Policy Area Discipline: Accountability through Competition among International Organizations

Phillip Y. Lipscy

I propose and test a theory about institutional competition within international regime complexes. Due to the absence of an overriding profit motive, international institutions are largely insulated from market discipline. However, they are affected by another form of discipline that is largely absent in private markets. This “policy area discipline” imposes accountability by constraining distributive arrangements among members. In policy areas with widespread competition, institutions that adopt skewed distributive rules face credible threats of exit from dissatisfied members. Regardless of whether these threats produce institutional change or exit, cooperation in the policy area as a whole tends to shift away from skewed institutions. I test the theory empirically by examining an original panel dataset of aid disbursements and decision-rules of international development aid agencies. The empirical analysis demonstrates a “survival of the most accountable” among development institutions: institutions with inflexible and unrepresentative distributive rules have lost resources and declined in importance as member states shift resources to more flexible institutions. I also use the synthetic control method to demonstrate that IFAD, an institution that shifted from rigid to flexible decision-rules, experienced an increase in subsequent resources and aid disbursements.

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A notable feature of the contemporary international order is the explosion in the number and complexity of international organizations, which has given rise to a burgeoning literature on regime complexes.\(^2\) One important question that arises from this literature is whether regime complexity facilitates or hinders international cooperation. On the one hand, a multiplicity of overlapping institutions may allow for experimentation and flexibility,\(^3\) inclusiveness,\(^4\) innovation and responsiveness,\(^5\) and differentiated progress under lack of international consensus.\(^6\) On the other hand, regime complexity can lead to pathologies like needless duplication, inefficiency, and failures of coordination.\(^7\)

In this paper, I will argue that institutional competition within regime complexes tends to exert evolutionary pressures on institutions, leading to the survival of the most accountable institutions. Due to the absence of an overriding profit motive, international institutions are largely insulated from market discipline. However, they are affected by another form of discipline that is largely absent in private markets. This “policy area discipline” imposes accountability by constraining distributive arrangements among members. In policy areas with widespread competition, institutions that adopt skewed distributive rules face credible threats of exit from dissatisfied members. Regardless of whether these threats produce institutional change or exit, cooperation in the policy area as a whole tends to shift away from skewed institutions.

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\(^3\) Keohane and Victor 2011, De Búrca, Keohane and Sabel 2014

\(^4\) Kuyper 2013, Murphy and Kellow 2013

\(^5\) Gehring and Faude 2013

\(^6\) Keohane and Victor 2011

\(^7\) Ahrne, Brunsson and Kerwer 2016, Alter and Raustiala 2018
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**Theory: Policy Area Discipline**

Constant, incremental renegotiation of international organizations has increasingly become a core feature of contemporary international relations. While some issue areas are characterized by high network effects and barriers to entry that give rise to encompassing institutional solutions, others are prone to institutional proliferation, competition, and complexity.\(^8\) In turn, institutions embedded within regime complexes are subject to contestation and renegotiation as states seek to alter the status quo by shifting resources among new or existing institutions.\(^9\)

This renegotiation diplomacy within regime complexes imposes a form of *policy area discipline*, pressure to distribute institutional representation and influence appropriately according to the underlying capabilities of members.\(^10\) This pressure can take the form of direct diplomacy to reform existing institutions by leveraging attractive outside options. However, it

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\(^8\) Lipscy 2015, Lipscy 2017  
\(^10\) Lipscy 2017
can also arise from the creation of new institutional arrangements that better reflect the interests of countries dissatisfied with the institutional status quo. Institutions that fail to respond to renegotiation diplomacy will tend to lose resources to alternative institutions that exhibit greater flexibility and accommodation. Thus, regime complexes should be characterized by evolutionary pressures in the direction of greater accountability, defined specifically as flexible institutional rules or norms that are able to accommodate underlying shifts in the power of member states.

Much like market discipline in the private sector, policy area discipline need not operate swiftly. Even in intensely competitive markets like finance, zombie firms linger for many years beyond their profitable years.11 The same is true of zombie international institutions, which often become dormant without going away completely.12 However, we should be able to observe a general tendency within regime complexes in the direction of greater accountability over time. In particular, less and less cooperation should be facilitated by institutions characterized by inflexible institutional rules as resources and activities shift to more flexible institutions.

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11 Caballero, Hoshi and Kashyap 2008
12 Gray 2018
Empirical Approach

To test my theory, I examine international institutions engaged in international development aid. Policy area discipline implies that development institutions with flexible institutional rules should win out over time at the expense of those with inflexible rules. In particular, institutions characterized by inflexibility will tend to see members move their resources to more flexible institutions as they seek greater influence over policy outcomes. These adjustments may take the form of shifts among universalistic institutions or the creation of regional institutions over which dissatisfied states can exert outsized influence within a limited context.

To keep the analysis tractable, I will focus on two variables that are easy to measure and clearly correspond to the theoretical premises. For the independent variable, I will focus on voting rules that determine the formal influence member states exert over the operation of the institution. Among development institutions, there is a clear divide between institutions that adopt one-country-one-vote rules and weighted voting rules. One-country-one-vote rules are inherently inflexible, allocating the same voting power to each member state regardless of their power or financial contributions. On the other hand, weighted voting rules are flexible in principle, allowing for distributions of formal influence that more closely match underlying power distributions as well as adjustments over time. Of course, weighted voting can also be quite impervious to change in practice,¹³ but even incremental or insufficient changes in vote weights represent greater accommodation than the total inflexibility of one-country-one-vote rules.

¹³ Lipscy 2015
For the dependent variable, I will focus on aid disbursements by international aid organizations. In order to focus on disbursements that are directly under the organization’s control and administered according to its decision-making rules, I omit earmarked funds and co-financing arrangements. This is an original dataset collected directly from the annual reports of specific aid organizations.\textsuperscript{14}

Voting Rules and Disbursements over Time

Although many development institutions have incorporated weighted voting rules, there are still many that utilize one-country-one-vote rules (Figure 1).\textsuperscript{15} Until the 1950s, one-country-one-vote institutions outnumbered weighted voting institutions. This shifted decisively beginning in the 1960s, particularly with the proliferation of regional development organizations. Nonetheless, as the figure shows, the number of one-country-one-vote institutions has also increased over time, albeit at a slower pace. One-country-one-vote rules are adopted for several


\textsuperscript{15} Organizations that do not specify a voting rule but operate on consensus or unanimity principles are classified as one-country-one-vote.
reasons. Organizations with small membership often opt for one-country-one vote rules presumably due to the relative ease of achieving consensus. Examples include the North American Development Fund, which is a cooperative venture between the United States and Mexico, and the Nordic Development Fund, which includes only five members. However, there are also universalistic organizations that have maintained one-country-one-vote rules, such as the United Nations Development Programme (UNDP) and United Nations Population Fund (UNFPA). These organizations tend so adhere to the prevalent norm within the United Nations that each sovereign state should receive equal voice over important decisions.
Source: Annual reports and websites of development aid organizations. The universe of aid organizations is adapted from Aid Data 2.0.16

Figure 2 plots the ratio of total aid disbursements by aid organizations with weighted voting rules and one-country-one-vote rules since 1969. The figure shows that international aid disbursements have shifted heavily in favor of weighted voting organizations over time. In the 1950s, despite being fewer in numbers, weighted voting institutions distributed about 5 times more aid than one-country-one-vote institutions. By 2012, the disparity had grown such that weighted voting organizations disbursed about 40 times as much aid as one-country-one-vote organizations.

16 Tierney et al. 2011
organizations. This reflects both the proliferation of weighted voting organizations as well as increases in the amount of aid they disburse.

**Figure 2**

**Aid Disbursements by International Institutions: Ratio of Institutions with Weighted Voting Rules / Those with One-Country-One-Vote Rules**

Source: Annual Reports of Various Development Organizations; See footnote 8 for list of organizations covered.

Also important has been the stagnation and decline of aid disbursements by major one-country-one-vote development organizations. Figure 3 plots aid disbursements (adjusted for inflation) by UNDP since 1969 in millions of 2012 US dollars. The figure shows that core aid disbursements by UNDP have been stagnant over the long term, with a steady decline from the early 1990s. This reflects “stagnant or declining” commitments to UNDP resources by donor
states, which have gradually shifted their focus to other international aid agencies.\textsuperscript{17} Competition over resources from institutions adopting weighted voting, such as the World Bank, have been particularly challenging, as noted by Klingbiel:

\begin{quote}
“Most of [UNDP’s] problems are… due to the UN member states themselves… The erosion of the funding role is a vivid example, as is the governments’ inability in the various political supervisory bodies of the UN system to ensure that effective coordination is possible… Important manifestations of disintegration are also associated with UNDP’s growing competition with the World Bank for [technical cooperation] resources.”\textsuperscript{18}
\end{quote}

Donor states like the United States, Japan, and major European states have preferred institutions with weighted voting rules, in which donors typically exercise outsized formal influence, over one-country-one-vote institutions like the UNDP. This is reflected starkly in the changing fortunes of the UNDP and the IDA, the concessional arm of the World Bank. In 1970, UNDP distributed 1.5 times more funds than IDA, but by 2020, this had reversed completely, with IDA distributing more than 10 times the amount of UNDP.

\textsuperscript{17} Galvani and Morse 2004, 312  
\textsuperscript{18} Klingbiel 1999, 296
UNDP has increasingly relied on non-core, co-financing arrangements to compensate for this shortfall, effectively becoming a consultant agency that implements projects proposed and designed by donor and recipient governments. These co-financing arrangements effectively circumvent the UNDP’s decision-making structure and allow the relevant governments to maintain strict control over projects. This means UNDP is often used not for aid but for other purposes. For example, the Brazilian central government co-finances UNDP projects under its own national budget in order to circumvent local laws and regulations, taking advantage of the
privileges and immunities enjoyed by the UNDP as an international organization.¹⁹ UNDP itself has noted the dangers of its own reliance on such projects: “It is thus feared that UNDP may be used for purely administrative functions (i.e., a simple crown agent or fiduciary role), as a hedge against currency fluctuations, or as a convenient device to bypass national tax legislation or generally applicable limitations on public service staffing and salaries.”²⁰

In effect, although the UNDP still maintains the bells and whistles of a development agency, it is increasingly transforming into a fee-based subcontractor for developing countries. Similar problems have arisen across major one-country-one-vote development institutions, such as UNICEF and the UN Food Program. A UN report on the topic notes:

“One key issue is how to handle burden-sharing among different donors. The international financial institutions have traditionally dealt with burden sharing by linking voting rights and representation on their boards with each donor’s share of capital… burden-sharing as addressed in financial institutions would require major adjustments before application to United Nations agencies, funds or programs. Although it is unlikely that the pilot introduction of negotiated replenishments… would significantly modify burden-sharing among donors and bring about substantial change in the short-term, it may serve to start a discussion process between the United Nations entities and Member States that could lead to significant funding results in the long-term.”²¹

In other words, a key problem is the discrepancy between one-country-one-vote rules and donor interests in retaining voice over how their funds are used and allocated. Unable to resolve this discrepancy, one-country-one-vote institutions have seen their resources and influence decline over time.

¹⁹ Galvani and Morse 2004, 316.
²⁰ North et al. 1996, Chapter 1
²¹ Funding for United Nations Development Cooperation: Challenges and Options 2005
Empirical Analysis

The previous section suggests disbursements among international development aid institutions have shifted away from one-country-one-vote institutions toward weighted voting institutions. However, this could be a spurious association, caused by characteristics that covary with weighted voting. For example, development banks tend to adopt weighted voting rules but also focus on loans rather than grants, which may inflate disbursement amounts.

To account for this possibility, I conducted a simple OLS regression analysis. The dependent variable is the annualized change in disbursements from 1970-2010. As in the previous section, only core disbursements are included, omitting co-financing and non-core disbursements. The key independent variable is a dichotomous indicator for weighted voting, which is coded 1 if an institution uses weighted voting, and 0 otherwise.

The results are presented in Table 1. The first column includes no control variables and shows that weighted voting institutions are associated with a higher annualized change in disbursements during the time period examined. In the second column, I control for the type of aid provided by the institution, dichotomously categorizing organizations according to their specialization in lending only, grant only, or both. The third column further controls for whether or not the institutions is a UN agency and whether United States is a member. The final column adds controls for whether the leader of the organization is a national of a DAC or non-DAC country. In all cases, the association between weighted voting and annualized change in disbursements remains positive and statistically significant.
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Note: Numbers in parenthesis are standard errors. Star denotes a coefficient at least two standard errors removed from zero. Disbursements are based on 1970 or earliest year available.
International Fund for Agricultural Development (IFAD) and Synthetic Control

None of the institutions analyzed in the previous section switched categories from one-country-one-vote to weighted voting. However, there is one institution that implemented a significant rule change in the direction of greater flexibility: the International Fund for Agricultural Development (IFAD). In 1995, the institution adopted a resolution that shifted voting rules from a static allocation of power to each of OECD, OPEC, and developing countries in the direction of pure weighted voting. If my theory is correct, this change should be associated with an increase in disbursements by IFAD as member states became more willing to allocate resources to the institution.

IFAD was established in 1977 as a UN specialized agency as an outcome of the 1974 World Food Conference. At its inception, IFAD adopted a rigid voting structure. According to Article 6, Section 3 of the governing document, IFAD was to allocate one third of voting power to each of the OECD, OPEC, and developing countries. This rigid structure led to considerable contestation from the mid-1980s to 1995, as OECD countries viewed the voting scheme unfair in light of their outsized (58%) contribution to the organization’s budget. In January 1995, reform proposals were adopted under which the institution removed the one-third restriction and allowed OECD countries to assume about half of the institution’s voting power.

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22 Article 6, Section 3, stipulated that “The total number of votes in the Governing Council shall be 1800, distributed equally among Categories I, II and III. The votes of each Category shall be distributed among its members in accordance with the formula set out for that Category in Schedule II, which forms an integral part of this Agreement.” According to Schedule II of the Agreement (prior to amendment), within each category, the 600 votes were divided among individual Members as per the 3 voting blocs mentioned earlier in the paper.
To examine if IFAD’s change in voting rules increased the organization’s resources and hence disbursements, I utilize the synthetic control method. Synthetic control constructs a control case that closely resembles the “treated” case based on key predictors. In this application, synthetic IFAD is created using the weighted average of potential control organizations, which matches the parameters of key predictors of disbursements in the period leading up to the treatment year, 1995. This allows for the comparison of disbursements by IFAD and “synthetic IFAD” in the post-treatment years. The method was originally developed to examine the economic impact of terrorism in the Basque country, and it has subsequently been applied to consider the effects of various political changes such as German reunification, economic liberalization, expulsion from the IMF, and the conclusion of security treaties.

The institutions included are the same as those in the previous section. The dependent variable is core disbursements, which I log to improve fit in the pre-treatment period. For control variables, I use the full set of control variables in the last column of Table 1. Predictor means were well balanced and synthetic IFAD most heavily weights UNEP (56%), ADB (23%), and UNCTAD (21%). The main result is presented in Figure 1. As the figure shows, IFAD and synthetic IFAD follow a similar trajectory until 1995, the year IFAD implemented a change in its voting rules. Thereafter, a large gap opens up, with IFAD disbursements continuing to increase while synthetic IFAD disbursements decline. I performed several placebo tests (permutation test, +/- five years) to confirm the results are not spurious.

23 Abadie, Diamond and Hainmueller 2010
24 Abadie and Gardeazabal 2003
25 Abadie, Diamond and Hainmueller 2015
26 Billmeier and Nannicini 2013
27 Lipsy and Lee 2019
28 Beckley, Horiuchi and Miller 2018
Substantively, these results suggest that voting rules matter for international aid institutions. IFAD’s shift from rigid voting rules to flexible rules is associated with a meaningful increase in disbursements. Qualitative evidence is consistent with these findings. The IFAD annual report notes that:

“The Fund’s formal governance structure of three Categories with fixed membership was eliminated and Member States can now choose to align themselves in informal constituencies of flexible composition. This has important implications for future replenishments of the Fund by eliminating the whole question of “burden-sharing” among Categories of Membership, previously a hindering element in replenishment negotiations.”29

Before reforms in 1995, replacements of IFAD resources occurred at the rate of one every six years. After 1995, this accelerated to one every 2.5 years. During 1985-1995, there was only one replenishment of $550 million, compared to four replenishments totaling $2 billion in 1995-2005. Flexible voting rules that accommodated the interests of dissatisfied OECD states allowed IFAD to attract resources and attention that would have otherwise likely gone to other development aid organizations and programs. During the same time period, funding for other UN aid agencies with inflexible voting rules generally stagnated or declined.

Figure 4: Trends in Core Aid Disbursements, IFAD vs. Synthetic IFAD

Note: Disbursements increased for IFAD after institutional reforms in the direction of pure weighted voting, while they declined for synthetic IFAD.
Conclusion

International institutions that operate within regime complexes face intense competition and pressures to adopt representational structures that conform to underlying distributions of power. Failure to do so results in reallocation of resources to more flexible, competing institutions. One way or another, the policy area comes to be dominated by institutions using flexible representational rules. I call this process policy area discipline.

I presented evidence of policy area discipline using data on voting rules and disbursements of international aid agencies. The evidence is consistent with the proposition that international organizations with flexible decision rules tend to predominate over time. Development institutions that use inflexible representational rules have tended to fade as member states reallocate resources elsewhere. Organizations like UNDP have effectively survived by shifting their efforts into alternative issue areas, such as helping governments circumvent local regulations by conducing domestic projects under the auspices of an international agency.

Although I focused on development aid and voting rules in this paper due to data availability, the theory should be applicable to a broader set of issue areas and regime complexes. The same basic premises should also apply to rigidities in informal representation, though these may be more difficult to observe and quantify. An important precondition for the operation of policy area discipline is competition: in issue areas characterized by an encompassing institution with unattractive outside options, policy area discipline will be weak or non-existent.30

30 Lipscy 2017
The findings provide some grounds for optimism about the proliferation of regime complexes. Although institutions in regime complexes may appear duplicative and wasteful, competition does appear to improve accountability, giving dissatisfied countries attractive outside options and hence opportunities to pursue cooperation in institutional settings that reflect their preferences and interests. Of course, the flipside of this is that representative rules that are not aligned with underlying power, such as rules that give weak actors outsized voice, are difficult to sustain within regime complexes. This may be bad news in issues areas where cooperation is impeded by reluctant powerful states, such as global climate change.

The findings also raise some interesting puzzles for future work. First, despite losing resources and recognizing clear problems with their formal rules, development organizations that use one-country-one-vote rules rarely reform these rules in the direction of flexibility. Furthermore, there is limited evidence of rational design based on learning. Table 2 depicts the number of new development IOs by decade according to their voting rules. Despite the lackluster performance of one-country-one-vote organizations over time, there is no trend in favor of the creation of weighted voting institutions. Weighted voting has come to dominate development aid not because of rational design, but through competition and resource reallocation.

From a theoretical perspective, these findings suggest a note of caution about inferring rational design from observational data about international organizations. Dominant institutions may exhibit design features that appear rational through the operation of policy area discipline, even if the vast majority of institutions created in an issue area were designed with a different set of features. It is important to trace the evolution of institutions and their rules within an issue area to evaluate whether effective design emerged through ex ante planning or ex post selection.
Table 2: New Development IOs by Decade

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