recent debate on the consequences of increased reliance on financial contributions earmarked by donors.⁴⁷

The case study design is appropriate given the theory requires identifying complex preferences of specific actors.⁴⁸ I recover state preferences over the size and substance of IO activity using primary source documents. The main source is the *Yearbook of the United Nations*, which serves as the authoritative reference work on the UN System. The *Yearbook* reports debate and decisions made across UN institutions from 1946 to the present day. This provides opportunities to identify state preferences over a series of years and across multiple venues. For example, one can read discussion that occurred at the Intergovernmental Council of the World Food Program (WFP), and also identify positions voiced about the WFP in other venues, like the Economic and Social Council (ECOSOC) and the General Assembly. By reading across years and venues it is (often) possible to retrospectively observe how state preferences translate into rule design or change. By contrast, votes on these issues sometimes prove misleading by masking disagreements that influence design. For example, the U.S.S.R. voted in favor of the creation of EPTA,⁴⁹ and so one might infer they held expansionary preferences with regard to development assistance. However, the U.S.S.R was actually a staunch opponent and rules were designed in part to accommodate its opposition. When possible and appropriate, the *Yearbook* is complemented by other primary sources, including UNDP Governing Council documents, and the *United Nations Juridical Yearbook*. Relevant secondary literature is also consulted.

Dependent variable values (i.e. mandatory, unrestricted and restricted voluntary) are also identified using these primary documents. The four institutions involved in the case constitute a lineage of economic development assistance at the UN. DV values are identified at the moment

⁴⁷ OECD 2011; ECOSOC 2011.

⁴⁸ Johnson and Urpelainen 2014, 25-26.

⁴⁹ UN Yearbook 1948-49, 452.

each institution is established, but also during intervening years to identify any changes that may occur. To provide the broader picture of UN funding rule design and change, DV data was also collected across 26 UN institutions (programs, funds and research institutes). Each institutional history was traced to identify DV values for the current institution and any predecessor programs. The following guidelines were used to code funding rules, which are typically straightforward in description: mandatory rules indicate financial contributions are an obligation of membership. Mandatory rules that cover only administrative costs are coded as such. Unrestricted voluntary rules indicate contributions are voluntary, but prohibit donor restrictions. Restricted voluntary rules indicate that the donor can place restrictions on its contributions either through a trust fund or traditional earmarking.

This broader picture is not intended to provide a test of the theory in question. It is not equipped to do so given the challenges to identifying preferences specific to the size and substance of activity at individual UN programs, funds and research institutes. Rather, it is provided to show the breadth of the shift in funding rules across the broader UN and to indicate what the longitudinal study “is a case of.” As a secondary matter, the broader picture is useful as a tentative probe of two observable implications. First, as noted above, increased membership size is typically associated with increased heterogeneity in preferences and this relationship is especially likely “where the additional actors are often qualitatively different from earlier actors (for example, less-developed countries joining a group of developed countries).”⁵⁰ The rise in developing country membership increased the salience of economic development issues and the prevalence of divergent preferences on these issues. If funding rules become *more rigid* over time rather than more flexible, it would provide evidence against H1. They do not. Second, the 26 cases were coded with regard to the form of rule change. Consistent with H2, rule change

⁵⁰ Koremenos et al 2001a, 785.

takes the form of layering rather than replacement. The following section begins by providing a brief overview of funding rule design and change at the UN over time before delving into the case study focusing on economic development institutions.

A Brief Overview of UN Funding Rules Over time

The United Nations Charter outlined a system of financing for the institution based on shared responsibility through a system of *mandatory assessments*. States pay assessments (i.e. dues) as a legal obligation of membership. Assessments are apportioned based on the “capacity to pay” principle, taking into account each member’s economic strength in assigning its share. The formula is modified by a ceiling and a floor on proportion any one state can contribute to guard against both undue influence and freeriding.”⁵¹ The apportionment of assessments and the passage of any budget required approval by a two-thirds majority vote in the General Assembly where each member state casts a single vote.

The UN remains associated with its mandatory system, yet early in its history the General Assembly created parallel, voluntary funding rules to govern many of its programs. Figure 1 shows funding rules over time at 26 contemporary UN cases.⁵² The data indicate that most contemporary UN programs operate using multiple funding rules. Just six cases employ mandatory rules that go beyond administrative costs. In six additional cases mandatory rules cover administrative costs only. Unrestricted and restricted voluntary rules are each employed in 24 cases. Figure 1 demonstrates that the use of voluntary (more flexible) rules became more prevalent, while the use of mandatory rules grew at a much slower rate. Both voluntary rule types were introduced in early at the UN, however, unrestricted rules were introduced first, and were included at more institutions earlier than restricted rules. The use of unrestricted rules more

⁵¹ UNGA 1946a.

⁵² Some cases involve multiple institutions, for example, when programs merge into one.

than doubled to 11 institutions between 1956 and 1966. The use of restricted rules did not reach this number until 1976 and did not reach parity in use with unrestricted rules until 2000.

[Figure 1 about here]

The number of funding rules increases over time both because new institutions are added to the UN system and because already existing institutions add new rules. Funding rule change occurred in 20 of the 26 cases. For example, the UN High Commissioner for Refugees was designed with mandatory rules to cover administrative costs and unrestricted rules to cover operational activities in 1950. Rule change occurred in 1959 when restricted voluntary rules were introduced. Consistent with H2, in all 20 cases of rule change, new rules were layered, supplementing original rules, rather than replaced. In 19 of the 20 cases rule change involved the addition of more flexible, rather than more rigid, rules. In only one case (UNWOMEN) were more rigid rules introduced over time.⁵³

[Table 4 about here]

The next section turns to an in-depth analysis of one case included in Figure 1, which includes three UN development institutions: EPTA, the Special Fund, and UNDP. The analysis begins in 1946, three years before the creation of EPTA. It considers the initial inclusion of technical assistance activity under mandatory rules before proceeding to cover EPTA, the Special Fund and UNDP. A subsection analyzing alternative explanations follows the case study.

Funding rules at UN institutions for economic development

The beginning of economic development activities at the United Nations began in the form of technical assistance. States made requests to the UN to provide technical experts in fields in which domestic expertise was lacking. Funding to meet these requests was first incorporated

⁵³ Mandatory rules to cover administrative costs were added when UNIFEM and other institutions merged to become UNWOMEN in 2010.

under mandatory funding rules in the UN Regular Budget in 1947. In 1949 the UN technical assistance program expanded outside the mandatory assessments system. The General Assembly established EPTA with unrestricted voluntary funding rules. The same rules were used to establish the Special Fund, to further expand operations in 1958. The Special Fund and EPTA constituted separate UN programs with their own mandates and governing bodies. In 1965 they were formally merged to become UNDP. Restricted voluntary funding rules were introduced following UNDP's establishment, allowing donors to earmark contributions for the first time.⁵⁴ The values of the dependent variable are summarized in Figure 2. The case provides four outcome observations and numerous opportunities to observe the causal process implications of H1 and H2.

[Figure 2 about here]

The inclusion of technical assistance in the Regular Budget

In 1946 the General Assembly passed resolution 58/1 requesting the Secretary General to include the funds necessary to finance “social welfare experts” to provide advice at the request of Governments, primarily for those that had been devastated by the war.⁵⁵ Member states of the Economic and Social Council (ECOSOC) engaged in debate about the UN's role in offering technical assistance in 1947.⁵⁶ Upon request, the Secretary-General reported that the Secretariat was equipped to offer expert assistance to advise Governments in a number of fields related to economic and social development.⁵⁷ In its initial form, the political *substance* of technical

⁵⁴ At UNDP, funds contributed under unrestricted voluntary rules are known as “core resources” and those earmarked by donors are referred to as “non-core.”

⁵⁵ UNGA 1946b.

⁵⁶ UN Yearbook 1947-48, 657. More specifically, the Secretary-General noted the Secretariat could offer experts in Economic, social, statistical, human rights, narcotic drugs, transport and communications, legal affairs, non-self-governing territories, and public administration.

⁵⁷ UN Yearbook 1947-48, 657. More specifically, the Secretary-General noted the Secretariat could offer experts in Economic, social, statistical, human rights, narcotic drugs, transport and communications, legal affairs, non-self-governing territories, and public administration.

assistance was innocuous. Advice was provided by international experts and only at the request of Governments, which made unwanted meddling unlikely. A wide range of states, including Albania, Austria, China, Czechoslovakia, Finland, Greece, Italy, Philippines, Poland, Yugoslavia, Peru, and Venezuela made requests and received assistance from the Secretariat prior to 1948.⁵⁸ There was little disagreement among member states over substance of the UN's technical assistance activity at this early stage. Indeed, "All representatives in the Economic and Social Council [which included the Soviet Union] were agreed on the importance of technical assistance."⁵⁹

When conversation turned to the costs of technical assistance, however, state preferences diverged. Brazil and Venezuela were ardent supporters of a strong technical assistance program and called for the creation of such a program within the Secretariat.⁶⁰ Canada, the United States, and a number of Western European countries, also voiced support for a technical assistance program, while emphasizing the importance of its efficiency.⁶¹ By contrast, the preferences of the Soviet Union with regard to costs were decidedly status quo and the U.S.S.R. consistently voiced opposition to the inclusion of technical assistance in the Regular Budget.⁶² During budget negotiations the Soviet Union opposed rising costs in the UN's budget, criticizing "what they considered to be an excessive and ever-expanding budget."⁶³ Indicating that its opposition was over budget size rather than the substance of technical assistance, the Soviet Union proposed an alternative funding system in which technical assistance would be paid for by the countries requesting assistance, rather than through the Regular Budget. The Soviet representative stated

⁵⁸ UN Yearbook 1947-48, 658.

⁵⁹ UN Yearbook 1947-48, 518.

⁶⁰ UN Yearbook 1947, 518; 658.

⁶¹ UN Yearbook 1947-48, 518; UN Yearbook, 1948-49, p. 440.

⁶² Gibson 1967, 188-189.

⁶³ UN Yearbook 1948-49, 880.

that the proposal, “would remove financial considerations as obstacles to technical assistance,” drawing a direct link between rising costs and funding rule design.⁶⁴

Despite the emergence of divergent preferences over the size of UN activity, the technical assistance program was introduced into the UN Regular Budget in 1947 and 1948 under mandatory funding rules. The Soviet bloc countries abstained from the budget votes, indicating disapproval, while all other members voted in favor.⁶⁵ This is consistent with the process and outcome expected by H2. Divergent preferences emerged and caused some states to be dissatisfied with rigid funding rules. However, because dissatisfied states held status quo rather than expansionary preferences, the latter group was able to expand activity despite the opposition of other actors. Consistent with H2a, no rule change occurred.

The creation of EPTA with unrestricted, voluntary rules

Disagreements over the costs associated with the technical assistance program persisted leading to further debate about how to fund a growing program. In March of 1949, ECOSOC requested the Secretary-General to prepare a report on what an expanded program for technical assistance might look like, and importantly to outline possible “methods of financing such a program including special budgets.”⁶⁶ The Report from the Secretary-General outlined options that included (1) the continued financing of technical assistance under the Regular Budget and (2) a special budget, specifically designed to fund technical assistance for economic development. With regard to the latter, Governments would be *invited* to make contributions above and beyond their mandatory assessments.⁶⁷ Debate in ECOSOC followed the UNSG Report. Although all representatives continued to acknowledge the need for technical assistance,

⁶⁴ UN Yearbook 1947-48, 518.

⁶⁵ UN Yearbook 1948-49, p. 880; GA Resolution 252 (III) A. 11 December 1948.

⁶⁶ United Nations 1949; ECOSOC Resolution 1980 (VIII), 4 March 1949.

⁶⁷ United Nations 1949, 36-44 and 51-52.

a minority maintained the position that it should be paid for by states requesting assistance.⁶⁸

This included the Eastern bloc countries, but others, including France and Belgium voiced similar concerns regarding rising costs.⁶⁹

Following debate, member states chose to maintain the technical assistance program funding through mandatory rules in the Regular Budget, but in addition, to further expand the UN's ability to offer technical assistance by establishing EPTA. EPTA was designed with unrestricted voluntary rules. The ECOSOC resolution recommending EPTA's establishment indicates that the contributions provided, "shall be made without limitation as to use by a specific agency or in a specific country or for a specific project."⁷⁰ The General Assembly resolution adopts the ECOSOC resolution in full, and clarifies that contributions are *voluntary* by inviting all Governments "to make as large voluntary contributions as possible to the special account for technical assistance."⁷¹

Divergent preferences over size are associated with the design of unrestricted, voluntary rules, as expected by H1b. The process of rule change is consistent with a number of observable implications of H2. Divergent preferences over rising costs emerged as a result of the technical assistance program and produced states dissatisfied with mandatory funding rules. In this case, dissatisfied states held *status quo* preferences. It is possible that states with expansionary preferences could have expanded technical assistance using mandatory rules for a few years before provoking more opposition. Instead, states in the majority with expansionary preferences sought to accommodate dissatisfied states concerns about rising costs by expanding technical assistance with more flexible funding rules. This is likely due to the political leverage exercised

⁶⁸ UN Yearbook 1948-49, 447.

⁶⁹ On Belgium, see UN Yearbook 1948-49, p. 880; On France, see Gibson 1967, 188-89.

⁷⁰ UN Yearbook 1948-49, 444; ECOSOC Resolution 222 (IX) 15 August 1949.

⁷¹ UN GA Resolution 304 (IV) 16 November 1949.

by the U.S.S.R. The Soviet Union was among the top financial contributors to the UN under the mandatory regime and there was concern that non-compliance would have negative, financial repercussions for the institution. Consistent with H2, states with expansionary preferences were the driving force that established EPTA and introduced unrestricted voluntary rules. Had dissatisfied states controlled the process, EPTA would not have been created at all.

The selection of unrestricted, voluntary rules allowed states with expansionary preferences over technical assistance to increase UN activity while accommodating other members' concerns about rising costs. Sharp writes that EPTA provided "the principle impetus for the use of the voluntary principle for fundraising to support continuing operational programs" (...) "This method offered a convenient way by which certain nations (...) could launch a new program without waiting for participation by the Communist Bloc."⁷² Similarly, a US Senate report notes that voluntary funding rules "developed primarily because voluntary contributions offered the only practical basis on which the UN could get certain programs financed and agreed to."⁷³ This was a political success: along with other member states, the Soviet bloc countries voted in favor of EPTA's creation in 1949. Consistent with H2, because states that pushed to introduce voluntary rules remained strong supporters of the mandatory system, they had no interest in ending the inclusion of technical assistance in the Regular Budget. Indeed, the "regular program" for technical assistance remained financed through mandatory assessments. Unrestricted voluntary rules were introduced to supplement the mandatory system, rather than to replace it.

The creation of the Special Fund with unrestricted, voluntary rules

⁷² Sharp 1965, 583.

⁷³ US Senate 1953, 167.

The Special Fund was formally established by GA Resolution 1240 (XIII) in 1958. Like EPTA, the Special Fund was designed with unrestricted voluntary rules. However, Special Fund rules went further to prohibit earmarking by donors in order to preserve the multilateral character of the UN. The resolution establishing the Fund states, “(...) that the multilateral character of the Special Fund should be strictly respected, no contributing country should receive special treatment with respect to its contributions nor should negotiations for the use of currencies take place between contributing or receiving countries (...).”⁷⁴

In some ways the circumstances surrounding the Special Fund’s creation resemble the EPTA case. When member states discussed the potential for a UN development fund that would serve a purpose similar to the World Bank, debate did not occur around the substance of activity. All parties agreed on the need for greater development assistance and understood the UN should play a role in this regard. Indeed, during the 1957 General Assembly session that led to the Special Fund’s creation, “No one had disputed”⁷⁵ the necessity of the UN’s providing increased assistance to support economic development.

That most debate centered on concerns over rising costs also resembled the EPTA case. However, the preferences of a number of states had shifted. In the 1940s developing countries and United States supported the expansion of technical assistance—even under the Regular Budget—and the Soviet Union staunchly opposed it. During the 1950s, developing states continued to hold expansionary preferences.⁷⁶ Ambitious proposals for a UN economic development fund, for example, like the one introduced by India in 1957, had the support of the

⁷⁴ UN Yearbook 1958, p. 141. GA Resolution 1240 (XIII) Part B. 14 October 1958.

⁷⁵ Description of consensus on the necessity of increased economic development programs at the UN transmitted in the UN Yearbook 1957, 141.

⁷⁶ UN Yearbook 1956, 165-67; UN Yearbook 1957, 139-143.

UN's developing country members.⁷⁷ But in contrast to the earlier era, the Soviet Union voiced support for these proposals along with a few industrialized states, including the Netherlands and France.⁷⁸ These states did not argue specifically for mandatory funding rules to govern a new development fund. However, a French commitment to contribute at a rate consistent with its share of the UN Regular Budget⁷⁹ raised the possibility that burden sharing would follow the Regular Budget model. By contrast, The United States, United Kingdom, Denmark, and a host of other potential donor states raised concerns about inadequate funds and the rising costs involved in supporting an ambitious program.⁸⁰ The U.S. Representative cautioned against creating an ambitious institution in a context of disagreements over acceptable costs because, "It would raise hopes among the people of under-developed countries which could not be fulfilled."⁸¹

Like in the EPTA case, the selection of unrestricted voluntary rules for the Special Fund is consistent with H1. To be sure, the Special Fund fell short of a more ambitious program for economic development that states holding expansionary preferences most preferred. Nonetheless, and consistent with H2, the use of unrestricted voluntary rules enabled states with expansionist aims to push UN activity into new areas with new funds, this time to cover pre-investment activities for economic development and to support larger projects in more significant sums than previous UN efforts.⁸²

UNDP and the addition of restricted, voluntary rules

In 1965 the General Assembly merged EPTA and the Special Fund to establish UNDP in order to streamline economic development activity at the UN. The merger placed the two

⁷⁷ UN Yearbook 1957, 141.

⁷⁸ UN Yearbook 1956, 166-167.

⁷⁹ UN Yearbook 1956, 167.

⁸⁰ UN Yearbook 1956, 167; UN Yearbook 1957, 141.

⁸¹ UN Yearbook 1957, 141.

⁸² UN Yearbook 1958, 131; GA Resolution 1240 (XIII) 14 October 1958; UN YRBK 1965, 270.

institutions under a single governing structure, but the “principles, procedures, and provisions governing EPTA and the Special Fund” continued to apply to UNDP.⁸³ Unrestricted voluntary rules that explicitly prohibited donor earmarking were transferred to the new institution. However, within a year, the UN Office of Legal Affairs effectively altered UNDP funding rules by providing a method through which the UNDP Administrator could accept earmarked contributions. The method involved the UN Secretary-General using his authority to establish a trust fund and “define the purpose and limits of the trust fund in accordance with terms specified by the donors,” which UNDP could then administer consistent with the donors’ wishes. In January of 1967, the UNDP Governing Council codified the ruling with a formal decision, authorizing the UNDP Administrator to accept and administer trust funds “for purposes not inconsistent with the basic aims and purposes of UNDP.”⁸⁴ With this decision the Governing Council added restricted, voluntary rules to UNDP.

In contrast to EPTA and the Special Fund, debate surrounding UNDP’s establishment often centered on the political and policy content of development activities in addition to costs. Industrial development, or activities designed to increase the pace of industrialization in developing states, served as a particularly politically charged activity. “Industrial development” had ideological meaning at the UN where it would later be associated with the New International Economic Order promoted by the G-77.⁸⁵ With some exceptions, developing states held expansionary preferences with regard to the UN role, supporting an increase in UN financial assistance in industrial development. Eastern bloc countries typically voiced support for developing states’ position. In response to an ECOSOC draft resolution establishing UNDP, five Eastern bloc submitted amendments that would “emphasize the preeminent importance of

⁸³ UN Yearbook 1965, 271-272.

⁸⁴ UNDP Governing Council Decisions 1967. 3rd Session, 52nd Meeting, 23 January 1967.

⁸⁵ For example, see UNIDO Constitution, Article 1, 1979.

industrial development” to the UNDP mandate and “urge the new Governing Council to consider ways of apportioning UNDP funds for investment activities.”

Some member states held the position that the substance of Special Fund and EPTA mandates, now transferred to UNDP, were too narrow. These members “expressed reservations about the proposed arrangements” and “felt that direct investment work and direct aid in industrial development should be included in the activities conducted through UNDP.”⁸⁶ Similarly, during ECOSOC debate, the Soviet delegate argued that the Special Fund “concerned itself primarily with pre-investment activities to the detriment of direct financing of investments. It was thus to be feared that with the consolidation UN assistance for industrial development would be pushed still further into the program.”⁸⁷ Consistent with expectations of H2, the Soviet Union expressed frustration with the rigidity of unrestricted voluntary rules at the Special Fund, complaining that the Fund refused to accept and use contributions when the U.S.S.R. required the funds be used specifically for direct investment in industrial development projects.⁸⁸

European countries that stood to be important donors to new UN institutions, including the Denmark, the UK, Sweden and the Netherlands, held a favorable attitude toward expanding industrial development activity at the UN. They preferred these activities be pursued through UNDP, as opposed to creating a new specialized agency for the purpose, an issue being debated elsewhere at the UN. Positions staked out by the United States with regard to industrial development, were decidedly status quo. The U.S. consistently stated that new institutional machinery for industrial development was unneeded. But the U.S. position went further stating that if amendments emphasizing the importance of industrial development to the UNDP mandate were included in the UNDP mandate, the US would have to reconsider its financial support.

⁸⁶ UN Yearbook 1965, 271.

⁸⁷ ECOSOC, Proceedings from the Second (Economic and Financial) Committee, 1965, 329.

⁸⁸ ECOSOC, Proceedings from the Second (Economic and Financial) Committee, 1965, 329.

James Roosevelt, the U.S. delegate to ECOSOC's Second Committee, noted that "the funds pledged by his government to the Special Fund and EPTA were dependent on the maintenance of the current policies and procedures of the two programs. Should the nature of the programs be changed as provided in amendments cosponsored by the Soviet Union, the United States government would have to reexamine its position completely and might have to seek other means of putting those funds at the disposal of developing countries."⁸⁹

In light of the US position on the issue and the importance of US financial support to UNDP, industrial development does not figure prominently in its founding documents or mandate. However, this did not prevent European donors that held expansionary preferences toward industrial development from providing the impetus for rule change that would allow UNDP to expand industrial development activity. With debate over UNDP's establishment ongoing, on November 6, 1965 the Netherlands announced to the UNDP Administrator it would make a contribution of three million guilders. However, contra UNDP funding rules, it would be made with the understanding "that the sum would be earmarked for special industrial services" rather than co-mingled with other UNDP funds.⁹⁰ Doubtful of the pledge's appropriateness, the UNDP Administrator submitted a request to the UN Office of Legal Affairs for advice on the matter. The UNDP Governing Council formerly adopted the position of Legal Affairs—that states would now be able to restrict how their contribution would be used at UNDP through the creation of trust funds—as policy in 1967.⁹¹ UNDP subsequently began to administer a number of trust funds. These initially included two from the Netherlands, the first for special industrial

⁸⁹ ECOSOC, Proceedings from the Second (Economic and Financial) Committee, 1965, 330.

⁹⁰ UN Juridical Yearbook 1966.

⁹¹ UNDP Governing Council 1967.

services, and the second earmarked for West Irian (present day Indonesia and a former Dutch colony), and a third funded by Sweden earmarking aid for Lesotho.⁹²

Although the path of funding rule change involved advice from the UN Legal Affairs Office, the process is consistent with theoretical expectations in a number of ways. First, consistent with H1, debate about substance of IO activity was prominent in negotiations surrounding UNDP design. Second, divergent preferences over substance caused dissatisfied actors to be frustrated with rigid rules. Third, divergent preferences over the substance of IO activity led to the introduction of restricted, voluntary rules, an outcome consistent with H1c. Fourth, rule change was pursued by actors with expansionary preferences (e.g. the Netherlands) rather than those with status quo preferences (e.g. the United States). Fifth, restricted voluntary rules supplemented, rather than replaced, unrestricted rules at UNDP.

Assessing alternative explanations

Three sets of alternative explanations that emphasize power, norms, and the rational design conjectures are assessed in this section. Theories that emphasize powerful states' interests to explain design outcomes find some support in the cases. Powerful states clearly influence design outcomes. With the exception of the inclusion of the original UN technical assistance program in the Regular Budget, the U.S. and the U.S.S.R. were never forced to accept funding rules that they opposed outright. But while the outcomes of funding rule design and change were *acceptable* to powerful states, they were not *driven* by powerful states. For example, the U.S.S.R. successfully avoided the expansion of technical assistance under the Regular Budget, but that led others to innovate, introducing unrestricted, voluntary rules to govern EPTA. Likewise, disagreements between the U.S. and the U.S.S.R. loomed large in the debate over industrial development, but it was the Netherlands that emerged to drive rule change. In essence,

⁹² UN Yearbook 1967, 303-04.

although the design outcomes are consistent with powerful states' preferences over size and substance, realist theory struggles to explain the process through which design and rule change occur. The case study demonstrates that the creativity of weaker, motivated actors to exert influence over design and institutional change should not be underestimated.⁹³

With regard to normative explanations, it is plausible to argue that a logic of appropriateness emerged during the UN's first decades that prohibited donor earmarking. Argued by many to undermine multilateral decision-making,⁹⁴ EPTA and the Special Fund prohibited the practice. But to the extent this norm emerged, it was unable to prevent the adoption of restricted rules by the UNDP Governing Council or at other UN institutions. More careful consideration is required for a second normative explanation, that over time, UN institutions began to regard different funding rules as "normal" such that their inclusion in design did not require contemplation and was incorporated as boilerplate. Although this does not explain the funding rule design or change in the UNDP case, it may explain rule design at more recently established institutions.

Between 1945 and 1975 just one UN institution was established with restricted voluntary rules and patterns of change are largely consistent with the proposed theory in that restricted rules are adopted only after disagreements over donor priorities emerged. For example, when the UN High Commissioner for Refugees adopted restricted voluntary rules in 1959, the change came in response to member states' diverse priorities with regard to refugee problems. Restricted rules were introduced such that members could " earmark their contributions for those programs which were of special interest to them."⁹⁵ Similarly, rule change at the World Food Program (WFP) followed donors' dissatisfaction with rule rigidity in light of diverse interests. In response

⁹³ Payton 2009.

⁹⁴ For example, UN General Assembly President, Mahn 2012; Sridhar and Woods 2013; Author 2014.

⁹⁵ UN Yearbook 1957, 237.

to donor attempts to earmark aid for specific catastrophes of special interest (which WFP initially delivered without charge to avoid violating its rules) the Intergovernmental Committee authorized the Executive Director to accept donors' conditions.⁹⁶ But it is less clear that later cases required the emergence of disagreement to design restricted rules. For example, in the case of UNAIDS, restricted funding rules appear to have been selected without significant debate.⁹⁷ Further empirical inquiry is required, but it is plausible that the normative explanation could be useful in explaining more recent cases of design, whereas the theoretical framework developed is most useful in explaining earlier cases of design and subsequent institutional change.

Finally, I consider three Rational Design conjectures. With regard to the relationship between number and flexibility, the evidence goes against RD expectations. Although the number of UN member states increased over the time period considered (from 51 states in 1945 to 122 in 1966), funding rules became more flexible rather than less. The same trend is true for the larger set of 26 cases. With regard to uncertainty about preferences and about the state of the world, the evidence is also inconsistent with RD expectations. Although uncertainty about preferences provides a clear logic that states could follow in designing flexibility, the case study makes clear that states also incorporate flexibility when they are *certain* of others preferences. Indeed, in UN economic development institutions flexibility was incorporated in response to known disagreements. In general, states tended to be reactive rather than proactive in institutional design, changing rules after problems emerged rather than attempting to anticipate challenges in initial designs. For example, from the RD perspective states *should* have been uncertain about both the state of the world and others' preferences at the outset of the UN and thus avoided mandatory funding rules in its initial design. Instead, they behaved *as if* they were

⁹⁶ UN Yearbook 1972, 268.

⁹⁷ UNAIDS 1995.

certain. Given that RD conjectures did not aim to explain funding rules specifically, not too much should be inferred from this analysis. Nevertheless, it does suggest there are limits to the types of flexibility explained by the RD conjectures.

Conclusion: Summary, Contributions, and Future Research

This paper has introduced funding rules to the IR literature as a consequential, yet often overlooked feature in the design of international organizations. It offers a framework for understanding the design and change of funding rules that centers on member state preferences over the size and substance of IO activity. When member state preferences are homogenous, mandatory rules that involve rigid financial obligations are acceptable to member states. However, when preferences diverge, states have incentives to design more flexible, voluntary rules to protect against undesirable commitments. When disagreements are confined to issues of budget size and burden sharing, states are most likely to select unrestricted voluntary rules, which allow states to contribute funds at a level they see fit, while authority over how to distribute funds is left to IO governing bodies. When preferences diverge over the political and policy substance of IO activity, states are most likely to insist on restricted voluntary rules, which allow donors to place conditions on how their contributions are used, thus enabling them to avoid funding activities they oppose and to promote those they favor.

An analysis of UN economic development institutions finds support for expectations associated with the theoretical framework with regard to both process and outcomes. With regard to outcomes, unrestricted voluntary rules are selected for both EPTA and the Special Fund after disagreements over rising costs lead to dissatisfaction with the practice of funding economic development under mandatory rules that govern the UN Regular Budget. Restricted voluntary rules at UNDP are introduced following disagreements over the substance of IO activity,

specifically, with regard to the role of industrial development. With regard to process, debates over the size and substance of IO activity are central to negotiations over institutional design, with some states noting how their preferences over size and scope influence preferences over funding rules. States that hold expansionary preferences have been responsible for the introduction of more flexible rules, which allowed them to expand economic development activity despite opposition by other member states. Finally, new rules were layered alongside original rules in all cases of funding rule change. Rule replacement did not appear in the economic development institutions or in any other UN institutions.

The paper makes a number of contributions. First, it brings attention to an overlooked feature of international organizations and in doing so expands the institutional design literature in IR to include a new element of IO design. As other design components have previously, as a dependent variable, funding rules can be used to test competing theories of design. Second, it offers a novel explanation that demonstrates the importance of preferences over the size and substance of IO activity—not previously highlighted by the design literature—as an important independent variable in explaining funding rule design and change. It is plausible that these preferences have implications for other components of design as well, particularly those associated with flexibility. Third, from an empirical standpoint, the case studies provide analysis of causal process observations that are often not present in testing theories of design. In addition, the data on funding rule change across 26 UN cases demonstrate the extent of this shift throughout the UN System over time.

The financing of international institutions offers a research program ripe for research and opportunities to further explore the causes and consequences of funding rule design are plentiful. First, the UN data provided in the paper can be expanded by future research to include a wider

range of international organizations. Data collection can enable large-N analysis of competing theories of design and also comparative studies between institutions within and outside the UN System. Comparisons between UN institutions and the Bretton Woods institutions (where weighted voting rules allow donors to translate contributions into influence) and between global and regional IOs would be especially apt. Second, the role of IO staff in the design of funding rules should be considered.⁹⁸ IO staff have been shown to play important roles in the institutional design process. In the UNDP case, the ruling of the UN Office of Legal Affairs played a role in the process through which rule change occurred. IO staff likely have their own preference for funding rules and these may sometimes be distinct from those of member states. Future work should consider the role of IO staff in design and in influencing the funding patterns that follow.

Future work can also consider funding rules as an independent variable of interest. For example, does the introduction of more flexible funding rules increase funding for IOs? Do more flexible rules enable donors to exert greater influence over IO programming? Who makes use of more flexible rules once they are in place? Although the analysis demonstrates that flexible rules were introduced by states with progressive, expansionary preferences toward the UN, once flexible rules are on the books they can be used by any donor. Introduced by the Netherlands in the 1966, in the early 1980s the United States altered its UN funding strategy and started regularly placing conditions on its contributions in attempts to *constrain* UN activity in various ways. The long-term effects of funding rule change may be distinct from those intended at the time of introduction. In a global governance landscape in which non-state actors clamor and compete for increased resources, understanding the effects of funding rules is a timely and policy relevant issue.

⁹⁸ Johnson 2013; Johnson and Urpelainen 2014.

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Table 1. Preferences and Funding Rule Selection

	Preferences over substance	Preferences over size	Funding Rule
H1a	Homogeneous	Homogenous	Mandatory
H1b	Homogenous	Heterogeneous	Unrestricted voluntary
H1c	Heterogeneous	Homogenous or heterogeneous	Restricted voluntary

Table 2. Rule change expectations in a context of divergent preferences

Rule change in a context of divergent preferences			
	Preferences of dissatisfied states	Rules selected at T1	Rule change
H2a	Status quo	Mandatory	None
		Unrestricted voluntary	None
H2b	Expansionary	Mandatory	Unrestricted voluntary
		Unrestricted voluntary	Restricted voluntary

Table 3. Observable implications for causal process

<i>Divergent preferences hypothesis (H1)</i>	
	Are discussions about policy substance and financial size and burden sharing present in negotiations?
	Do actors indicate that funding rule design is influenced by disagreement (or agreement) over the size and substance of IO activity?
	Do member states select outcomes expected in H1a-H1c?
<i>Expansionary preferences hypothesis (H2)</i>	
	Do preference configurations change after the institution is created?
	Do disagreements over size and substance produce actors dissatisfied with rigid funding rules?
	Do the actors pursuing more flexible rules hold expansionary preferences?
	Does rule change take the form of layering rather than replacement?

Figure 1. United Nations Funding Rules Over time

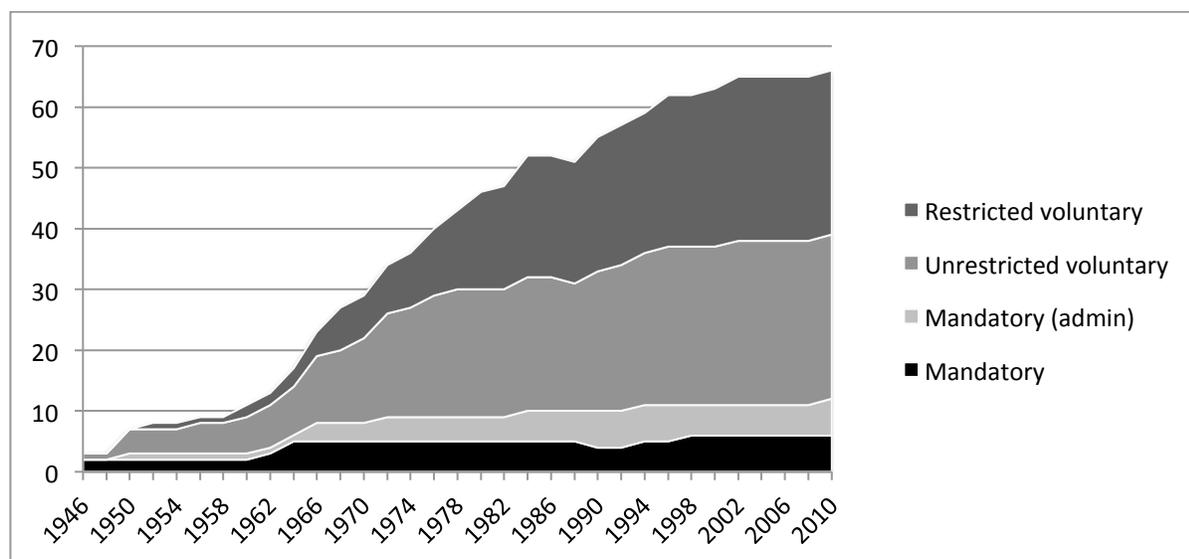


Table 4. Type of rule change at UN institutions

	No Change	Rules added: more flexible	Rules added: less flexible	Rules replaced
Number (%) of UN institutions	6/26 (23%)	19/26 (73%)	1/26 (4%)	0/26 (0%)

Figure 2. Timeline of Funding Rules for UNDP and its Predecessors

