Money, Power, and the United Nations: Examining the Causes and Consequences of Voluntary Funding

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Abstract:

The United Nations System has long been experiencing a quiet transformation. The UN Charter envisioned a System in which multilateral decision-making in the General Assembly allocated mandatory assessments to member states and set the priorities and size of the budget. Today’s UN does not reflect this initial design; both UN programs and Specialized Agencies rely disproportionately on voluntary contributions leaving questions of financial responsibility and budget size to the decisions of individual member states. Why did this change occur and what are its consequences? This paper draws on insights from principal-agent theory to explain the dissatisfaction of powerful member states with the mandatory funding system, which places constraints on their ability to achieve desired outcomes. It also derives policy-relevant consequences that follow from reliance on voluntary funding, which include incoherence within individual programs and incentives against coordination within the UN system. It concludes with a discussion of implications for institutional design and UN reform.

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Today the United Nations System receives the majority of its financial support from voluntary contributions. This is true both of UN programs, like the UN Development Program and the UN Environment Program, and of Specialized Agencies, like the World Health Organization and UNESCO. UN reliance on voluntary resources is not a new phenomenon; the first contributions outside the mandatory assessments system were made in the 1950s and by 1960 constituted fully half of UN resources. It is, however, a growing phenomenon in many corners of the UN where voluntary funding flourishes and mandatory contributions stagnate. The result of disproportionate reliance on voluntary contributions has produced a system of financing quite distinct from that envisioned in the UN Charter. At the UN’s founding, the General Assembly was granted control of financial matters. It both allocated member states’ assessments—based on their respective capacity to pay—and was charged with approving the budget. The General Assembly and equivalent bodies at other UN Agencies have no such role to play in the voluntary funding system, where members’ individual choices dictate financial decisions.

Why did the shift to voluntary funding occur and what are its consequences? Deadlock in UN executive bodies provided the impetus for voluntary funding and its expansion was pursued by the United States as its influence in the General Assembly waned. The turn to voluntary funding produces perverse incentives for UN programs and agencies which encourage incoherence and poor coordination within the UN System. I draw on principal-agent theory in arriving at these conclusions. The argument begins with the observation that the mandatory and voluntary schemes employed at the UN possess distinct accountability structures represented by different PA models. A collective principal model is appropriate when conceptualizing mandatory schemes where multilateral decision-making is central and member states governed
by joint decision rules determine assessment levels and budget size. Voluntary schemes are better conceptualized with a multiple principal model due to the importance of individual decisions and the absence of an obligation for individual states to support decisions made by the relevant multilateral body.

The models illuminate important differences in the mandatory and voluntary schemes, particularly with regard to the constraints placed on powerful member states. First, different implications follow when there is disagreement among member states over the purpose or quality of agent efforts. In a collective principal where joint decision-making is required, such heterogeneity can be debilitating in holding the agent accountable (Thompson 2006; Tierney 2008). In the multiple principal model where member states retain the right to supply their contribution as they see fit, they retain an important mechanism of control. Second, under a voluntary scheme the contributions of powerful states are not subject to the will of the majority. Because the collective does not require the supply of funds, powerful states are free from the burden to provide the bulk of financing for projects they would prefer not to support.

The empirical portion of the paper illustrates the argument by considering the transformation in UN funding described above. Drawing on UN histories and financial documents as well as statements from US government officials, it documents how disagreements within the General Assembly provided the initial impetus for voluntary funding and how the US pursued its expansion in response to its declining influence in UN bodies. The third section of the paper returns to the PA models to deduce consequences of the use of voluntary resources on the UN System with a focus on the effects of conflicting demands and competition and questions of representation. The paper concludes with a discussion of implications for institutional design.
UN Funding Schemes and Principal-Agent Models

The UN Charter envisioned a funding system in which member states would share financial responsibility of the organization through mandatory assessments. Mandatory assessments are paid as an obligation of membership at UN agencies and withholding constitutes a breach of international law. Assessments are apportioned among member states based on the principle of capacity to pay, which takes into account each member’s economic strength in assigning its share. The formula is modified by a ceiling and floor placed on the proportion any single member can pay in an effort to guard against tendencies by member states to “unduly minimize their contributions” or, conversely, “to increase them unduly for prestige” (Luck 2003, 30).

The apportionment of assessments must be approved by a two-thirds vote of the General Assembly. At the UN’s founding, and until pressure from the United States forced a change, a two-thirds decision rule governed all decisions related to the budget. This meant that the apportionment of assessments, the overall size of the budget, and its programming content, were determined by a multilateral decision-making process in the General Assembly where all member states are accorded equal voting rights. The mandatory nature of assessments combined with Assembly voting rules produced a situation in which individual member states—even powerful ones—would be legally obligated to pay their assessment even if they did not vote in favor of the budget, so long as it was approved by a two-thirds majority.

In the context of a principal-agent framework, these multilateral executive bodies possessing budgetary authority each constitute a collective principal, or a principal made up of multiple states (Nielson and Tierney 2003). For example, the General Assembly and the
Executive Board of the World Health Organization are both collective principals delegating to their respective agents: the UN Secretariat and the WHO bureaucracy. Under the mandatory assessments scheme the collective principal serves as the locus of decision-making on budgetary matters. The agent is subject to a multilateral accountability relationship, or one in which it is held accountable by a collective principal governed by joint decision rules. The CP holds a number of important mechanisms of control: it has a hand in screening IO leadership, it specifies how agents carry-out their mandate (e.g. by specifying a rule-based delegation contract)\(^2\), and critically, the collective principal holds the power of the purse, allowing it to reward and sanction its agent via expansion and retraction of the budget (Lake and McCubbins 2006, 30).

The same authority is not enjoyed by the collective principal under a voluntary funding scheme. Unlike mandatory assessments there is no legal obligation attached to voluntary funding (Archibald 2004, 318). The protections built into the mandatory system against the shirking of responsibility by member states, or conversely, attempts to increase influence or prestige by increasing one’s contribution, are absent. Under a voluntary funding scheme each member state makes a decision regarding whether and how much to contribute to UN programs and agencies.\(^3\) Overall budget levels are not determined by formal, multilateral governing bodies, but are instead the aggregate outcome of individual decisions. The voluntary system also allows individual members to earmark their contributions for a specific use. Freed from the obligation to provide support to programs endorsed by the two-thirds majority, individual members can dictate how their money is spent in ways that may or may not accord with priorities set by multilateral bodies (OECD 2010).

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\(^2\) On the use of a rule-based delegation contract see (Moe 1990; Epstein and O’Halloran 1999; Huber and Shipan 2002)

\(^3\) Member states are increasingly joined by non-state actors as major funders of UN programs.
In a principal-agent framework, the centrality of individual decision-making in voluntary funding schemes fits a multiple principal model to elucidate the relationship between the IO and its member states. To date, the use of multiple principal models has been somewhat rare in IR, where scholars apply a collective principal frame more commonly. When multiple principal models are used it is typically in situations where domestic bodies possess the ability to contract separately with an agent, e.g. (Lyne et al. 2006, 50), or when a domestic body (e.g. the US Congress) provides an additional principal to supplement the role of an IO Executive Board, conceptualized as a collective principal (Nielson and Tierney 2003).

The individual decision-making associated with a voluntary funding scheme suggests a slightly different application in which individual member states are themselves separate principals. Rather than sharing contracting power as members of a collective principal, each member is empowered to contract with the agent on an individual basis. For example, the United States, Japan, and Germany would serve as separate principals to the UN agent for the voluntary funds they deliver, each making decisions to contribute to different programs based on individual preferences. Figure 1 illustrates the different structure of the collective and multiple principal models.

Why is distinguishing between the multiple and collective principal models useful in understanding the effects of mandatory and voluntary funding regimes? Others are astute to point out that our interpretation of IO behavior, for example, in evaluating whether agents are faithful to member states’ wishes varies depending on what type of PA model we select (Lyne et al. 2006; Tierney 2008). In addition, the models clarify important differences between mandatory

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4 For an exception see (Elsig 2007). In articulating the appropriateness of the multiple principal model for IOs funded voluntarily, this paper casts doubt on the assumption that “Collective principals are overwhelmingly the most common type of principal that we observe when analyzing IOs” (Lyne et al. 2006, 44)
and voluntary funding schemes. First, the models respond very differently in a context where heterogeneous preferences are held by member states—a most common affliction in UN executive bodies. Second, they place different constraints on powerful member states whose financial support is critical to organizational survival. These issues are taken up in turn.

Figure 1. Example of Collective Principal and Multiple Principal Models

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**Heterogeneity**

The principal-agent literature in IR has paid considerable attention to the challenges posed by heterogeneity in a collective principal. The general expectation is that heterogeneity among members will result in an agent having greater discretion (Hawkins et al. 2006). For example, Martin (2006: 144) argues that IMF staff have more room to maneuver when the preferences of Executive Directors diverge. With greater discretion comes greater opportunity to
engage in slack. In the context of heterogeneous preferences a collective principal will find it difficult to exercise the control mechanisms so critical to holding agents accountable (Pollack 1997). This phenomenon is commonly seen in UN bodies. For example, at UNEP the governing council has no trouble adding new programs, but “finds it very difficult to achieve consensus on what to stop doing” (Ivanova 2005, 22). Similarly, Jackson (1969: 10) judged twenty-percent of UNDP programs to be “deadwood” but suspected political barriers would prevent the projects from being eliminated.

In addition to disagreements that are unambiguously driven by political interests, heterogeneity can also result when there is no agreement on what the agent should be doing (e.g. should peacekeepers simply monitor a ceasefire agreement and report violations or should it take up arms against militants) or when there is no agreement about how well an agent is performing its task. The two are related since one’s perception of performance is determined in part by one’s conception of appropriate aims (Gutner and Thompson 2010). A collective principal suffering heterogeneity is likely to produce a vague or weak mandate, papering over fundamental differences between parties and will find it difficult to agree on what constitutes grounds to sanction the agent. In sum, for a collective principal, heterogeneity can be quite debilitating in terms of holding an agent accountable.

The same is not true in the multiple principal model where preference heterogeneity across member states does not weaken the ability of individual states to act. Since voluntary funds are provided based on individual decisions, the problem of coordination in the collective principal is sidestepped. This has a straightforward appeal: when heterogeneous preferences and decision rules prevent a powerful member from achieving its aim through joint decision making, the state can make use of a unilateral alternative in an attempt to achieve its aims. The United
States can determine for itself what the proper goal of a UNEP program is, and if it is dissatisfied with performance, it can cut funding regardless of whether others share their view. Likewise, if Japan determines a UNDP program to be “deadwood” it can eliminate its support regardless of the opinion of UNDP’s executive board. In this way the ability of powerful member states to hold IOs accountable is improved in the multiple principal model because budgetary power as a mechanism of control is retained even in the context of member state heterogeneity.

Constraints on the powerful

The preceding discussion implies that the two funding schemes offer different methods and levels of influence to powerful member states. The collective principal is governed by multilateral decision-making where the discretion of all participants is circumscribed, even for powerful actors, at least to some degree (Ikenberry 2003). But importantly, the degree is determined in large part by the voting rules that govern decision-making. If a collective principal is governed by weighted voting rules that approximate the distribution of power, the most powerful actors are not terribly constrained. The US position at the World Bank is illustrative: its sixteen percent vote share and the Bank’s eight-five percent supermajority requirement provide the US with a de facto veto.

The UN General Assembly and Specialized Agencies, of course, do not share voting rules with Bretton Woods. In these institutions powerful states must work considerably harder to exert their will, building majorities whether through arm twisting, persuasion or side payments. The financial support of powerful states for institutions can be expected to wane when such tactics prove inadequate. This is especially the case where an alternative voluntary funding scheme is available where building majorities is unnecessary to achieve one’s aims.
The multiple principal model allows powerful actors the ability to exert influence commensurate with their financial contribution more easily. Members that intend to make large contributions can discuss content directly with IO bureaucrats as opposed to negotiating with other members states. In stark contrast with the mandatory scheme, in a voluntary funding scheme powerful states are not met with the unpleasant situation of being obligated to provide funding for programs to which they object. As a result, the voluntary funding scheme emerges from the discussion with two advantages for powerful states. First, heterogeneity in member state preferences is not debilitating because states making large contributions retain the ability to hold agents accountable. This helps to rectify a common concern regarding the increasing autonomy of international organizations. Second, all else equal, powerful states are more likely to provide funding when their own discretion is maximized. This helps to solve the problem of underfunding, which is a constant concern at IOs.

The theoretical discussion produces a set of expectations regarding when member states will be dissatisfied with the mandatory assessment system—initially the only funding scheme used at the UN. First, the most powerful member states, defined as those making the largest financial contributions to the organization, will be dissatisfied when the rules governing multilateral bodies prevent them from achieving desired outcomes. Second, member states will become dissatisfied when heterogeneity renders the collective principal unable to hold agents accountable. These conditions overlap significantly but are not synonymous. Heterogeneity provides a critical barrier to powerful states influencing outcomes in multilateral bodies. A powerful state might disagree with the majority on what an IO should be doing, resulting in a

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5 On this concern see (Barnett and Finnemore 2004)
mandate it perceives as objectionable. But so long as the winning majority remains intact it would also remain competent to hold the IO accountable for actions relevant to the mandate.

Powerful states are likely to be the most sensitive to these conditions for two reasons. First, powerful states provide the bulk of IO funding and generally want to avoid paying for things they disapprove of. Second, by virtue of the size of their contributions, powerful states have a greater ability to exercise influence in the voluntary funding scheme than other actors. In other words, they have the most influence to gain by switching funding schemes. That said, in a situation where the collective principal has become severely dysfunctional it is very likely that more moderate contributors as well as concerned recipients will come to favor the voluntary scheme as well. It is important to note here that while the two models illuminate conditions under which powerful states will prefer the mandatory or voluntary scheme, (i.e. why powerful states would shift to voluntary funding), the models themselves are static. That is, they do not explain how the transition from one to the other occurs. The preferences and strategies of powerful states are critical in explaining the transition and are included in the empirical section.

The next section assesses these expectations by considering the history of UN funding from 1945 to the current period. The narrative takes an interest in both why and how the shift to voluntary funding was pursued. Two dimensions of heterogeneity were critical to the shift: the East-West disagreements between the Western Powers and the Soviet Bloc that were central to UN politics during the Cold War, and North-South differences between the industrialized and developing countries that came to dominate the General Assembly beginning in the decolonization period. Both sets of disagreements placed limits on the influence of the United States and provided the impetus for the creation of the voluntary funding scheme and its expansion throughout the twentieth century.
The UN and the Shift to Voluntary Funding: When, Why and How

The early years of the UN were marked by strong US leadership. The General Assembly served as the locus of decision-making authority but posed only limited constraints on US influence. The initial mandatory assessment assigned to the United States accounted for 39 percent of the new Organization’s budget. Although the US possessed just one vote in the Assembly, the original fifty-one members included many European allies and dependent Latin American states allowing the US to exert its will. Many observers commented on the US “voting machine” that assured favorable outcomes and described Latin American states as “leaping” according to Washington’s cues (Bloomfield 1956).

The ability of the United States to achieve its preferred outcome on important issues was indicative of its influence. First and foremost, US diplomacy was successful in preventing the seating of Communist China at the United Nations. Second, Washington overcame the objections of its allies to spearhead the empowerment of the General Assembly in security affairs by creating the UN Emergency Force (UNEF) in response to the Suez Crisis. Third, during the first fifteen years of UN history the US faced little difficulty in managing the budget, keeping growth in check and avoiding any unwanted increases in the size of its contribution. That is not to say its accomplishments came without effort. For example, on the China issue Washington was engaged in a vigorous diplomatic campaign to produce a majority in the General Assembly in favor of postponement of consideration of the Chinese representation question (White House Memorandum 1953, 653). But the membership at the time allowed the United States to exert influence within the rule-based system. The period corresponds with Washington’s strong support of the mandatory assessments scheme in which it paid its dues on time and called on
others to do the same invoking the legal obligation associated with UN membership and the principle of collective financial responsibility in the UN Charter (Luck 2003, 46).

Despite the general tendency of American success, signs of an impending North-South divide emerged during the 1950s. US control over budget processes at the Specialized Agencies was imperfect. In 1952 the US expressed annoyance at its inability to control budget votes at the World Health Organization and UNESCO (Bruce 1952). Despite support from other heavy financial contributors the US faced resistance regarding the size of the agencies’ budgets. The UN Planning Staff at the State Department reported that “Secretariat requests for budget increases for specific programs which seem to us undesirable usually forms around delegations of countries such as India, Egypt, and other underdeveloped countries who desire the proposed services, distrust the US, and are seeking to establish their own prestige” (United Nations Planning Staff 1952, 157-158). These were not tragic losses for the US; the Specialized Agencies’ budgets did not amount to extraordinary sums at the time and the US continued to pay its assessments. At the same time, Washington registered initial concern with a key implication of the mandatory assessment scheme: that the US contribution could be dictated by an unfriendly majority.

As North-South issues were just emerging, the East-West divide was affecting UN funding in more fundamental ways. The divide prevented action in response to the growing demand for the Organization to expand into the realm of economic and social programs. The West supported the expansion of UN activity while the Soviets already objected to the economic and social programs found in the regular budget (Jackson 1969; Bush 1971b). It was this disagreement within the collective principal that spawned the innovation of voluntary funding at the UN. Recounts (Sharp, 1966: 583), “It was the Expanded Program of Technical Assistance
(EPTA) in 1950 that was to provide the principal impetus for the use of the voluntary principle for fundraising to support continuing operational programs.” Using voluntary funds, Western states could launch new programs without waiting for Soviet participation. The new funding method was less objectionable to unsupportive members since “no state was bound to contribute any fixed amount” (Sharp 1965, 583).

By creating the EPTA and a second similar program in 1959, the General Assembly created a funding system that existed outside formal UN rules. Under the voluntary scheme there was no floor or ceiling on contributions. The authority of the collective principal to determine the size of the UN budget was now limited by a parallel voluntary funding scheme in which individual decisions by member states, rather than a multilateral decision in the General Assembly, would dictate the size of the new UN development funds. As Figure 2 shows, by 1960 voluntary contributions were equal in size to the mandatory assessments provided by states. Although the Assembly would retain the formal right to eliminate the new development funds, in practice their financial solvency would depend upon the decisions of just a few members. Among this group the US was undoubtedly the most important, accounting for nearly 70 percent of all voluntary contributions (Alger 1973). The formal accountability relationship for the new funds had a distinctly bilateral element. To be replenished, the funds must be used in ways that satisfied donors. This difference in accountability structure may seem of limited importance at the time; US influence in multilateral decision-making was well known and so whether UN programs were accountable to the collective principal dominated by the US (i.e. the General Assembly) or to their largest donor, the United States, would be expected to have little effect on the direction of UN programming. However, because US dominance in the General Assembly would soon end, the creation of the funding scheme outside normal multilateral rules—
specifically the one country, one vote decision rule and the capacity to pay formula—would have implications in the future.

Figure 2. Regular budget and voluntary contributions to the UN 1950-1969

Source: (Jackson 1969)

1960-1990: The North-South divide and the decline in US influence

During the decade of the 1960s the collective principal provided more significant constraints on US influence. The episode that first brought these limits into sharp relief was the Article 17 crisis in 1965 in which the Soviet Union and France, along with other smaller members, opposed the US contention that the mandatory assessments scheme should apply to new UN peacekeeping operations. With urging from the United States, the General Assembly created the UN Emergency Force in response to the Suez Crisis, and according to UN funding rules, France would be required to pay its share for the operation despite obvious objections. When the Security Council mandated the operation in the Congo (ONUC) it came with the same expectation that the mission would be paid for according to the normal scale of assessments.
The Soviets, French, and others found this expectation unwarranted and withheld specific amounts due for payments to those operations sending the UN into financial crisis (Russell 1966, 81). At issue was whether Article 17(2) of the UN Charter, which specified member states were obligated to provide the “expenses of the Organization,” applied to matters of peacekeeping. France argued it did not; only those states voting to create the operation should be obligated to pay. The United States, which supported both operations, argued Article 17 was binding. When the General Assembly requested an opinion from the International Court of Justice on the issue, the court ruled 9 to 5 in favor of the US position. According to the ruling, those members disputing their obligation were required to pay regardless of objections (Nelson 1986, 978; Russell 1966, 83).

Many members paid previously withheld assessments in response to the ruling. However, France and the Soviet Union were not among them. In response, the US lobbied to invoke Article 19 of the UN Charter which would revoke the voting rights of members found in significant arrears. But unable to put together a majority, the US did not pursue a vote on the issue. The US failure to achieve its aims brought about a sharp change in Washington’s tone regarding mandatory assessments and the authority of the General Assembly on budgetary matters. Speaking after the decision not to pursue a vote to invoke Article 19, US Ambassador to the UN Arthur Goldberg made the following statement,

“the United States regretfully concludes, on ample evidence, that at this stage of history of the United Nations the General Assembly is not prepared to carry out the relevant provisions of the Charter (…) We will not seek to frustrate that consensus (…) At the same time, we must make it crystal clear that if any member can insist on making an exception to the principle of collective financial responsibility with respect to certain activities of the Organization, the United States reserves the same option to make exceptions if, in our view, strong and compelling reasons exist for doing so…” (Russell 1966, 68).
Both French and Soviet intransigence and the American response—reserving the right to withhold where strong and compelling reasons existed for doing so—undermined the authority of UN multilateral governance by the collective principal. The episode was only the beginning of American frustrations at the UN where the US would increasingly find itself at odds with an emerging majority of newly independent, developing states.

With the admission of seventeen new member states in 1960 the UN had grown from its original 51 members to a group of 99. By 1970 the number had grown to 127. It was not only the size of membership but the preferences of those newly admitted members that posed a challenge for the United States. Organized as the G77 and supporting a “new international economic order,” developing countries brought to the General Assembly demands for improved regional representation and economic development programs. Substantial growth in the regular budget throughout the 1960s (see Figure 2 above) is indicative of the increased voting power of the developing world.

Consistent increases in UN spending were opposed by the United States where earlier concern about recipients of UN aid voting to increase the budget in opposition to US wishes had become a common reality (US Department of State 1971, 324; Nelson 1986). Communication between the State Department and the US Mission to the United Nations indicate that the US could no longer exercise control at the Assembly and that as a result the current practice of supplying its mandatory assessment in full was unsustainable. In a 1971 telegram to George H.W. Bush, then US Ambassador to the United Nations, the State Department communicated that “We doubt if we can tolerate indefinitely a situation in which U.S. aid can be involuntarily

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allocated by the votes of recipients. We prefer to allocate our aid through UNDP, Congress willing (US Department of State 1971, 324). The preference of the US to supply aid through UNDP, a program funded entirely by voluntary contributions, is consistent with the expectation that powerful states will prefer a voluntary scheme when discretion over funding decisions cannot be achieved in multilateral bodies.

The US response to its declining influence was twofold. First, the US sought to reduce its mandatory assessment, thus limiting the proportion of its contribution that would be controlled by the General Assembly and pursued similar reductions at the Specialized Agencies. Second, it sought to change voting rules at the UN and the Specialized Agencies in an effort to regain influence over budgetary matters. Third, the US expanded the use of the voluntary funding scheme in order to avoid unwanted influence on US contributions by UN multilateral bodies.

These strategies were not easily executed. Convincing other member states that the US deserved a reduction in its assessment was a difficult task accomplished only with pressure from Congress. By 1966 the US had reduced its assessment to 31.9% (Russell 1966), a number considerably lower than what would be assigned using the capacity to pay formula which applied to other states. When Congress and the State Department pressed Ambassador Bush to pursue a further reduction to 25 percent he argued the timing was terrible and that the request would not be favorably received (Bush 1971a). The US based its argument for a reduced assessment on the principle of sovereign equality. In his statement to Congress on the issue, Assistant Secretary of State Samuel de Palma argued that “in principle no international organization based on the sovereign equality of its members (…) should become overly dependent on one state for contributions to its operating budget (Alger 1973, 13). Under significant pressure from the US
Congress and negotiations with the Secretary-General, the General Assembly lowered the US assessment to 25 percent in 1972 (Nelson 1986, 978).

While the US justified reduced assessments on the grounds that no state should gain too much influence at the UN, the US Congress was increasingly outraged at the limits of American influence over UN financial matters in the wake of decolonization. Assistant Secretary of State for International Organization Affairs Alan Keyes articulated the problem as the “fundamental disequilibrium between the size of contributions by certain member states and their influence on the UN budgetary process” (Luck 2003, 34). The problem was not one that Washington could resolve working within current UN voting rules. Instead, it sought to change the rules to curtail budget growth. Congress had begun the practice of withholding small portions of its assessment specified for purposes with which it disagreed, but the Kassebaum-Solomon Amendment, passed as part of the Foreign Relations Authorization Act in 1985 took a much broader approach. The Amendment committed the US to withholding 20 percent of its assessment from the UN and Specialized Agencies until they adopted weighted voting rules like those of the Bretton Woods institutions (Luck 2003, 34).

The strategy garnered results: although the Assembly did not adopt weighted voting, it did approve new consensus based procedures. Now all members—including the United States—would need to approve of the budget for it to pass. Consensus rules were also adopted by most other specialized agencies. Although this change would appear to exacerbate the heterogeneity problem by making veto players of all members, in practice it allowed donors more control over the budget (Annan 1993, 104). Under the new rules consensus on budget issues has been called as an “uneasy compromise” that “allowed a few of the major contributors to dictate the final level of the budget – basically a zero nominal growth scenario” (Christoffersen et al. 2007, 175).
With consensus procedures in place, the influence of more powerful states was reasserted. Indeed, the shift to consensus procedures spawned by Kassebaum-Soloman allowed US officials to wield a “de facto financial veto” over UN budgets (Alvarez 1996). The result was that assessed contributions for the regular budgets of the UN and its Specialized Agencies declined in real terms throughout the 1980s and 1990s (Taylor 1991, 380). Under the new voting rules the US continued to negotiate reduced assessments and threaten withholdings. In 1994 President Clinton signed legislation placing a 25 percent ceiling the US contribution to the peacekeeping budget despite the 31.7 percent rate mandated by the General Assembly (Luck 2003, 44).

The US strategy was a direct response to its inability to exert influence within the collective principal. The strategy had a clear effect: the authority granted to the General Assembly and equivalent bodies at the Specialized Agencies to determine budget size and member state assessments was significantly reduced in importance as their size declined relative to their voluntary counterparts. In effect, the portion of the budget controlled by multilateral bodies reflected in the collective principal model declined significantly. Whether or not one agrees with the ends the US pursued—it is not unreasonable that major UN contributors would want influence over how funds are spent—the means used to achieve US goals certainly undermined the collective principal as the locus of UN decision-making. So long as an unfriendly majority controlled voting in UN multilateral bodies the United States and other major donors were unwilling to provide funding increases under the mandatory scheme.

The position of donors toward voluntary funding was entirely different. As the US lobbied to reduce its assessment to 31 percent in the 1960s the proportion of voluntary contributions supplied by the US had increased to fully 67 percent (Alger 1973, 13). Alger (1973: 13) argued, “This, of course, gives the UN’s largest contributor even more influence
because the United States has unilateral competence to determine how much it will contribute to specific voluntary programs: According to the president, the United States desires to continue to decide unilaterally when it will contribute more than twenty-five percent.”

Following the precedent set by the UN Expanded Program on Technical Assistance, UN programs dealing with economic, social, and environmental issues rely heavily if not entirely on voluntary funding: UNDP, UNICEF, the UN Population Fund and World Food Program are funded entirely by voluntary contributions. UNEP, UNHCR, and the UN Relief Works Administration receive small portions from the regular budget for administrative needs but are otherwise funded voluntarily (Mendez 1997, 284). Figure 3 shows the size of voluntary funds to UN programs relative to the regular budget. By 1986 voluntary contributions to UN organs (excluding the Specialized Agencies) more than tripled the size of the regular budget. With most UN institutions experiencing zero growth regular budgets, reliance on voluntary funding increased considerably (Müller 1997, III.48/13).
Figure 3. Assessed and Voluntary Contributions to the UN ($US millions)\(^7\)

1990-2010: Expansion of Voluntary Funding

The period since the Cold War’s end has seen continued expansion of voluntary funding within the UN System. The Specialized Agencies of the United Nations have experienced a shift similar to that of the UN organs depicted in Figure 3. Like the General Assembly, the Executive Bodies of these Agencies adopted consensus voting procedures under US pressure and experienced no-growth as a result. There is variation across the Specialized Agencies in terms of their reliance on voluntary funding. But what is common across UN programs and Agencies is a pattern of increasing reliance over time. Between 2000 and 2005 voluntary funds grew at a faster rate than mandatory funds in nearly all UN organizations (Yussef et al. 2007, iii). Figure 4 shows voluntary resources as a percent of total resources at the four largest UN (non-Bretton Woods)

\(^7\) Source: (Alger 2006, p. 225)
agencies. Reliance rates range from a low of forty percent at the ILO to nearly seventy percent at the WHO. These rates continue to increase. A 2010 ILO budget report notes that while regular contributions remain flat, voluntary funds have increased by 60.1 percent in real terms (ILO 2010, 13). At the WHO, voluntary resources eclipsed assessed contributions in 1991 (Vaughan et al. 1996, 233) and the trend of increasing reliance continues. In the 2006-2007 biennium, 72 percent of resources are voluntary, the highest proportion ever (Yussef et al. 2007, 29).

Figure 4. Voluntary Funds as a Percentage of Total Resources

These numbers indicate that at the UN and at a number of the Specialized Agencies the size of the budget and the apportionment of responsibility for funding the organizations are not determined by multilateral bodies but rather by the decisions of individual members. The numbers imply that the role of the collective principal in UN funding has long-suffered a decline and it is now major donors that each make decisions on their own volition about whether to supply funding. This alone suggests the relevance of the multiple principal model, but a stronger case for its relevance requires further inquiry. It could be, for example, that the voluntary scheme
operates as a two-step process in which the collective principal remains in control of the agenda, sets organizational priorities and determines its programs. In a second step, individual member states make decisions about whether to provide funding based on their own preferences; if they find the priorities and programs agreed upon by the multilateral body worthy of support, it is provided, if they do not, there is no obligation to supply funds. In this situation donors would not be making direct demands on programs and agencies that were distinct from the multilateral body (though they would signal their approval or disapproval through the size of their contribution). In contrast, it could instead be the case that as separate principals, individual donor states assume both roles, setting the agenda by virtue of their ability to supply resources. Increasingly, voluntary funding at the UN looks more like the latter situation in which donors earmark funds for specific projects rather than one in which resources are distributed according to priorities set by the multilateral body.

The UN distinction between two types of voluntary funds, “core” and “non-core,” is useful in demonstrating the trend of increased earmarking. Core programs reflect the priorities of the organization as determined by multilateral governing bodies (the collective principal) in consultation with the organization’s secretariat. When member states elect to provide “core funds,” there is no donor specific earmark, rather core contributions are used to fund the agenda agreed upon by the multilateral body. Today the bulk of voluntary contributions are “non-core,” which are earmarked by specific use by the donor. Recent reports from the ILO and FAO show that “most voluntary contributions are earmarked to specific programmes or projects” by the donor. At the WHO approximately 80 percent of voluntary funds are earmarked, and at UNESCO “all voluntary contributions” were specified for use by the donor (Yussef et al. 2007).
Figure 5 depicts donors’ increasing tendency to provide non-core voluntary resources. Core resources were largely stagnant between 1994 and 2009, decreasing by 2 percent. In contrast non-core resources grew by 208 percent (ECOSOC 2011). Indeed, the drop in the proportion of core resources has been precipitous for some UN programs. The share of core resources as a proportion of overall funding at UNDP, UNFPA and UNICEF collectively dropped from 79.7 percent in 1991 to 31.8 percent in 2007 (UN Secretariat 2009, 4).

Figure 5. UN Core and Non-Core Development Resources ($US Billions, constant 2008)

Source: (ECOSOC 2011, 27).

The United States is not alone in its preference to provide voluntary, non-core funds. The top two contributors to UN development activities are the United States and the European Commission and they respectively provide 83% and 92% of their funding in the form of non-core resources. Among the top ten donors to the UN, only one, (the Netherlands) provides more than half of its voluntary contributions in the form of core funds. In the remaining group of Japan, the UK, Spain, Norway, Sweden, Canada and Germany, all provide more non-core than core funding (ECOSOC 2011, 32).
The explanation for this shift is likely twofold. It emerges against a backdrop of a clear donor preference to control how funds are spent. Non-core voluntary funding provides the greatest degree of discretion to donor states. Yet it makes sense that this preference would be constant throughout the period covered in Figure 5 in which non-core funding exploded while core funding experienced a slight decline making it difficult to explain the variation. The rise in non-core resources corresponds with increasing concerns with IO accountability, particularly by donor states. Donor states complain that UN executive bodies are weak when it comes to holding programs and agencies accountable due to some member states’ unwillingness to act.8

When donors provide non-core funds they are able to make oversight demands on programs and agencies that are distinct from those imposed by the formal governing bodies. This is because as the OECD notes, oversight and governance of non-core resources is “not under the purview of the board of the organization in question” (OECD 2010, 40). This enables individual donors to define what constitutes a successful use of funds, provide requirements for the IO to report on their accomplishments toward success, and make a determination about whether continued support will be offered. In other words, the donor’s ability to hold the IO accountable according to its own standard is greatly improved over the situation where these decisions are decided by the collective principal.

The main argument offered in this section is that multilateral decision-making has governed an ever-shrinking portion of UN activity. The shift began during the 1950s as a result of Soviet objections to funding development activities through mandatory assessments. Consistent with the expectations derived using the principal-agent framework, the trend toward voluntary funding escalated in the decolonization period as a result of American inability to

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8 For a detailed version of this argument, see (US House of Representatives 2012)
control outcomes on the General Assembly. In more recent years donor states have increased their discretion over UN funding further with the use of non-core funds. Although the UN continues to refer to all contributions it receives as multilateral aid, the OECD more accurately describes non-core aid to the UN system as bilateral. The reason for this is straightforward: more than 88 percent of voluntary resources are provided to the UN on a bilateral basis, that is, they are from a single donor and project specific (ECOSOC 2011, 28).

In stark contrast to perceptions that the UN represents the heart of postwar multilateralism, its current circumstances can be better described as an inverted hub and spoke model in which individual UN agencies act as hubs for aid delivery and compete for bilateral financial support from individual member states. The funding scheme has been referred to as an ‘a la carte’ system in which donors adopt a unilateral ‘pick and pay’ approach to UN funding (Cardenas 2000; Francioni 2000). What are the consequences of this system? The next section provides a preliminary consideration of consequences derived from a multiple principal model.

**Implications of an Increasingly Bilateral UN**

The UN System in its current form has something for everyone: donors are satisfied by a high degree of discretion granted by voluntary funding and recipients continue to associate higher levels of legitimacy with the UN than with other multilaterals. There is little doubt that the voluntary funding scheme has enabled the UN System to survive in the field of development; in its absence UN activities in these areas would likely have dried up as donors’ lost control of

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9 They also increasingly compete for funding from non-state actors.
10 For example, in negotiations over where to locate new programs, developing countries consistently express a preference to house programs within the UN system rather than with the World Bank. Examples include the debates over the location of the Global Environment Facility and other elements of the Climate Change regime. Arguments often include reference to the perception of developing country representation being greater at the UN than at the Bank.
the General Assembly and the executive bodies of the Specialized Agencies. In this way, the move to a multiple principal model produced far more Western financing for global problem solving and development projects through the UN System than in the counterfactual situation where the voluntary funding scheme did not emerge as an alternative. At the same time, the evolution toward increased bilateralism has created a complex and sometimes incoherent institutional structure. The following examines two types of problems associated with agent behavior in a multiple principal model. First, that it creates perverse incentives for agents that lead to the pursuit of inconsistent objectives and duplication resulting in efficiency costs. Second, it considers questions of representation in the multiple principal model (i.e. whether the interests advocated by the dominant donors in the multiple principal model are distinct from those that are articulated by multilateral bodies).

**Perverse agent incentives**

A concern often heard regarding increased reliance on voluntary funding is the difficulties it poses for IO planning (Taylor 1991, 381) (OECD 2005/2008). When organizations cannot count on the reliable flow of resources it is difficult to engage in long term projects. Efforts can become skewed toward tracking easy-to-measure indicators that may not reflect progress in solving underlying problems. This problem would exist under any voluntary funding scheme, however, it is amplified in the multiple principal model where agents must spend time and expense responding not to a single set of demands regarding performance as they would in a collective principal model, but to multiple sets of demands which vary across principals.

The earlier theoretical discussion illuminated a key difference between the multiple and collective principal models regarding the effect of heterogeneity. Heterogeneity prevents action
by member states in the collective principal, while member states retain the ability to act in the multiple principal model. This permissive condition opens the door to a second concern that agents will face inconsistent demands in a system of multiple principals. Because collective decision-making is not required by donors, they are free to make demands on the agent unilaterally. To the extent these demands are inconsistent it produces a quandary for the agent.

As Wood and Waterman (1993: 503) note, in a political system characterized by multiple and heterogeneous principals, bureaucrats may not know how to behave since any path will alienate someone. When faced with different levels of financial support the agent will likely reflect the preferences of the highest bidder (Lyne et al. 2006). Yet this expectation assumes that the agent cannot pursue a strategy of parceling itself to appeal to competing interests in pursuit of greater resources (Hooghe 1999, 445).

For example, member states at the World Health Organization have long been divided over whether improvements in developing country health are better attained through vertical, disease-specific interventions or with long-term capacity-building projects to build local health systems (Cueto 2004). In response the WHO has been all things to all people and pursued programs of both types. Not all consequences of this strategy are negative, but a number are costly. First, pursuing methods that are perceived to be opposed can produce confusion over the ultimate goals of the organization and how it should pursue its mandate (Barnett and Finnemore 1999). In addition, the WHO must become expert in both approaches, develop performance indicators to satisfy donors that disagree over what constitutes success, and report results on the timelines preferred by its many masters.

A third concern relates to agent incentives to move outside their area of expertise in search of resources. Donor complaints about the need to streamline and reduce duplication in the
UN system are ubiquitous; yet the voluntary funding system produces incentives that encourage the problem. In a scarce resource environment, IOs are tempted to “follow the money” by incorporating programs that appeal to donors in order to attract resources regardless of whether they fit the strategic vision set by multilateral bodies (Taylor 1991; Balas 2012). The experience of UN Development Program in environmental affairs is instructive. Despite limited expertise, UNDP has been the most frequent implementing agency for projects in the area of climate change adaptation. The result is unsurprising; recipient state reports often indicate UNDP staff lack the knowledge on climate change issues that is necessary to guide project identification and design.\textsuperscript{11} In an evaluation of its own work, UNDP determined that its drive to pursue resources lead to unproductive competition with UNEP and deterred coordination with other agencies (UNDP 2008, viii, 15, 74). Indeed, increased competition is a desired effect of proponents of voluntary funds that see a need to improve efficiency.\textsuperscript{12} But competition can also reduce cooperation among agencies that see little advantage in paying deference to a division of labor system when that means they will miss out on critical resources. Here the problem of insufficient coordination—today considered among the chief weaknesses in the UN System—is encouraged by multiple masters supplying voluntary funds.

Each of the three problems discussed can be contrasted with a collective principal model. The primary difference is that in the collective principal model the multilateral body ultimately speaks with one voice. One set of priorities are agreed upon and the agent is accountable by virtue of the decisions of one multilateral body. This is not to minimize the degree of debate and disagreement inside multilateral bodies or to suggest the superiority of UN multilateral bodies in their current form to hold agents accountable, but rather to say that in relative terms these bodies

\textsuperscript{11} For example, see (UNFCCC 2008)
\textsuperscript{12} For example, see (Wedgwood 2005)
are less likely to make conflicting demands on the agent. Perhaps more substantially, the mandatory funding scheme reduces the incentives of agents to look outside their mandate in search of resources. This is both because some reliable level of resources is assured and because donors are not tempting agents with alternative funding sources but are instead channel support through the multilateral body. Note that the advantages of the CP model exist even when, and perhaps especially when, the collective principal is influenced by a hegemon. The critical difference in the incentive arguments is not that in a multiple principal model the agent pursues donor interests at the expense of recipients, rather it is that the agent pursues incoherent and conflicting aims as opposed to coherent ones.

**Issues of representation**

The multiple principal model also raises important concerns about the representativeness of UN decision-making and its effect on the priorities reflected in UN programs. Here the critical difference is not between coherent and incoherent demands but instead about donor demands versus recipient demands. In considering issues of representation, a collective principal model dominated by a hegemon or by a small group of the largest UN donors would be unlikely to represent recipient interests better than the current multiple principal model. However, if we instead compare the MP model to a collective principal in which the majority will is represented, we would expect the latter to perform better in representing recipient interests.

So long as the primary donors in the multiple principal model are not representative of the full population on relevant multilateral bodies, the potential exists for agents to pursue efforts that appeal primarily to a small proportion of their membership and to discount the interests of others. In writing his report on the United Nation’s operational capacity in 1969, Robert Jackson
was an early observer of the voluntary system. He noted that most individuals who conveyed their views to the Study, including UN staffers and representatives from member state governments, expressed the view that a significant “donor bias” existed in UN technical assistance that was unreflective of recipient needs (Jackson 1969, 66ff). This view finds many proponents today where a number of critics argue that voluntary funding shifts agenda-setting to those with deep pockets rather than the recipients of UN assistance (Taylor 1991; Dubey 2007, 154-55; Ravishankar et al. 2009).

Despite a willingness to pursue voluntary and non-core resources, there is considerable concern at the UN and the Specialized Agencies that increased reliance on these resources undermines the pursuit of formal mandates. UNDP recently pursued an evaluation on the topic and concluded with the mixed message that although voluntary funds had not yet systematically altered UNDP priorities, the continued disparity between core and non-core resources reduced its ability to provide assistance to a wide-range of program countries and respond to global issues that the aid market neglected (UNDP 2001). A number of agencies echo UNDP concerns. The ILO argues growth in voluntary funding limits the flexibility of the Secretariat to pursue its priorities (ILO 2010, 9). Recent analysis of International Atomic Energy Association (IAEA) financing notes the agency is increasingly “forced to allocate funds based on the desires of the donor state, and does not have the latitude to shift resources to meet program needs as they see them” (Boureston and Semmel 2010). An evaluation of UN humanitarian aid between 1994 and 2002 indicates that reliance on voluntary funds contributes to a tendency for political and strategic interests to dictate what constitutes an emergency with one or two appeals for aid dominating the donor agenda (UN General Assembly 2002, 17). Finally, observers of the WHO note that mandatory funds are aligned far more closely with the global burden of disease than
voluntary resources because voluntary appeals are only successful when aimed at a disease that captures the public’s attention, like HIV/AIDS or pandemic influenza (Sridhar and Gostin 2011; Gostin 2007). Gostin (2007: 298) goes further to argue that voluntary funding skews priorities and diverts resources from building stable local health systems to meet every day health needs.

**Implications for Institutional Design and UN Reform**

That UN financial matters are driven by bilateral donor decisions stands in tension with the perception of the United Nations as the “preeminent institution of multilateralism” {Tharoor, 2003 #6307}. This paper concerns itself with understanding why this shift occurred and exploring its consequences. The mandatory funding system lost the support of the United States when the US was no longer able to exert influence commensurate with its financial contribution in UN bodies. This outcome is consistent with view that when powerful states are unable to sufficiently influence weaker ones to control outcomes within an institution, it will produce a change or weakening of institutional rules and procedures (Krasner 1983, 200; Keohane and Nye 1977/1989). If multilateral rules are judged by their ability to prevent devolution to ad hoc bilateralism (Kratochwil 1993) the mandatory UN financing system failed. The US response to its waning influence was to expand a voluntary funding system in which financial contributors were no longer bound by the will of the majority. The system has advantages in its ability to attract donor funds but also produces challenges to achieving coherence and coordination in UN programs and raises questions regarding the representativeness of UN decision-making.

What are the implications for institutional design that can be drawn from the UN experience and what are the prospects for meaningful reform? Despite the concerns of many regarding UN reliance on voluntary funds, the issue of transitioning to a system where
mandatory assessments dominate UN contributions has never been placed on the UN reform agenda (Childers 2011). The reasons for this are clear: any substantial expansion of the mandatory funding scheme with the current scale of assessments, combined with the one country, one vote rule in the General Assembly, is a non-starter with the United States and other important donors. Indeed, a bill currently before the US House of Representatives calls for a complete elimination of mandatory funding at the UN in favor of total reliance on voluntary resources (US House of Representatives 2012). An expansion of mandatory funding with the current scale of assessments would also continue to leave the UN vulnerable to unilateral withholdings from its largest financial contributors.

Other efforts have been made to mitigate the negative consequences of voluntary funding without transitioning to greater reliance on a mandatory system. For example, Archibald (2004: 317ff) argues the UN should regard pledges to provide voluntary contributions as legal obligations “in order to reduce the member states’ proclivity to pledge funds and then not pay up.” More ambitiously, the Paris Declaration on Aid Effectiveness in 2005 represents an effort to improve donor coordination and reliability in providing voluntary funds (OECD 2005/2008). The efforts are aimed at streamlining donor oversight and reducing uncertainty that currently produces the perverse agent incentives described above. These efforts are admirable but have achieved only modest results. A 2011 OECD Report evaluating progress since the Paris Declaration calls the results “sobering,” noting that persistent earmarking and a lack of coordination remain obstacles to achieving the aims set out in the Declaration (OECD 2011, 15).

13 The Paris Declaration is an effort to improve effectiveness of donor aid. It is not specific to the United Nations but it is meant to apply both to aid provided to international organizations like those in the UN system as well as bilateral aid provided directly from a donor to a recipient.
Given the limited effects of voluntary reform and the objections to expanding the mandatory contributions using the current scale of assessments, I put forward two prerequisites to reversing the current trend of reliance on voluntary funds. The first involves a substantial reallocation of assessments among member states. The redistribution would entail a considerable reduction in the US proportion (currently at 22 percent) and a substantial increase in the assessments of rising powers, especially China, Brazil and India. These countries represent the second, sixth, and ninth largest economies in the world, but pay 3.1, 1.6, and .54 percent of the UN regular budget, respectively. The reallocation process should include lowering the ceiling on assessment levels, which have long left the UN vulnerable to unilateral withholdings by its largest contributors. Here I follow others in suggesting an initial ceiling rate between ten and fifteen percent (Childers 2011).

The second step involves a change in UN voting rules on budgetary matters only from the current one country, one vote rule, to weighted voting based on contributions. When weighted voting was demanded by the US Congress in the 1980s, the General Assembly could not be persuaded. Even with a substantially adjusted scale of assessments the move would be extremely controversial. However, the UN experience demonstrates the necessity of allowing influence to those member states that foot the bill. There is little chance of increasing the level of mandatory funds without such a change in voting rules.

In the business of UN reform, incrementalism typically carries the day making these changes extremely difficult to achieve. Nonetheless, support might be cobbled from a diverse group of actors: those interested in reducing US influence at the UN, including South Centre advocates and small but substantial donors such as Denmark and Sweden. The proposal may also find support in the US Congress, which has worked to lower the US assessment incrementally
since 1945 and has pushed for weighted voting in the past. The rising powers, in turn, would need to accept a trade-off of increased responsibility in exchange for increased influence and prestige. If support could be found for these two changes member states would have a much better chance to reestablish the importance of financial obligation at the United Nations and reverse the trend of disproportionate reliance on voluntary funds.

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