Article

EJIR

European Journal of International Relations
1–26

DOI: 10.1177/1354066116648755
ejt.sagepub.com
SAGE

The institutional design of funding rules at international organizations: Explaining the transformation in financing the United Nations

Erin R. Graham
Drexel University, USA

Abstract

What explains the design and development of funding rules at international organizations? I investigate this question in the context of the United Nations system, which has undergone a dramatic shift in financing. Long associated with mandatory contributions, the United Nations increasingly relies on voluntary resources earmarked by individual donors. Previous studies have investigated the financing puzzle from a behavioral perspective and have found that wealthy donors use voluntary funding to rein in costs and constrain international organization programs. Providing an alternative theoretical approach, I investigate the financing puzzle from an institutional design perspective. I provide original United Nations funding rule data to demonstrate that it is not only funding practices, but also underlying funding rules, that have changed over time. I theorize how states with favorable views of the United Nations that sought to expand its activities — rather than those that desired to constrain it — had incentives to introduce funding rules that offered more flexibility and control to donors. I test the argument with a longitudinal case study of funding rule design and change at United Nations economic development institutions. The article expands the institutional design literature by integrating funding rules as a consequential design component and provides a novel explanation for changes in United Nations financing.

Keywords

Global governance, institutional design, intergovernmental organization, international institutions, International Relations, United Nations

Corresponding author:
Erin R. Graham, Department of Politics, Drexel University, 3250 Chestnut Street, Suite 3025, Philadelphia, PA 19104, USA.
Email: erin.r.graham@drexel.edu

Introduction

When states provide financial support to contemporary international organizations (IOs) they enjoy a diverse range of funding options. Although many IOs continue to receive mandatory contributions that are provided as an obligation of membership, most also accept voluntary funds to fill their coffers. Donors may further choose to attach conditions to the voluntary contributions they provide by stipulating a country- or project-specific use. Growth in the prevalence of this latter type of funding, dubbed *restricted voluntary resources*, has caused alarm at a diverse range of prominent IOs, including the World Health Organization (WHO), International Atomic Energy Agency, the World Bank, and the Organization of American States (Boureston and Semmel, 2010; Meyer, 2014; WHO, 2011). However, nowhere is the trend more clear, nor has it produced more debate, than at the United Nations (UN), where state funding practices have undergone a quiet transformation. The UN still receives mandatory contributions from member states, but by 1950, voluntary contributions provided an important supplement to UN programs that increased throughout the 20th century. Voluntary funding then underwent a sea-change in the 1990s, when restricted voluntary resources rose sharply, increasing by 208% between 1994 and 2009.[1] By 2012, fully 73% of contributions received by UN development institutions came in the form of restricted voluntary resources (OECD, 2014: 23).

Observers disagree about the wisdom of the shift, but all agree that its implications are important and widespread. Reliance on restricted contributions alters IO governance because member state governing bodies do not exercise direct control over those funds (Graham, 2015). Governing bodies effectively cede control over the distribution of resources to individual donors, who contract directly with IO staff. This means that in 2012, multilateral governing bodies exercised direct control over just 27% of contributions made to UN development institutions. Although the ability to earmark contributions is likely to increase donors' willingness to contribute, the practice also poses a number of challenges to IO performance. Restricted contributions are volatile relative to other types of funding, which can inhibit long-term planning, and IO staff must expend energy and resources to service a plethora of donor-specific contracts.

Variation in state funding practices has provoked inquiry from International Relations (IR) scholars (e.g. Eichenauer and Hug, 2014; Reinsberg et al., 2015). One prominent set of explanations emphasizes powerful states and their desire to assert control over IO operations and rein in costs. For example, Alger (1973: 13) convincingly argues that the US reoriented its funding strategy at the UN to increase voluntary contributions while pursuing reductions in its mandatory obligations in order to reassert control over UN activities and slow budget growth. Recent work echoes this argument. Individual donors avoid losses in control that are traditionally associated with multilateral aid by dictating how their contributions are used (Graham, 2015). For example, Sridhar and Woods (2013: 2) argue that by placing restrictions on their voluntary contributions, "wealthy governments might be using their 'gifts' to multilateral organizations to further more purely bilateral initiatives." Such arguments emphasize the importance of powerful, wealthy states in explaining the shift to funding methods that offer greater control to donors, and emphasize their desire to exert influence and limit rising costs.

These arguments are effective in explaining donor funding choices *given a set of institutional rules*. However, they provide only a partial explanation of the financial transformation at the UN, where the design and alteration of institutional rules enabled changes in funding practices. I provide original funding rule data for UN institutions that report to the General Assembly.[2] This includes 26 contemporary institutions, including programs, like the UN Development Program (UNDP) and other entities like the High Commissioner for Refugees (UNHCR). The data demonstrate that it is not only funding practices, but also the *rules* that enable or prohibit different practices, that changed over time. The UN Charter, which outlined a mandatory funding system, did not contemplate voluntary funding mechanisms, and funding rules that governed early UN development programs explicitly prohibited individual donors from restricting how their contributions were used. Changes to these rules enabled later shifts in donor funding practices. Further, the timing of rule changes suggests that powerful states desiring to rein in UN activity were not the primary drivers. Indeed, the US did not begin placing restrictions on its voluntary contributions to UN programs until the 1980s (US Congress, 1983: 56). Yet, rules to allow donor restrictions at prominent UN institutions like the UNDP were implemented years before, in the 1960s. What explains the design and change in UN funding rules?

This article investigates the UN financing puzzle through the lens of institutional design. I argue that states with a pro-UN orientation that sought to expand UN activity, rather than powerful states that sought to constrain the UN, provided the impetus for funding rule change, which enabled the transformation in financing. To begin, I situate funding rules in the design literature and outline how they influence two dimensions of institutional design: *flexibility* and *control* (Koremenos et al., 2001a). Mandatory funding rules involve a rigid commitment that obligates states to provide financial support regardless of whether state interests coincide with those pursued by the IO. By contrast, voluntary rules provide an insurance policy by allowing states the flexibility to opt out when their interests conflict with the provision of funds. Different funding rules afford donors different levels of control over how and for what purpose their contributions are used, with voluntary rules that allow restrictions offering the most control to donors.

I offer a theoretical framework to explain funding rule design and change that focuses on state preferences over the *costs* and *content* of IO activities. *Costs* captures preferences over budget size and burden sharing, and *content* refers to the policy content of IO programs. When member state preferences over costs and content are homogeneous, the rigid commitment inherent in mandatory funding rules carries little risk; funding obligations determined by governing bodies are unlikely to contradict state interests. However, when state preferences diverge, this is not the case. When states hold divergent preferences, rigid commitments may obligate members to provide financial support at levels they find excessive or for activities they disapprove of. This provides states with incentives to design rules that allow more flexible commitments and greater control over the financial support they provide.

Proposals to expand IO activity to include new policy areas or increased costs carry the potential to divide a membership that previously enjoyed consensus. When disagreements emerge over expansion, flexible funding rules that offer greater donor control offer supporters of the expansion the ability to pursue the broader IO agenda they prefer without provoking opposition from member states that hold more conservative preferences. In the UN case, this yields an interesting implication: funding rules designed to enable expansions in UN programming were later used by states dissatisfied with UN performance to rein in costs and exert influence over the content of UN activity.

From the theoretical framework, I derive hypotheses on design and change, and develop observable implications for funding rule outcomes and the design process. I test the hypotheses using a longitudinal case of UN institutions for economic development that includes three outcome observations across UN development institutions: the regular program for technical assistance (1947), the Expanded Program of Technical Assistance (EPTA) (1949), and the UNDP (1966). The research recovers state preferences regarding the costs and content of IO activity from archival documents that recount debates in multiple UN venues in the years prior to rule selection. I supplement the detailed case with original UN funding rule data. The data provide a broader picture of funding rule change at the UN, demonstrate the generalizability of the case study to the UN system, and provide material to test selected observable implications.

The empirical analysis provides substantial support for the theory. Initial funding rule design depends on member state preferences over the costs and content of UN activity when development institutions are established. Subsequent funding rule change emerges first in response to disagreements over the acceptability of rising costs, and later in response to divides over political content in UN programming, specifically over the role of industrial development activities at the UNDP. In each instance, rules that offered greater donor control and increased flexibility in commitments were pursued by states with a pro-UN orientation that wanted to expand activity. Only much later did the US and other donors utilize restricted voluntary rules as part of a strategy to constrain UN activity.

The article makes three important contributions. First, it provides a novel argument to explain why and how the transformation in UN financing occurred. The argument reveals the surprising role played by states with a pro-UN orientation in facilitating rule change that enabled changes in donor funding patterns. Second, the study sheds new light on the importance of funding rules and incorporates these rules into the institutional design literature in IR. In doing so, it expands the scope of the literature to include a consequential design feature that has previously escaped scrutiny, and contributes to a burgeoning literature on the role of flexibility in international agreements. Third, the theory and subsequent empirical analysis responds to a critique that adequate attention has not been paid to state preferences in explaining institutional design. The UN case demonstrates the importance of state preference configurations in explaining initial funding rule design and subsequent developments.

The article proceeds by introducing funding rules as a component of institutional design and the dependent variable of interest. The next section develops the theoretical framework and derives hypotheses. The third section discusses case selection and data collection, and describes how state preferences are identified. Two empirical sections follow. The first presents the broad picture of funding rule change at the UN. The second tests the theory using a detailed longitudinal case of UN economic development institutions and assesses alternative explanations. A final section considers implications and future research.

Funding rules in institutional design

IR scholarship has sought to explain variation in institutional design, asking the question: "Why do international institutions have the features they do?" As scholarship progresses, some components of design, for example, escape clauses, finite duration provisions, and arbitration mechanisms, receive considerable attention (Koremenos, 2005; Mattli, 2001; Pelc, 2009; Rosendorff and Milner, 2001); others remain unexamined. Although studies investigate compliance with mandatory funding rules (Taylor, 1991) and seek to explain variation in donor funding choices (Reinsberg et al., 2015) or the levels of support provided by a specific donor (Broz, 2008), the question of funding rule design has been left unexplored. Funding rules that govern member states' financial commitments to IOs are among the most consequential elements of institutional design. Funding rules establish whether states are legally obligated to provide financial support to an IO, and allocate burden sharing across members. They specify whether donors can dictate the terms of their 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 intergovernmental bodies to set organizational priorities, the ability of donors to translate financial contributions into influence, the predictability of funding for projects and programs, and the ability of IO staff to engage in long-term planning and to perform efficiently. This section introduces three types of funding rules: mandatory, unrestricted voluntary, and restricted voluntary. Each rule outlines a different relationship between a donor and the IO and has implications for important dimensions of design, including the flexibility of arrangements and rules for controlling the institution.

Mandatory funding rules

Broadly speaking, funding rules fall into two categories: mandatory and voluntary. Mandatory rules require financial contributions from states as an obligation of membership. Their chief advantages include protection against free-riding and producing reliable resource flows that facilitate long-term planning. The UN Charter outlines mandatory funding rules, stating: "The expenses of the Organization shall be borne by the Members as apportioned by the General Assembly." The General Assembly, which operates using a one-country, one-vote rule, approves the regular budget[3] and apportions dues across member states. As a result, the regular budget is controlled by the collective decisions of the General Assembly. By contrast, the control exercised by individual members is limited and even powerful states face obstacles when attempting to translate financial contributions into influence.

The rigid commitment inherent in mandatory rules also limits member states' flexibility to protect against undesirable commitments. Flexibility mechanisms allow members to respond to shocks or domestic interests without violating their legal obligations (Koremenos et al., 2001a: 773). Under mandatory rules, the payment of dues is compulsory even if the state finds their share excessive or is dissatisfied with the institution. When state interests pull against compliance, they are forced to choose between compliance that contradicts self-interest and a breach of legal obligation. States may violate their commitment by withholding dues, but they do so at a cost. Standard penalties include the forfeit of voting rights, and states can also incur reputation costs and inflict financial damage on institutions that they otherwise value (Guzman, 2002). As a result, states tend to withhold mandatory dues only when other methods to address their grievances have failed.[4]

Voluntary funding rules

Voluntary funding rules mitigate the monetary commitment between an institution and its member states (Graham, 2015). Relative to mandatory rules, they grant greater control and flexibility to donors. Rather than bind members to funding levels set by governing bodies, voluntary rules allow each donor to control whether and how much they contribute. In addition, should a member state hold interests that conflict with the institution, they have the flexibility to not contribute while remaining in good legal standing with the IO. Two types of voluntary rules — unrestricted and restricted — offer different levels of control and flexibility. *Unrestricted* voluntary rules remove the obligation to contribute; however, donors cannot place restrictions on how their contributions are used. All unrestricted funds are pooled and governing bodies retain control over distribution. The funding rules governing the United Nations Environment Programme (UNEP) Environment Fund provide an example. Contributions to the Fund are voluntary; however, "Pledges made to the Environment Fund cannot be earmarked by the country making the pledge.… Allowing the earmarking of pledges would erode the authority of the Governing Council to decide on the structure and composition of the work program" (UNEP, 1999).

Restricted voluntary rules further shift the balance of control over budgetary matters from the governing body to individual donors (Graham, 2015), and offer greater flexibility by allowing donors to restrict (i.e. earmark) how their contributions are used. Importantly, restricted voluntary rules provide donors with the discretion to disregard budgetary priorities set by intergovernmental bodies in order to avoid programs they find undesirable and instead fund and create programs that align with their interests. For example, in 1974, member states voted to allow the United Nations Fund for Population Activities (UNFPA) to accept "the limited number of governmental contributions it is currently receiving limited by their donors to certain specific purposes."[5] Similarly, the United Nations International Children's Emergency Fund's (UNICEF's) executive board passed a resolution in 1964 allowing UNICEF to accept "funds-in-trust from Governments and of contributions from private sources for specific projects" (*UN Yearbook*, 1963: 373). Both provide instances of governing bodies altering rules that previously prohibited donor restrictions. The following section offers a theoretical framework to explain variation in funding rule design across institutions, and within individual institutions over time.

Explaining the design and development of funding rules

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 (Moravcsik, 1997, 2000). They also figure prominently in the IO delegation literature. The relative heterogeneity of state preferences influences whether states delegate, as well as the degree of discretion enjoyed by IO agents (Copelovitch, 2010; Nielson and Tierney, 2003). However, in explanations of institutional design, preferences have lingered in the background. The Rational Design (RD) approach assumes that state preferences can be derived from the underlying cooperation problem they face, for example, with regard to distribution or enforcement (Koremenos et al., 2001b: 1072). While this serves as a useful starting point, the approach is criticized for ignoring variation in preferences over design outcomes that appear independent of the cooperation problem states face (Duffield, 2003; Thompson, 2010). Recent work indicates that other factors, including identity and regime type, affect design outcomes (Rathbun, 2011; Tallberg et al., 2016). Complementing this research, I theorize how state preferences over the *content* and *costs* of IO activity are central to explaining funding rule design and change.

Debates over the *content* of IO activity have long been at the center of IO politics. Although debates over policy content often engage normative issues, they ultimately trickle down to the practical question of which programs receive funding. For example, the WHO has endured a long-standing disagreement between states that hold conservative preferences over the content of WHO activity, arguing that the institution should limit its role to coordination and norm diffusion, and states with progressive preferences that wish to supplement the coordination role with a robust operational mandate (Litsios, 2002). Divergent preferences are anchored in distinct political ideologies and differing expectations regarding policy effectiveness. However, in practice, divergent preferences translate into disagreement about whether the WHO budget should prioritize vertical, disease-specific interventions, or prioritize building local capacity in developing states (Litsios, 2002). A wide range of actors and interests can influence state preferences over the content of IO programs. For example, non-governmental organizations (NGOs) and other civil society groups often lobby domestic legislatures for or against UN programs. Economic status also influences preferences over IO policy content, particularly with regard to development activities. For example, many industrialized member states at the Global Environment Facility (GEF) hold conservative preferences over policy content, seeking to limit GEF projects to those that provide global benefits. By contrast, developing states hold progressive preferences, seeking to expand GEF-eligible projects to include those that produce local benefits that accrue primarily to recipients.

States may also hold progressive or conservative preferences with regard to costs. Preferences over the *costs* of IO activity refer to the absolute costs associated with the budget and relative costs across members (i.e. who pays what). Although states may support the content of IO programs in spirit, views may differ over what constitutes adequate funds for those programs, or how much they should pay relative to others. In some instances, preferences over costs follow anticipated distributional benefits, but this is not always the case. For example, Scandinavian states regularly provide support to IOs at high levels relative to other donors despite limited material benefits. It is worth noting that preferences over content and costs are not independent. Indeed, states opposed to some subset of IO policy content are more likely to view the budget as excessive. Yet, conceptually, the two are distinct and affect whether states have incentives to design restricted or unrestricted voluntary rules.

Table 1. Preferences and funding rule design.

	Preferences over IO policy content	Preferences over financial costs	Funding rule design
H1a	Convergent	Convergent	Mandatory
H1b	Convergent	Divergent	Unrestricted voluntary
H1c	Divergent	Convergent or divergent	Restricted voluntary

When state preferences converge — that is, when there is consensus on the costs and content of IO activity — rigid funding rules pose little risk to the states involved. Agreement means that governing bodies are unlikely to approve budgets that result in funding commitments that individual states oppose. As a result, states should not require flexibility to avoid legal commitments because they will perceive those commitments as consistent with their interests. By contrast, when states disagree over the costs or policy content of IO activity, the exercise of control by governing bodies is more likely to result in undesirable commitments for some member states. Divergence may be widespread, but even small pockets of resistance from states concerned about costs are likely sufficient to derail the selection of rigid funding rules. When preferences diverge, states are more likely to design voluntary rules that allow them to retain control over contributions and the flexibility to avoid undesirable obligations. This logic is reflected in the *divergent preferences hypothesis*:[6]

> *Divergent preferences hypothesis (H1)*: When states hold divergent preferences over the costs and content of IO activity, member states will design voluntary funding rules that provide flexibility to donors.

Specific expectations about dependent variable outcomes are summarized in Table 1. First, when preferences over costs *and* content converge, mandatory rules are the most likely choice. Second, when preferences over policy content are convergent, but disagreements exist over costs, states are most likely to select *unrestricted* voluntary rules. This allows states the flexibility to avoid financial commitments they perceive as excessive, but allows the governing body to retain control over how contributions are used. Third, when preferences over policy content diverge, states are likely to select *restricted* voluntary rules. Restricted rules avoid the financial rigidity of mandatory rules, as well as the substantive rigidity of unrestricted voluntary rules by allowing donors to earmark contributions.

Explaining funding rule change

This section tackles the question of why funding rules have developed over time toward greater flexibility and control. I locate the source of change in policy proposals that promise to expand the costs and content of IO activity. Although exceptions exist, the mandates and activities of IOs tend to expand over time (Barnett and Finnemore, 2004: 15, 71, 158). Proposals to expand activity may come from IO staff with incentives to define problems in ways that favor budget increases and involvement in new issue areas (Barnett and Finnemore, 2004: 43). Alternatively, proposals may come from the potential beneficiaries of new or expanded programs, which are typically non-contributing developing states. This can include states that were party to the original institutional bargain, but also new members that accede to IOs at a later date. Proposals to expand activity are important because they typically have implications for financial costs, policy content, or both.

When the proposed policy content of IO activities and associated costs changes, states will consider their preferences in light of the proposed change. When this occurs, three outcomes are possible. First, state preferences may remain homogeneous in light of expansion proposals. When this happens, that is, when member states converge around a position that accepts or rejects the expansion of IO activity, no funding rule change will occur. Rather, member states should remain satisfied with the rigid funding rules already in place, which will continue to govern states' financial commitments.

By contrast, in the second and third outcomes, state preferences diverge, leaving some states dissatisfied with rigid funding rules. In the second scenario, a new proposal produces a governing majority with *progressive preferences* but a minority group with conservative preferences that opposes the costs or policy content involved in the proposal.[7] States with conservative preferences will be dissatisfied with rigid rules that obligate them to provide financial support at levels they view as excessive or for activities that they do not approve of. In the 1970s, the US Congress expressed dissatisfaction with mandatory rules on both grounds as proposals to increase the UN budget were consistently supported by large majorities in the General Assembly. The source of dissatisfaction is consistent with the logic of arguments that explain change in donor funding *practices* noted earlier. If rules that offer greater donor control and flexibility are available — as they were to the US Congress in the 1980s — then they can alter funding behavior easily, for example, by providing a greater proportion of contributions with restrictions attached. However, the ability of dissatisfied states that hold the minority position to alter funding *rules* is far more difficult. Most UN institutions require a two-thirds majority to implement new funding rules or alter old ones. In addition, rules typically produce beneficiaries with a stake in rule persistence. Net recipients of IO funding will be reluctant to terminate or limit the reach of mandatory funding rules for fear of losing aid. Although dissatisfied states might favor the replacement of mandatory rules with voluntary ones,[8] finding broad support is unlikely. Indeed, if dissatisfied states could muster such support, they would be able to prevent undesirable content and rising costs. For these reasons, states dissatisfied with rising costs and policy content are unlikely to provide the impetus for rule change toward greater flexibility and control.

Finally, a third possible outcome provides the most likely path for funding rule change. A new proposal produces disagreement between states. However, in this case, states with conservative preferences fill the governing coalition and effectively block the inclusion of new activities and costs under rigid funding rules. States with progressive preferences over the costs and content of IO activity hold the minority position. These states are dissatisfied because the governing coalition blocks the inclusion of policy content and costs that they view as desirable. Under these conditions, dissatisfied states with progressive preferences have incentives to introduce more flexible funding rules that offer greater donor control to *supplement* the more rigid rules already in place. These rules have the advantage of being palatable to states that are agnostic about the policy content of IO activity but oppose additional financial obligations. They may also appeal to states with more conservative preferences that are eager to shift the conversation away from expanding commitments under mandatory rules. In essence, voluntary rules allow dissatisfied states with progressive preferences to appeal to and appease a greater number of actors by removing the financial obligation associated with expanding IO activity. This logic leads to a hypothesis regarding institutional change:

> *Progressive preferences hypothesis (H2)*: States that hold progressive preferences over the costs and content of IO activity will provide the impetus for the introduction of funding rules that offer greater flexibility and control to donors.

In contrast to arguments that seek to explain funding *practices*, H2 expects that states with progressive preferences that wish to expand IO activity, rather than those with conservative preferences that wish to constrain it, will provide the impetus for *rule* change toward greater donor control and flexibility.

Causal process expectations

Evaluation of expected outcomes has been the primary method used to assess theories of institutional design in IR. However, these theories also speak to the *process* of institutional design and change by proposing distinct mechanisms that link the independent and dependent variables (Thompson, 2010). For example, H1 expects that: (1) matters of policy content and questions of costs and burden sharing are present in negotiations over institutional design; and (2) member states select funding rules based on known disagreements (or their absence) over the costs and content of IO activity. Developing theoretically informed observable implications with regard to "context, process, or mechanism" complements the outcome-focused approach (Seawright and Collier, 2004: 277). 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 independent and dependent variables as proposed, or, conversely, an "airtight alibi" that provides strong evidence against the theory (Collier et al., 2004: 252ff; Mahoney and Thelen, 2010: 124).

The observable implications of H1 and H2 with regard to the causal process are summarized in Table 2. Both hypotheses require that discussion and debate about IO policy content and costs are present in design negotiations and central to discussions of funding rule design. In addition to the expected outcomes outlined in H1a–H1c, member states should indicate that their preferences regarding IO activity influenced funding rule selection. H2 is premised on the logic that when state preferences diverge, it causes actors to be dissatisfied with the rigidity of the funding rules in place. Further, and critically, H2 expects that actors with progressive preferences will pursue the introduction of rules offering greater flexibility and control. Actors with progressive preferences should voice support for the expansion of the institution's activity and, when relevant, indicate that they will provide financial support. Finally, a specific path of change follows from H2 in

Table 2. Observable implications for the causal process.

Divergent preferences hypothesis (H1)	
	Are discussions about policy content, budget 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 the outcomes expected in H1a–H1c?
Progressive preferences hypothesis (H2)	
	Do preference configurations change after the institution is created?
	Do disagreements over costs and content produce actors dissatisfied with rigid funding rules?
	Do the actors pursuing more flexible rules hold progressive preferences?
	Does rule change take the form of layering rather than replacement?

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 (Mahoney and Thelen, 2010; Hanrieder, 2014). As actors that pursue flexible rules that offer donors greater control want to expand IO activity rather than constrain it, they have no interest in replacing the rigid rules already in place. Indeed, they support those rules fully.

Case selection and research design

The empirical section tests 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 three outcome observations of funding rule design and change. This includes the original, "regular" technical assistance program introduced under mandatory funding rules (1947), the expansion of that program under unrestricted voluntary rules into EPTA (1949), and the introduction of restricted voluntary rules at the UNDP in 1966.

The longitudinal case holds a number of advantages. First, it offers two types of variation on the primary explanatory variable. As UN membership grew and decolonization progressed, UN demographics shifted. New states brought new demands for economic assistance and increased the prevalence of divergent preferences in governing bodies. Second, the groups of states holding progressive and conservative preferences also vary over time, allowing for a test of process expectations regarding which actors pursue institutional change. The longitudinal case holds important, and potentially confounding, variables constant (George and Bennett, 2004). Although the issue area of economic development broadens over time, its primary aim of improving the economic outlook of developing states endures. In addition, the main governing bodies involved, including the General Assembly, and the Economic and Social Council (ECOSOC), and governing councils for EPTA and the UNDP, share voting rules, eliminating the possibility that variation in voting rules explains variation in funding rule design. Third, as the first empirical section demonstrates, the case of the UNDP and its predecessors in technical assistance are representative of a common path of change among UN institutions, increasing the likelihood that findings can be generalized across cases within the UN system. Finally, the selected cases are relevant in terms of financial size. Today, the UNDP is the second largest UN agency recipient of restricted voluntary contributions (USD1.8 billion in 2008) and is at the center of recent debate on the consequences of increased reliance on earmarked financial contributions (ECOSOC, 2011; OECD, 2011).

The case study design is appropriate given that the theory requires identifying the complex preferences of specific actors (Johnson and Urpelainen, 2014: 25–26). I rely on primary source documents to recover state preferences over the costs and policy content of IO activity using statements made during debate and discussion in UN forums. The main source is the *Yearbook of the United Nations*, which serves as the authoritative reference work on the UN system. The *Yearbook* records debate and decisions made across UN institutions from 1946 to the present day. State preferences can be identified over a series of years and across multiple UN venues. For example, one can read debate that occurred at the World Food Program (WFP), and also identify positions voiced about the WFP in other venues, like 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 and change. By contrast, votes on these issues sometimes prove misleading by masking disagreements that influence design. For example, the USSR voted in favor of creating EPTA (*UN Yearbook*, 1948–1949: 452), which might lead one to infer that they held progressive preferences regarding development assistance. However, the USSR was actually an opponent, and rules were designed in part to accommodate its opposition. The *Yearbook* is complemented by other primary sources, including General Assembly and ECOSOC resolutions, UNDP Governing Council documents, and the *United Nations Juridical Yearbook*. Relevant secondary literature is also consulted.

Dependent variable values (i.e. mandatory, and unrestricted and restricted voluntary) are also identified using these primary documents. Funding rule type was identified for 26 UN institutions to provide a broader picture of funding rule change at the UN. Dependent variable values for each institution are identified when each institution is established and during intervening years in order to identify any changes that occur. Funding rules were coded using the following guidelines: rules are coded "mandatory" if documents indicate an obligation to provide funds; often, this is accomplished by indicating that a program receives funds from the UN regular budget. Mandatory rules that cover only administrative costs are coded as such. For example, at UN-WOMEN, "resources required to service the normative and intergovernmental processes shall be funded from the regular budget."[9] Rules are coded as "unrestricted voluntary" if descriptions indicate that contributions are voluntary but prohibit donor restrictions. Finally, restricted voluntary rules indicate that the donor can specify how contributed funds are used.[10]

Funding rule data demonstrate the breadth of the shift across the UN and also indicate what the longitudinal study "is a case of." The broader picture is also useful in probing two observable implications. First, increased membership size is often 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)” (Koremenos et al., 2001a: 785). 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 takes the form of layering rather than replacement. The following section provides an overview of funding rule design and change at the UN before delving into the case study of economic development institutions.

An overview of UN funding rules

The UN Charter outlined a system of financing based on shared responsibility through *mandatory assessments*. States pay assessments (i.e. dues) as a legal obligation of membership. The capacity-to-pay formula allocates assessments and is modified by a ceiling and a floor on the proportion that any one state can contribute to guard against both undue influence and free-riding.[11] Throughout the period under consideration, 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 programs. Figure 1 provides original data that demonstrate how the funding rules at 26 contemporary UN programs, funds, and research institutes have evolved over time. The data take into account the existence of predecessor programs when identifying funding rules. For example, the UNDP was established as a formal merger between two predecessor programs, EPTA and the Special Fund. The funding rules of these programs are included in the UNDP case to establish how its rules evolved over time.[12] The data show that most contemporary UN institutions use multiple funding rules. Twelve institutions employ mandatory rules, but only six of those cover activities beyond administrative costs. Unrestricted and restricted voluntary rules are each employed in 24 cases. Figure 1 demonstrates that the inclusion of voluntary rules increased in prevalence over time, while the inclusion of mandatory rules was less frequent. Both voluntary rule types were introduced 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 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.

The number of funding rules increases over time because new institutions are established and because existing institutions add new rules. Table 3 summarizes the type of rule change. Funding rule change occurred in 20 of the 26 cases. For example, the UN High Commissioner for Refugees was established in 1950 with mandatory rules to cover administrative costs and unrestricted voluntary rules to cover operational activities. Rule change occurred in 1959 when restricted voluntary rules were introduced. Consistent

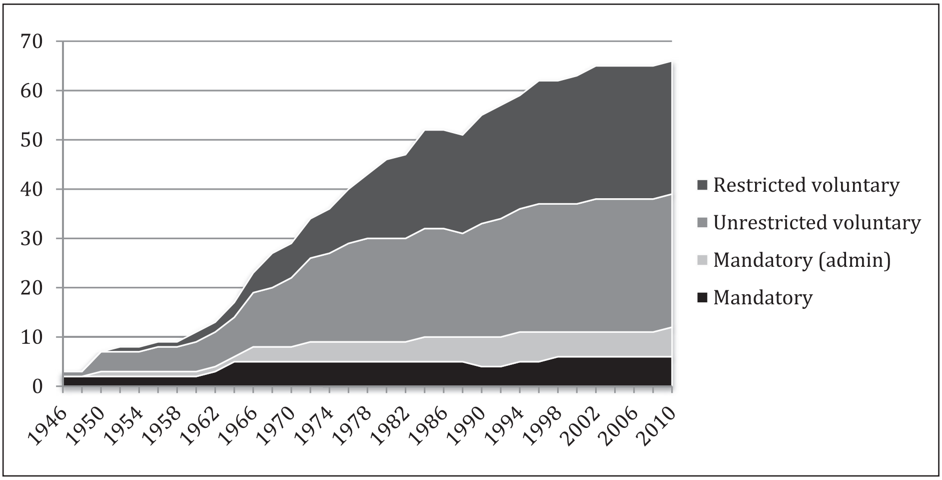

Figure 1. Funding rules employed at UN institutions, 1946–2010.

Table 3. 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%)

with the causal process expectation of H2, in all 20 cases of rule change, new rules supplemented, rather than replaced, original rules. In 19 of the 20 cases, the added rules offered greater flexibility and control to donors. In only one case (UNWOMEN) were more rigid rules introduced over time.

Funding rules at UN institutions for economic development

UN development aid initially took the form of technical assistance. States made requests to the UN to provide technical experts in fields where domestic expertise was lacking. Funding to meet these requests was first incorporated under mandatory funding rules already governing the UN regular budget in 1947. UN technical assistance then expanded outside the regular budget, using unrestricted voluntary rules, with the creation of EPTA in 1949. The adoption of restricted voluntary funding rules followed when EPTA and a second UN aid program, the Special Fund, merged to become the UNDP in 1966.

The regular technical assistance program

Mandatory funding rules were in place at the UN when the topic of financing economic development was broached during the first sessions of the General Assembly and ECOSOC. That states initially designed the UN with mandatory funding rules may appear puzzling.

Rational design conjectures expect that states uncertain about the state of the world and other states' preferences should design flexible arrangements to protect against undesirable outcomes (Koremenos et al., 2001a: 793). In retrospect, more flexible funding rules would have better served the interests of powerful states that later came to regret mandatory obligations. However, it is important to note that although ambitious goals and rhetoric surrounded the negotiations that culminated in the UN's founding, the projected costs and policy role anticipated for bureaucracy and staff was limited. The UN was to serve as a continuously operating center for diplomatic activity and the Secretariat would provide administrative support for international meetings (Claude, 1963: 834). Such a role involved modest costs. The first UN provisional budget amounted to USD21.5 million and covered administrative expenses related to the General Assembly and the costs of its first session, other UN bodies, and salaries for the Secretariat staff (*UN Yearbook*, 1946–1947: 97). Mandatory funding rules did not involve a tremendous financial obligation and member states did not behave as though they worried about future policy differences or rising costs. The design of mandatory rules received scant attention in negotiations relative to controversial matters related to membership and veto power in the Security Council (US Department of State, 1944, 1945). As Russell (1958: 432) notes, mandatory rules were "adopted without argument: that is, an agreed budget would be apportioned among the member states, all of which would have a share in determining both the total budget and the basis of allocation."

It was in this context, with mandatory funding rules already in place, that proposals to expand the role of UN staff beyond the provision of administrative meeting support emerged during the General Assembly's first session. The General Assembly requested that ECOSOC study the question of how to provide "expert advice in the economic, social and cultural fields to Member nations who desire assistance."[13] In a similar vein, resolution A/58/1 requested the UN Secretary-General to consider the role of "social welfare experts" to provide advice at the request of governments, especially those devastated by the war. By 1947, a clear proposal to expand UN activity to provide expert advice on social and economic development emerged and the Secretary-General reported that the Secretariat was equipped to offer such assistance (*UN Yearbook*, 1947–1948).

Following the General Assembly request, a group of states with progressive preferences outlined a modest technical assistance program. The draft resolution offered by Venezuela, along with Chile, Cuba, India, Lebanon, and Peru, asked the Secretary-General to act as a catalyst in providing technical expertise and to "arrange the assignment of teams of experts to requesting countries."[14] In his detailed history of UN development assistance, Bhouraskar (2007: 30) describes member states as having "general agreement on the ideas in the draft resolution." The *UN Yearbook* (1947–1948: 518) characterizes the ECOSOC debate similarly, noting that "all representatives in the Economic and Social Council agreed on the importance of technical assistance." Convergent preferences among member states regarding policy content reflect the politically neutral tone of the proposal. Advice would be provided only at the request of governments, which made meddling unlikely. Demand was clear, and states on both sides of the emerging East–West divide made requests for assistance during 1947, including Albania, Austria, China, Czechoslovakia, Finland, Greece, Italy, Philippines, Poland, Yugoslavia, and Peru (*UN Yearbook*, 1947–1948: 658).

A large majority of states also indicated that the costs involved in the proposed program were acceptable. This included those sponsoring the resolution but also states with significant mandatory funding obligations, including the US, Canada, and Western European states (*UN Yearbook*, 1947–1948: 518; 1948–1949: 440). It is worth noting that the anticipated costs of the proposed program were modest. The Secretary-General expected costs for 1947 to amount to USD14,800 (Bhouraskar, 2007: 30). Despite the limited nature of the proposal, a small minority of member states voiced opposition. The Soviet Union held decidedly conservative preferences regarding rising costs, criticizing "what they considered to be an excessive and ever-expanding budget" (*UN Yearbook*, 1948–1949: 880). Consistent with this general position, the USSR consistently opposed the inclusion of technical assistance in the regular budget (*UN Yearbook*, 1947–1948: 164–165), and argued that technical assistance requests could be dealt with on an ad hoc basis, rather than through the creation of a permanent program (Bhouraskar, 2007: 32). Further indicating that its opposition was driven by costs rather than policy content, the USSR offered that technical assistance could be paid for by countries requesting assistance, rather than through the regular budget. Drawing a direct link between rising costs and funding rule design, the Soviet representative stated that this "would remove financial considerations as obstacles to technical assistance" (*UN Yearbook*, 1947–1948: 518). Although some developed states registered a general concern about future budgetary growth (Bhouraskar, 2007: 30–31), none took the position of the USSR and its constituent states that the costs involved in establishing the program were unacceptable.

In the context of a rigid funding rule status quo, the theoretical framework expects that when a large majority holds progressive preferences over the costs and content involved in expanding IO activity, rule change will not occur. This expectation is borne out by the case. The regular technical assistance program was established within the regular budget of the UN, and financed through the mandatory funding system. Despite opposition regarding costs from the USSR and its constituent republics, the governing coalition voted to include technical assistance in the regular budget. The USSR and the eastern bloc states indicated disapproval by abstaining from budget votes, while all other members voted in favor, expanding UN activity into development assistance under mandatory rules (*UN Yearbook*, 1948–1949).[15]

EPTA (1949)

With the regular technical assistance program established, demand for its services grew. The Secretary-General attributed increased demand to the success of initial efforts and "in part by the wider appreciation among under-developed countries of the range of subjects on which the United Nations can offer expert advice."[16] States could utilize the program in two ways: by requesting a UN technical assistance mission or by nominating their nationals as fellows who would receive support to train abroad in a specific skill set. A wide range of member states demonstrated their approval of the policy content of the program through active participation. Brazil, China, Colombia, Ecuador, Guatemala, Haiti, India, Philippines, Syria, Venezuela, and Yugoslavia all requested fellowships,[17] and Australia, Belgium, Canada, Denmark, France, India, Norway, and the US offered host facilities, including laboratories, universities, research institutes, and government agencies.[18]

Although the policy content of the technical assistance program enjoyed broad support, the UN membership was increasingly divided over its rising costs. A 1949 report from the Secretary-General recommended that the size of the regular technical assistance program increase to USD676,000 in 1950.[19] Member state responses to the report varied. Australia, Brazil, Chile, Ecuador, Haiti, New Zealand, and the US signaled approval of the recommendations in the Secretary-General's report, indicating progressive preferences regarding an increase in the size of the program for 1950. However, among that group, only New Zealand, Ecuador, and the US took a stronger position, stating that the technical assistance program "should be covered, on a continuing basis, in the regular budget of the United Nations" (*UN Yearbook*, 1948–1949: 439).

The USSR maintained its conservative position that technical assistance should be rendered by the UN on an ad hoc basis and that recipients "should be prepared to bear the costs of assistance rendered" (*UN Yearbook*, 1948–1949: 447). However, in contrast to 1947, other important UN contributors, including France and Belgium, signaled dissatisfaction with the rising costs of technical assistance during ECOSOC debates (Gibson, 1967: 188–189; *UN Yearbook*, 1948–1949: 880). Further, Australia and Denmark indicated uneasiness with the position staked out by New Zealand, Ecuador, and the US that the technical assistance program be included as a permanent item in the regular budget (*UN Yearbook*, 1948–1949: 439). In sum, by 1949, the UN membership exhibited divergent preferences with regard to the acceptability of rising costs in the technical assistance program.

Disagreement led member states to consider alternative funding options to further expand the program. In March 1949, ECOSOC adopted a resolution, proposed by the US, requesting the Secretary-General to prepare a report detailing what an expanded program for technical assistance might look like and importantly to outline "methods of financing such as a program including special budgets" (*UN Yearbook*, 1948–1949: 441).[20] The report outlined two options: (1) continue to finance the expansion under the regular budget; and (2) create 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.[21] Whereas member states were divided on the question of supporting technical assistance in the regular budget, "there was near unanimous agreement on having a common central fund financed by voluntary contributions" (Bhouraskar, 2007: 59).

In light of debate and the Secretary-General's report, member states chose to maintain technical assistance funding in the regular budget but to expand the provision of technical assistance outside the mandatory assessments system by establishing EPTA. The regular technical assistance program and EPTA did not differ substantially in policy content. Rather, "similar services were to be rendered both in the technical assistance program of the regular budget and in the EPTA" (Bhouraskar, 2007: 51). EPTA simply provided a means to expand the provision of services associated with the technical assistance program without mandatory funding obligations. The resolution establishing EPTA makes clear that contributions are *voluntary* by inviting all governments "to make as large voluntary contributions as possible for the special account for technical assistance."[22] However, funding rules were *unrestricted*, specifying that contributions "shall be made without limitation as to specific use by a specific agency or in a specific country or for a specific project" (*UN Yearbook*, 1948–1949: 444).[23] The selection of unrestricted voluntary funding rules for the new institution is consistent with the expectations of H1 for situations in which states agree on policy content but preferences diverge over acceptable costs. This explanation is supported by others' accounts of EPTA's design. Sharp (1965: 583) writes that the voluntary funding rules "offered a convenient way by which certain nations … could launch a new program without waiting for participation by the Communist Bloc." Similarly, a US Senate report notes that EPTA's 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" (US Congress, 1955: 167).

As an instance of rule change, the EPTA case is more complex. Despite divergent preferences over costs, it is possible that states with progressive preferences had sufficient numbers to expand technical assistance under mandatory rules for a few years beyond 1949. The choice not to do so likely reflects the financial importance of those states registering concern with rising costs, including the USSR, France, and others. However, while important states with conservative preferences prevented the expansion from occurring under mandatory rules, they did not prevent states with progressive preferences from expanding technical assistance using more flexible rules. This outcome is consistent with the *progressive preferences hypothesis* (H2). Indeed, if states with conservative preferences that sought to constrain UN activity controlled the process, EPTA would not have been created at all. In addition, the introduction of unrestricted voluntary rules as a supplement to technical assistance in the regular budget, rather than as a replacement, is consistent with the layering expectation of H2. States that pursued EPTA's establishment were supporters of technical assistance in the regular budget. Hence, they had no interest in removing or replacing the original program.

The UNDP

In 1965, the General Assembly merged EPTA with another UN program, the Special Fund,[24] to establish the UNDP. The motivation for the merger is often discussed in terms of efficiency, but, in practice, the founding of the UNDP was the subject of much political debate. In contrast to discussions surrounding EPTA, states voiced disagreements regarding the proposed policy content of UNDP programs in addition to rising costs. In particular, state preferences diverged regarding the inclusion of activities dubbed "industrial development," or those intended to increase the pace of industrialization in developing states. In practical terms, this meant expanding the role of the UNDP beyond "pre-investment" support and technical assistance to include the direct financing of investment activity (*UN Yearbook*, 1964: 268–269). However, "industrial development" also had ideological implications; it would soon become associated with the New International Economic Order promoted by the G-77.[25] It was also at the center of an ongoing debate regarding the establishment of a new UN capital development fund and a new UN agency focused on industrial development, which developing states lobbied for and the Soviet bloc supported.

State preferences on the role of industrial development and the relationship between the UNDP and a potential capital development fund fell into three groups. Two groups held progressive preferences regarding industrial development. The first group, made up of developing states and the Soviet bloc, supported the inclusion of industrial development in the UNDP mandate *and* supported a link between the UNDP and the establishment of a capital development fund to enhance industrial development activities. During the United Nations Conference on Trade and Development (UNCTAD) debate in 1964, Afghanistan, Burma, Ethiopia, Nigeria, Pakistan, Sierra Leone, the United Arab Republic, and Yugoslavia affirmed their position that direct capital investment activities be added to UN pre-investment programs already in place (*UN Yearbook*, 1964: 268–269).[26] The position is consistent with proposals introduced by the five Soviet bloc delegations during the ECOSOC debate in 1965, stating that: (1) the UNDP represented a step toward the creation of a capital development fund; and (2) the founding resolution would "emphasize the preeminent importance of industrial development" (ECOSOC, 1965: 328).

A second group of states included a number of important donors, including Denmark, the UK, Finland, Sweden, and the Netherlands. These states also held progressive preferences regarding expansion into direct investment and industrial development. However, they took the position that expansion should occur within the UNDP and did not require a capital development fund or other new bureaucracy. This dual position is reflected in a four-power draft resolution that sought to place additional operational activities in the category of "special industrial services" under the auspices of the new UNDP administrator, rather than support a draft by developing states calling for the immediate establishment of a new bureaucracy to carry out these tasks (*UN Yearbook*, 1965: 339–340).

Finally, the preferences of the US were decidedly conservative. The US consistently stated that new institutional machinery for industrial development was unneeded. However, the US position went further, stating that if proposals put forward by the Soviet bloc delegations linking the UNDP to a capital development fund and emphasizing industrial development were included in the UNDP mandate, the US would reconsider its financial support. James Roosevelt, the US 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. (ECOSOC, 1965: 330).

How did these preferences translate into funding rule design at the UNDP? As a powerful state with conservative preferences, the US was successful in keeping industrial development out of the UNDP mandate. However, the Netherlands, among the states with progressive preferences that sought to expand activity to include industrial development, pursued rule change by working around the constraints posed by the US position. With debate over the UNDP's establishment ongoing, on 6 November 1965, the Netherlands announced that it would make a contribution to the UNDP of three million guilders. Contrary to EPTA funding rules, the contribution would be made with the understanding "that the sum would be earmarked for special industrial services," rather than co-mingled with other funds (*UN Juridical Yearbook*, 1966). Consistent with H2, the Netherlands pursued rule change to support UN activity that went beyond what states with conservative preferences (and the US in particular) were willing to finance.

Aware that earmarking was prohibited by Special Fund and EPTA rules, the new UNDP Administrator submitted a request to the UN Office of Legal Affairs for advice. The UNDP Governing Council formerly adopted the position of Legal Affairs — that the Secretary-General could establish a trust fund and "define the purpose and limits of the use of the trust fund in accordance with terms specified by the donors" (*UN Juridical Yearbook*, 1966), which the UNDP could then administer according to the donor's wishes — as policy in 1967 (UNDP, 1967). The UNDP subsequently administered a number of trust funds. Initially, this included the Dutch trust fund for special industrial services, and a second Dutch fund earmarked for West Irian (a former Dutch colony). Sweden, another state with progressive preferences regarding UNDP activity, initiated a third trust fund, earmarking aid for Lesotho (*UN Yearbook*, 1968: 303–304).

The UNDP case provides substantial support for H1 and H2. With regard to the design process, states' positions on policy content were central to funding rule design. Dissatisfied actors with progressive preferences initiated action that led to the introduction of restricted voluntary rules. The control offered by restricted rules enabled progressive donors to provide financial support for activities that powerful donors, like the US, did not favor. This sequence of events offers a distinct explanation for the transformation of UN financing. Rather than the US insisting on control to rein in UN activity, states like the Netherlands and Sweden introduced funding methods that enabled the expansion of UN activity. Like in the EPTA case, rule change at the UNDP is consistent with institutional layering. States with progressive preferences had no interest in eliminating more rigid funding rules; rather, they sought to supplement UN financing through the addition of new rules.

Assessing alternative explanations of design and change

Three alternative explanations related to power, norms, and rational design (RD) deserve consideration. The first alternative expects that powerful states will ensure that institutional rules are designed and altered to reflect their interests (Gruber, 2000; Krasner, 1991). In the funding rule context, this produces implications distinct from H1 and H2. First, the preferences of governing coalitions should be less important than those of the most powerful member states. Second, change should be pursued by powerful states seeking to constrain activity, rather than by actors with progressive preferences with a pro-UN orientation. The case demonstrates that powerful states do influence funding rule design. With the inclusion of the original technical assistance program in the regular budget as an exception, the US and the USSR were not forced to accept funding rules that they opposed outright. However, while rules were *acceptable* to powerful states, design and change were not always *driven* by powerful states. The USSR avoided the expansion of technical assistance under the regular budget in 1949, but that led other states with progressive preferences to introduce unrestricted voluntary rules to govern EPTA. Likewise, disagreements between the US and the USSR loomed large in the debate over industrial development, but it was the Netherlands that emerged to drive rule change. Dissatisfied powerful states acted defensively to protect their interests, but states with progressive preferences actively pursued change. As a result, the power-based approach struggles to explain *how* UN funding rules developed.

Second, although voluntary funding rules are not among the flexibility or control mechanisms contemplated by the RD volume, RD conjectures may be relevant to explaining funding rule design. RD conjectures expect that both flexibility and control will increase with "uncertainty about the state of the world," and that flexibility will also increase with "uncertainty about preferences." Flexibility is also expected to decrease with "number." The causal effects of "number" and "uncertainty about preferences" are amenable to comparison because they produce implications that are 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 the number of actors 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. With regard to the relationship between number and flexibility, the evidence goes against RD expectations. The number of UN member states increased over the time period considered (from 51 states in 1945 to 122 in 1966), and funding rules became more flexible rather than less. Second, RD conjectures expect control and flexibility to increase with "uncertainty about preferences." Although uncertainty about preferences provides a clear logic that states could follow in designing flexibility, these cases make clear that states also incorporate flexibility and increase control when they are *certain* of others' preferences. Indeed, in these cases, flexibility and control were incorporated in response to known disagreements. In general, states were reactive rather than proactive in institutional design, changing rules after problems emerged rather than anticipating challenges in initial designs. The analysis suggests that there are limits to the mechanisms of flexibility and control that can be explained by RD conjectures.

Finally, a third explanation expects that, over time, different funding rules become "normal" such that their inclusion in institutional designs does not require contemplation. Rather, certain rules come to represent boilerplate design elements implemented across institutions as standard practice and state preference configurations may lose explanatory power. Although it fails to explain the cases of funding rule design and change considered here, this latter explanation might place scope conditions on the argument. Figure 1 shows that between 1945 and 1975, just one institution was established with restricted voluntary rules, and patterns of change are consistent with expectations of the proposed theory: restricted rules are adopted only after divergent policy preferences emerge. 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 to allow members to "earmark their contributions for those programs which were of special interest to them" (*UN Yearbook*, 1957: 237). Similarly, rule change at the WFP followed donors' frustration with inflexible rules in light of diverse strategic interests. After donor attempts to earmark aid, the Intergovernmental Committee authorized the Executive Director to accept donors' conditions (*UN Yearbook*, 1972: 268). However, it is less clear that the design of restricted rules required the emergence of diverse policy priorities in more recent cases. For example, at the Joint United Nations Program on HIV/AIDS (UNAIDS), restricted funding rules appear to have been selected without significant debate (UNAIDS, 1995). Further empirical inquiry is required, but it is plausible that the argument that restricted rules became "normal" over time is useful in explaining the most recent cases of design. Despite this possibility, the theory developed in the article provides the fullest account of why and how funding rules changed. These rule changes made possible the transformation of donor funding practices that have come to characterize UN financing, deepening our explanation of why UN financing has evolved in the way it has.

Conclusion

The remarkable shift in the financing of the UN and other IOs has drawn attention from policymakers and IR scholars. To date, scholarship has trained attention on donor funding choices to explain the shift, taking for granted contemporary funding rules that provide an array of options for donors. This article makes clear that such an approach provides an incomplete picture of why and how the transformation occurred. New UN funding rule data reveal that it is not only donor practices, but also the underlying funding rules, that have changed over time. It is often assumed that powerful states with a preference to constrain UN programming and rein in costs are responsible for these trends. However, the analysis here demonstrates that such rules were initially designed by actors willing to finance the UN at higher levels and expand its activity into new areas. Flexible funding rules provided states with progressive preferences the opportunity to expand UN activity in a context in which the larger membership was divided. This had important implications for the development of the UN system. Without the innovation of voluntary funding rules, it is unlikely that many UN programs that we know today would have been created. However, voluntary rules also facilitated the increased control of individual donors over UN programming decisions, and subsequently empowered wealthy actors to translate financial support into influence more easily than they could under the mandatory funding system. As a result, concerns that the authority of multilateral decision-making associated with UN governing bodies is undermined by donor decisions have become widespread (Graham, 2015).

The article expands the scope of the institutional design literature by introducing funding rules as a consequential and overlooked design component and outlining how funding rules relate to important dimensions of design already discussed in the literature. Mandatory funding rules involve a rigid commitment that states are willing to take on only when they expect that IO governing bodies will make programming choices they support at costs they find affordable. Divergent member state preferences make flexibility desirable, providing states with an insurance policy against undesirable financial commitments. Voluntary, and especially restricted voluntary, funding rules also enhance donor control, allowing member states to provide aid through an IO without ceding control over how its contribution will be used.

Although the transformation in UN financing provides the motivating puzzle for the article, the theoretical framework is relevant to other IOs within and outside the broader UN system. First, increased reliance on restricted, voluntary resources is not confined to the UN proper, and funding rule design remains hotly contested in treaty negotiations.

Many UN specialized agencies have undergone transformations in financing similar to those documented in the UN proper. Funding rule design has proven controversial at institutions governed by the UN Framework Convention on Climate Change, where industrialized states insist on flexible funding mechanisms to finance mitigation and adaptation activities and developing states demand mandatory financing. Second, the insight that smaller states with *progressive preferences* have incentives to introduce more flexible funding rules that offer greater donor control may shed new light on why IOs with weighted voting rules experience increased reliance on restricted, voluntary funds. Whereas the most powerful states have the ability to influence programming at these institutions through formal votes, other states have incentives to make use of funding mechanisms that offer greater control in order to pursue their priorities.

The topic of IO financing is ripe for future research. Beyond testing hypotheses on design in other cases, scholarship should analyze the effects of restricted resources on IO activity. In addition, the emphasis on *state* preferences should be expanded to consider the preferences and influence of IO staff in the development of funding rules and practices. The importance of IO staff is particularly relevant in light of recent efforts by staff at the UN and other IOs to reduce reliance on restricted resources.

Acknowledgements

I am grateful to Phil Ayoub, Susanna Campbell, Federica Genovese, Julia Gray, Alex Grigorescu, Simon Hug, Ron Mitchell, and Mark Pollack, along with two anonymous reviewers at *EJIR*, for constructive feedback. Special thanks go to Sarah Bush and Zoltán Búzás for reading multiple drafts and challenging me to improve the article in important ways, and to Nidhi George for excellent research assistance. Earlier versions of the article were presented at the Department of Government at William & Mary, the Department of Politics at Drexel University, and the Temple University Workshop on International Institutions and Global Governance (TWIIGG). I thank participants in these forums for their valuable feedback.

Funding

This research received no specific grant from any funding agency in the public, commercial, or not-for-profit sectors.

Notes

1. Unrestricted voluntary contributions decreased by 2% in the same period.
2. Three institutions (the Joint United Nations Program on HIV/AIDS (UNAIDS), the United Nations Interregional Crime and Justice Research Institute (UNICRI), and the United Nations Research Institute for Social Development (UNRISD)) also report to the Economic and Social Council (ECOSOC). Two (the Office of the United Nations High Commissioner for Human Rights (OHCHR) and the United Nations Office on Drugs and Crime (UNODC)) reside in the Secretariat.
3. The regular budget is funded entirely by mandatory dues.
4. This is true of withholding by the USSR and US at the UN.
5. ECOSOC, Fifty-Seventh Session, Supplement No. 2, E/5466, Seventeenth Session of the UNDP Governing Council, 1974.
6. Reinsberg et al. (2015) makes a similar argument regarding donors' choice to provide aid through different trust fund options.

7. The threshold required for a majority depends on IO voting rules. In the UN context, a two-thirds majority decides important questions.
8. This position is stated in US House Resolution 2829 (2011–2012).
9. UNGA 64/289, 2010.
10. For coding rules, see the Supplementary Appendix available at: http://ejt.sagepub.com/supplemental.
11. UNGA A/80, 1946.
12. For an account of all predecessor programs, see the Supplementary Appendix available at: http://ejt.sagepub.com/supplemental.
13. UNGA 52/1, 1946.
14. ECOSOC E/52(I) 1947. See also Bhouraskar (2007: 29).
15. UNGA 252(III)A, 1948.
16. ECOSOC E/1335/Add.1, 1949.
17. ECOSOC E/1335, 1949.
18. ECOSOC E/1335, 1949.
19. ECOSOC E/1335/Add. 1. 1949, 5.
20. ECOSOC 1980(VIII), 1949.
21. United Nations 1949, 36–44 and 51–52.
22. UNGA 304(IV), 1949.
23. ECOSOC 222(IX), 1949.
24. The Special Fund was established with unrestricted voluntary rules in 1958 to expand UN development assistance to include pre-investment activities.
25. UNIDO Constitution, 1979.
26. Bulgaria, Hungary, Mongolia, the Ukrainian SSR, and the USSR similarly argued for the UNDP to include capital development (*UN Yearbook*, 1965: 271).

References

Alger C (1973) The United States and the United Nations. *International Organization* 27: 1–23.

Barnett M and Finnemore M (2004) *Rules for the World: International Organizations in Global Politics*. Ithaca, NY: Cornell University Press.

Bhouraskar D (2007) *United Nations Development Aid: A Study in History and Politics*. New Delhi: Academic Foundation.

Boureston J and Semmel A (2010) The IAEA and nuclear security: Trends and prospects. The Stanley Foundation.

Broz JL (2008) Congressional voting on funding the international financial institutions. *The Review of International Organizations* 3: 351–374.

Claude I Jr (1963) The political framework of the United Nations' financial problems. *International Organization* 17: 831–859.

Collier D, Brady H and Seawright J (2004) Sources of leverage in causal inference. In: Brady H and Collier D (eds) *Rethinking Social Inquiry*. Plymouth, United Kingdom: Rowman and Littlefield Publishers, pp. 229–266.

Copelovitch M (2010) Master or servant? Common agency and the political economy of IMF lending. *International Studies Quarterly* 54: 49–77.

Duffield J (2003) The limits of "rational design." *International Organization* 57: 411–430.

ECOSOC (Economic and Social Council) (1965) Proceedings from the second (economic and financial committee). New York.

ECOSOC (2011) Analysis of funding for operational activities for development of the United Nations system for 2009: Report of the Secretary-General. Geneva.

Eichenauer V and Hug S (2014) The politics of special purpose trust funds. Unpublished.
George A and Bennett A (2004) *Case Studies and Theory Development in the Social Sciences*. Cambridge, Massachusetts: M.I.T. Press.
Gibson D (1967) The financial problem of the United Nations. *International Journal* 22(2): 182–194.
Graham E (2015) Money and multilateralism: How funding rules constitute IO governance. *International Theory* 7: 162–194.
Gruber L (2000) *Ruling the World*. Princeton, NJ: Princeton University Press.
Guzman A (2002) International law: A compliance based theory. *California Law Review* 90: 1823.
Hanrieder T (2014) Gradual change in international organizations: Agency theory and historical institutionalism. *Politics* 34: 324–333.
Johnson T and Urpelainen J (2014) International bureaucrats and the formation of intergovernmental organizations: Institutional design discretion sweetens the pot. *International Organization* 68(1): 177–209.
Koremenos B (2005) Contracting around international uncertainty. *The American Political Science Review* 99: 549–565.
Koremenos B, Lipson C and Snidal D (2001a) The rational design of international institutions. *International Organization* 55: 761–799.
Koremenos B, Lipson C and Snidal D (2001b) Rational design: Looking back to move forward. *International Organization* 55: 1051–1082.
Krasner S (1991) Global communications and national power: Life on the Pareto frontier. *World Politics* 43: 336–366.
Litsios S (2002) The long, difficult road to Alma-Ata: A personal reflection. *International Journal of Health Services* 32: 709–732.
Mahoney J and Thelen K (eds) (2010) *Explaining Institutional Change: Ambiguity, Agency, and Power*. New York, NY: CUP.
Mattli W (2001) Private justice in a global economy: From litigation to arbitration. *International Organization* 55: 919–947.
Meyer P (2014) Organization of American states: Background issues for Congress. Congressional Research Service Report, Washington, DC.
Moravcsik A (1997) Taking preferences seriously: A liberal theory of international politics. *International Organization* 51: 513–553.
Moravcsik A (2000) The origins of human rights regimes: Democratic delegation in postwar Europe. *International Organization* 54: 217.
Nielson D and Tierney M (2003) Delegation to international organizations: Agency theory and World Bank environmental reform. *International Organization* 57: 241–276.
OECD (Organisation for Economic Co-operation and Development) (2011) Aid effectiveness 2005–10: Progress in implementing the Paris Declaration.
OECD (2014) Making earmarked funding more effective: Current practices and a way forward. Report No. 1.
Pelc K (2009) Seeking escape: The use of escape clauses in international trade agreements. *International Studies Quarterly* 53: 349–368.
Rathbun B (2011) Before hegemony: Generalized trust and the creation and design of international security institutions. *International Organization* 65: 243–273.
Reinsberg B, Michaelowa K and Knack S (2015) *Which Donors, Which Funds? the Choice of Multilateral Funds by Bilateral Donors at the World Bank*. Policy Research Working Paper, no. WPS 7441. Washington, DC: World Bank Group.
Rosendorff P and Milner H (2001) The optimal design of international trade institutions: Uncertainty and escape. *International Organization* 55: 829–857.

Russell R (1958) *A History of the United Nations Charter*. Washington, DC: Brookings Institution.
Seawright J and Collier D (2004) Glossary. In: Brady H and Collier D (eds) *Rethinking Social Inquiry: Diverse Tools, Shared Standards*. Plymouth, UK: Rowman and Littlefield, pp. 273–313.
Sharp W (1965) The administration of United Nations operational programs. *International Organization* 19: 581–602.
Sridhar D and Woods N (2013) Trojan multilateralism: Global cooperation in health. *Global Policy* 4: 325–335.
Tallberg J, Sommerer T and Squatrito T (2016) Democratic membership in international organizations: Sources of institutional design. *The Review of International Organizations* 11: 59–87.
Taylor P (1991) The United Nations system under stress: Financial pressures and their consequences. *Review of International Studies* 17: 365–382.
Thompson A (2010) Rational design in motion: Uncertainty and flexibility in the global climate regime. *European Journal of International Relations* 16: 269–296.
UNAIDS (The Joint United Nations Program on HIV/AIDS) (1995) Decisions, recommendations and conclusions adopted by the first meeting of the program coordinating board of UNAIDS.
UNDP (United Nations Development Programme) (1967) Harmonization of administrative and financial procedures.
UNEP (United Nations Environment Programme) (1999) Management study on trust funds and counterpart contributions. Nairobi.
UN Juridical Yearbook (1966) Chapter VI. Selected legal opinions of the Secretariat of the United Nations and related inter-governmental organizations. pp. 222–264.
UN Yearbook (1946–2013). New York, NY: United Nations.
US Congress (1955) Review of the United Nations charter; compilation of staff studies prepared for the use of the Subcommittee on the United Nations Charter of the Committee on Foreign Relations.
US Congress (1983) The U.S. role in the United Nations: Hearings before the Subcommittee Committee on Human Rights and International Organizations of the Committee on Foreign Affairs hearing, House of Representatives, 98th Congress.
US Department of State (1944) *Foreign Relations of the United States Diplomatic Papers, 1944* (vol. 1).
US Department of State (1945) *Foreign Relations of the United States. Conferences at Malta and Yalta, 1945*.
WHO (World Health Organization) (2011) Medium-term strategic plan 2008–2013: Interim assessment. Geneva.

Author biography

Dr. Erin R. Graham is an Assistant Professor of Politics at Drexel University in Philadelphia, USA. She received her PhD from The Ohio State University and previously held the position of Postdoctoral Fellow at the Niehaus Center for Globalization and Governance at Princeton University (2011–2012). Her research focuses on the design, financing, and performance of international organizations in world politics.