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# Trust funds as a lever of influence at international development organizations

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## Abstract

Trust funds – broadly defined as financial vehicles to channel development funding earmarked for specific purposes through international development organizations – have grown substantially over the past two decades. Reflecting the variety of trust fund purposes and related governance arrangements, an emergent literature emphasizes a diversity of reasons underlying this growth. This paper proposes a simple – yet encompassing – explanation applicable to all kinds of funds: Donors use trust funds to wield ‘influence’ – leveraging financial resources to alter the policies of multilateral organizations. Based on interviews at the World Bank, the study shows that influence is a dominant motive behind trust funds, though the capacity and willingness to wield influence varies across donors. Influence is a salient motive especially for medium-sized donors and emerging donors but surprisingly less so for large donors. In addition, attempts of influence are most effective when donors promote new thematic issues that did not previously feature Bank assistance and outside established programs. Concerns among stakeholders about undue donor influence are highest with respect to the global knowledge work of the World Bank but are virtually absent when involving donors in the operational activities at the country level.

**Running title:** *Trust funds as a lever of influence*

## **1. An influence perspective on the rise of trust funds**

In recent years, two phenomena have altered the development aid architecture. First, ‘global funds’ – such as the Global Fund to Fight Aids, Tuberculosis, and Malaria – have grown into serious competitors of the established multilateral organizations – such as the World Bank, the World Health Organization, and other United Nations entities (Smyth and Triponel, 2013; Sridhar and Woods, 2013; Browne, 2017). Governed by independent boards in which donor countries control a majority of the votes, global funds act outside the established multilaterals but contract the latter as their implementing agencies. Donor countries committed more than USD 8 billion to global funds (OECD, 2016), which implies that these funds channel a similar amount of earmarked funding to implementing multilaterals.<sup>1</sup> Second, at the same time, donor countries have created ‘trust funds’ at multilateral organizations to channel development assistance earmarked for specific regions, countries, themes, or sectors (OECD, 2011; Reinsberg et al., 2015; Eichenauer and Reinsberg, 2017). In 2015, donor countries channeled about USD 20 billion as earmarked aid to multilateral organizations (OECD, 2016), and for many implementing multilaterals, earmarked funding accounts for the lion share of their development budgets. Over the past few years, the United Nations financed about 75% of its operational activities for development through earmarked aid (UN, 2012).

These two trends tend to be analyzed separately. In this paper, I propose a unified approach to studying both kinds of phenomena: I argue that the common denominator underlying the popularity of multilateral funds for donors is ‘influence’ – the capacity of the donors to alter the behavior of other donors and multilateral agencies according to their own priorities. Capturing the relevant explanations for trust funds through the lens of influence has a key advantage: International Relations scholars have a keen interest in patterns of influence, for example when states use multilateral venues to advance unilateral interests, the conditions under which such attempts are successful, and through which mechanisms states wield influence (Kilby, 2009; Stone, 2011; Stone, 2013).

I pose three related research questions: 1) Do donors want to use trust funds as a lever of influence? 2) In which ways do donors use trust funds to wield influence? And finally, 3) Are such attempts of donor influence effective in that they actually change the behavior of multilateral organizations? I address these questions based on evidence from 75 semi-structured interviews with donor representatives and staff members at the World Bank. Interviewees are drawn from different operational units in order to take into account different issue areas and types of activities supported through trust funds. In particular, World Bank trust funds can support country-level activities, including feasibility studies, technical assistance, and co-financing of projects managed by individual country units. They can also support the analytical work carried out by global thematic units. Moreover, trust funds vary in their membership, ranging from funds supported by only a single donor to multi-donor trust funds that include almost all major donor countries. The analysis shows that donor influence varies across different trust fund mechanisms, suggesting that donors choose these modalities strategically.

The findings contribute to the emerging literature on trust funds and more generally the resourcing of international organizations in at least two ways. First, by systematically studying donor influence

along the three questions outlined above, I add to the rather anecdotal evidence on donor influence through trust funds (Reinsberg, 2016). Theoretically, I propose a general explanation applicable to both independent global funds and trust funds within multilateral organizations. Previous research tends to focus on either one or the other and develops separate explanations for these phenomena. As a noteworthy exception, Reinsberg, Michaelowa, and Knack (2016) consider donor choices among different multilateral funds, arguing that each donor trades off individual control in small funds against burden-sharing benefits in large funds (regardless of whether or not these are legally independent). Second, I bridge two hitherto unconnected branches of literature – the one on informal governance in international organization and another one on trust funds – by showing that trust funds can be fruitfully understood as a means of influence beyond the formal influence that member states have through voting in the relevant boards of multilateral agencies. Although trust funds are based on formal agreements between the donor(s) and the trustee organization, their governance is informal with respect to the ability of an organization’s governing board to control these funds. Moreover, the politics of trust funds is by and large informal and hence can be seen as one mechanism through which financially forthcoming donors affect the policies of multilateral agencies.

This paper proceeds as follows. Section 2 provides a review of the relevant literature along the theme of (informal) influence. Depending on the locus of influence and its ultimate goals, I identify four scenarios of influence and discuss the role of trust funds in each. Section 3 presents evidence of donor influence through trust funds using the case of the World Bank. Section 4 highlights key findings and avenues for future research.

## **2. Theoretical perspectives: State influence at international organizations**

The term ‘influence’ broadly refers to the ability of an actor to be a compelling force on the behavior of another actor (Cox and Jacobson, 1973, p. 3). When states seek international cooperation, they often delegate authority to international organizations to perform certain tasks on their behalf (Nielson and Tierney, 2003). Within a single organization, influence may *inter alia* relate to decisions regarding membership, programs, creation of rules, enforcement of rules, and operations (Cox and Jacobson, 1973, p. 9-12). I propose another categorization of influence based on two dimensions: 1) the addressee of influence, and 2) the locus of influence. This categorization is particularly useful for considering strategies of influence beyond single organizations and thus for so-called ‘regime complexes’ (Raustiala and Victor, 2004).

The first dimension distinguishes between ‘unilateral influence’ and ‘collective influence.’ Unilateral influence refers to the attempts of one state to compel the behavior of other states (e.g., peer donors or recipient countries) by using international organizations as a channel of influence. In contrast, collective influence relates to the attempts of states to compel the behavior of the international organization to which they delegated certain tasks. The second dimension considers the level at which strategies of influence are located. On the one hand, states may choose inside options with respect to the international organization to achieve their goals (‘intra-organizational strategies’). On the other hand, states may use outside options that are external to the international organization (‘regime-level strategies’). The combination of these two dimensions yields a matrix with four cells

(Table 1) populated by four distinct – yet hitherto loosely connected – branches of literature. Using the perspective of ‘influence,’ I aim to link these branches of literature and discuss the existing research on trust funds in each of them. ‘Trust funds,’ as used throughout this paper, are financial vehicles established under the institutional law of the host organization (Droesse, 2011, p. 113), which makes them different from ‘pass-through multilaterals,’ independent multilateral entities established outside the legal framework but using the implementing capacities of traditional multilateral organizations (Heimans, 2004; Isenman and Shakow, 2010; Browne, 2017).

**Table 1:** A systematic overview of studies on influence

	<b>Intra-organizational strategies</b>	<b>Regime-level strategies</b>
<b>Unilateral influence</b>	Unilateral donor influence within international organizations	Forum-shopping
<b>Collective influence</b>	Collective control mechanisms within international organizations	Inter-agency competition and functional differentiation

**Unilateral donor influence**

States wield unilateral influence through three channels: formal power, structural power, and informal power (Stone, 2013). Hereby, power refers to the ‘aggregate political resources available to an actor’ that can be turned into influence (Cox and Jacobson, 1973, p. 3). Wealthy states are more powerful in all respects, for example because they have more votes in the formal governing bodies of the international financial institutions. They also have valuable unilateral outside options that give them more leverage to wield influence. In terms of operational influence, wealthy states have greater capacity to influence the day-to-day activities of international organizations. In contrast, small states have tiny delegations that must split their attention across different managerial duties (Cox and Jacobson, 1973, p. 198).

Oftentimes informal influence by powerful member states accounts for departures from formal rules, which therefore can only partly explain the behavior of international organizations (Kleine, 2013; Stone, 2013; Westerwinter, 2015). A voluminous literature provides evidence of informal influence, for a broad range of organizations including the International Monetary Fund (e.g., Thacker, 1999; Steinwand and Stone, 2008), the World Bank (e.g., Dreher, Sturm, and Vreeland, 2009; Kilby, 2009), and other development banks (e.g., Kilby, 2011; Lim and Vreeland, 2013). Studies in this tradition find that recipient countries that enjoy close political relations with the United States receive favorable treatment from these international organizations, which supports the interpretation that the United States exerts informal influence to the benefit of its political and economic allies. Despite this rich body of evidence, mechanisms of influence remain underresearched.

Trust funds can be a means of unilateral donor influence at international development organizations. Concerns are widespread that donors might potentially use trust funds to advance idiosyncratic

interests, leaving multilateral agencies in the role of mere implementers of bilateral priorities (UN, 2012; Browne and Weiss, 2014; Reinsberg, 2016). Scholars especially scrutinize single-donor trust funds because these funds offer the greatest potential for discretionary influence. Reinsberg, Michaelowa, and Knack (2016) show that bilateral donors use single-donor trust funds primarily in areas where their salient national interests are at stake, for example when channeling aid to middle-income countries. While this analysis demonstrates unilateral donor influence at a programmatic level, research is yet to extend to operational influence through trust funds.

### **Collective control mechanisms**

States may also wield collective influence vis-à-vis an international organization. According to principal-agent literature, international organizations are at risk to become unfaithful to their original mandates because they may not have the same preferences as their principals while having an informational advantage. States therefore need to install control mechanisms – ‘police patrol’ and ‘fire alarms’ – to mitigate agency slack (Pollack, 1997; Nielson and Tierney, 2003; Hawkins et al., 2006). A more subtle way of influence is reflected in the network ties between donor officials and agency staff. In line with this mechanism, Dijkstra (2015) shows that donor governments create ‘shadow bureaucracies’ to monitor a multilateral agency in areas in which they have salient interests.

Recent literature emphasizes that states can control the resources of an agency in order to limit its autonomy (Brown, 2010; Manulak, 2016; Conceição-Heldt and Schmidtke, 2017; Ege and Bauer, 2017; Squatrito, 2017). One such resource is staff (Parížek, 2016). International organizations seek to grow their staff body (Vaubel, Dreher, and Soylu, 2007), but they are not always able to do so unless states need expertise (Johnson and Urpelainen, 2014). States may even send their own experts to international organizations to relay back information from inside the agency. Another key resource refers to financial contributions. While previous studies suggest that donors can pressure for policy change through the ‘power of the purse’ – limiting the level of their contributions – more recent contributions emphasize the composition of funding. In particular, dependence on voluntary provision of resources essential to institutional functions, such as funds, troops, or technical expertise substantially limits the discretion of multilateral agencies vis-à-vis their principals (Goetz and Patz, 2016; Manulak, 2016; Reinsberg, 2016).

Trust funds – by virtue of providing earmarked funding that limits agent autonomy – are widely understood as mechanisms of collective influence. Donors use them to advance certain issue areas that not all donors perceive as a priority and hence are not willing to support through core contributions. Graham (2016) shows for the United Nations that preference divergence among the donors predicts the design of earmarked funding rules. Furthermore, donors with expansionary preferences use earmarking to make agencies work in new areas. In the case of the World Bank, the Nordic donors were ‘much more financially forthcoming relative to their economic wealth than the United States’ and bypassed the formal budgetary process, providing supplementary trust fund resources in exchange for policy influence (Kapur, 2002, p. 63).

Apparently, it is the less powerful, yet affluent donors that use trust funds to induce multilateral agencies to work in their priority areas. This is because small donors do not have much leverage to threaten withdrawal of resources, because their contributions do not make a difference in the overall

multilateral agency budget. However, small donors can incentivize multilateral agency staff through additional financial contributions to work in new issue areas.

### **Forum-shopping**

An individual state may not limit its efforts of influence to a particular organization but consider the whole set of agencies within a policy field. A state can use its simultaneous membership in several institutions that all could in principle address a given policy issue to hold out for the best deal. Such so-called ‘forum shopping’ is a deliberate strategy pursued by states of choosing the venues that advance their own interests most (Benvenisti, 2006; Foreman and Segaar, 2006). Urpelainen and van de Graaf (2015) suggest that a dissatisfied ‘challenger state’ creates an overlapping institution when the currently focal institution is captured by interests opposed to the challenger. This seems to suggest that forum-shopping is a strategy of the powerful states as it requires well-staffed diplomatic missions to set the agenda across different international policy-making venues.

When it comes to designing new such venues, Manulak (2016) shows that powerful states prefer weak secretariats over powerful secretariats in institutional design negotiations and that the actual design reflects their bargaining clout with respect to less powerful states that favor stronger secretariats. In a similar vein, Stone (2011) argues that powerful states often commit to limit their own formal power because they expect downstream informal influence advantages. Urpelainen (2012) confirms this argument by showing that formal international agreements often favor institutionally weak states that are disadvantaged in the unilateral influence contest.

Trust funds – which can be understood as informal governance with respect to the established formal governance procedure – have been found to further the interests of donors with expansionary policy agendas and thus can be seen as tools for forum-shopping. For example, Graham (2016) presents the historical example of the United Nations Development Program in the mid-1960s, when the Netherlands and other interested donors made contributions earmarked for special industrial services. In general, the evidence thus far also suggests that trust funds hosted at multilateral organizations complement multilateral activities financed from core contributions. In a statistical analysis, Reinsberg, Michaelowa, and Eichenauer (2015) do not find evidence that multi-bi aid (channeled through trust funds) would mitigate the growth rate of core contributions to multilateral organizations. Moreover, anecdotal evidence for the World Bank suggests that trust funds (despite providing additional resources to ongoing operations) extend the scope of operations beyond the formal mandate (IEG, 2011).

### **Inter-agency competition**

Inter-agency competition is another regime-level strategy of gaining influence. The distinction to forum-shopping is blurry, but inter-agency competition is more directly aimed at altering the policies of the legacy institution. While the reasons for forum-shopping may be idiosyncratic, the reasons for creating new institutions outside a legacy institution often relate to collective action problems such as stalemate in the formal governing bodies of legacy institutions, the urgency of joint challenges, and legitimacy concerns (Kahler, 1992; Benvenisti, 2006; Forman and Segaar, 2006; Eckersley, 2012). In such cases, states often establish informal intergovernmental organizations (Vabulas and Snidal, 2013). An example of such an informal arrangement is the G20, which held a key to reform the

International Monetary Fund in the wake of the recent global financial crisis and hence ensured its long-term sustainability (Albaret, 2013). While it has long been argued that institutional creation is the domain of the powerful states, some scholars consider informal organizations in particular to be a tool of the relatively weaker states (Helfer, 2004; Benvenisti, 2006; Vabulas and Snidal, 2013).

In a famous article, Helfer (2004) coined the practice of 'regime shifting', discussing how developing countries shifted debates on Intellectual Property Rights from the World Trade Organization to the World Intellectual Property Organization. On the one hand, developing countries engaged in forum shopping because they had more clout in the latter organization. On the other hand, by recurring to an agency with similar duties, they also induced competition for the World Trade Organization and increased its incentives to be more responsive to their own preferences. In general, 'functional overlap' serves to induce competition between rival agencies, challenging their respective 'bureaucratic monopolies' (Gehring and Faude, 2014). While hopes are that competition increases performance, it is also possible that the adoption of new legal provisions undermine the original arrangements (Shaffer and Pollack, 2010, p. 709). In fact, resort to alternative venues could 'sideline organizations such as the United Nations on the most important issues of the day' (Forman and Segaar, 2006, p. 221).

The recent growth of global funds – established outside existing institutional frameworks – suggests that donors seek to influence the behavior of the multilateral organizations whose business model the global funds claim to challenge. For example, Sridhar and Woods (2013) present evidence to suggest that donors created the Global Fund to Fight Aids, Tuberculosis and Malaria to influence the World Health Organization. Accordingly, donors were unable to control the World Health Organization on key policies. By earmarking their financial contributions, donors reduced the policy discretion of the agency and thus increased their collective control.

Donors have replicated the global fund model in several other instances. The Global Environment Facility (GEF) was the first entity to be established outside established institutions due to 'the loss of confidence in the capacity of those institutions to address the need in question.' In fact, donors wanted to avoid a solution too close to the World Bank because it had a bad record on environmental protection at that time and donors feared the Bank would use GEF resources to boost its own lending agenda (Smyth and Triponel, 2013, p. 59). In the case of the reconstituted Global Partnership on Education (GPE), donors wanted to break free from the restrictions of the World Bank in order to increase their allocations to countries with poor governance.

The above examples indicate that donors chose the venue for influence strategically. This leads to the expectation that when donors establish an entirely new institution (outside the institutional framework of the existing organizations) they seek to 'do things differently' and avoid too much policy autonomy for the existing organization. When they use trust funds hosted inside the multilateral organization, their motivations are more ambivalent – but certainly they are more likely to value the work of the agency and to trust its operational procedures. When using global funds, donors wield different types of influence compared to when using trust funds. In both cases, donors can influence programmatic decisions by initiating new programs and controlling multilaterals' resource allocations; however, while trust funds are more useful for operational influence, global funds reflect influence in the domain of membership (as the governance of global funds privileges donors compared to their respective position in the governance of the legacy institutions).



In summary, the above framework has shown that influence is the common denominator of all strategies but it is geared toward different aims. In all cases, states deploy or redirect resources to wield influence: Intra-organizational strategies seek to directly affect agency resources (which is possible in a rather short time horizon and hence affect actual practice), while regime-level strategies indirectly affect resources by shaping the competitive environment of a given agency (which naturally takes longer and involves institutional (re)design). In terms of which states are most likely to wield influence, rich states theoretically should be in a better position to do so because their resource contributions are often vital to the functioning of international organizations, their outside options are often better and hence imply that their threats to withdraw funding are more credible, and they are more capable of unilateral influence due to well-resourced delegations to monitor agency operations and to establish deeper ties with agency staff. In the realm of institutional design, however, these potential advantages may turn into bargaining disadvantages because less powerful states want protection against too much big power influence at the operational level (Manulak, 2016).

### **3. Case study: Trust funds and donor influence at the World Bank**

To study how donors use trust funds as a lever of influence, I examine the case of the World Bank. For the purpose of this study, the World Bank consists of the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA), given that its International Finance Corporation (IFC) is less relevant for development cooperation with governments and only manages a small portion of the trust fund portfolio. The World Bank was chosen because it can be seen as a hard case for donor influence. Trust funds play a relatively small role in its operations given that the World Bank primarily is a lending institution and trust funds complement its business with grant resources. Moreover, the World Bank is a leader of development thinking and therefore a significant share of trust-funded initiatives are developed by Bank staff rather than being imposed from the outside (Reinsberg, 2017). If donor influence was to be found in the World Bank context, it would be even more salient in financially less autonomous multilateral organizations.

Given the well-established evidence on donor influence through pass-through multilaterals, I remain brief on this issue but rather focus on trust funds hosted by the Bank itself. My analysis draws on 75 semi-structured interviews conducted at World Bank headquarters during July and August 2013.<sup>2</sup> Given that influence is notoriously hard to measure, qualitative analysis is the preferable method.<sup>3</sup> Moreover, interviews are useful even when they capture perceived influence, not actual influence, because these perceptions will shape the behavior of agency staff.

Building on the theoretical discussion in the previous section, I examine the following three issues. First, I explore whether or not World Bank staff perceives trust funds to be an instrument of donor influence and, if so, what motivates donors to do so. Second, I analyze how donors wield influence, and whether or not the strategies of different types of donors differ. I consider large donors (with a lot of formal power) and small donors (with little formal power). Third, I seek to assess whether attempts of donor influence are successful, touching on the potential consequences for the World Bank.

## Donor influence through trust funds

Only a few interviewees mentioned that donors sought to influence the World Bank by establishing independent multilateral institutions outside the World Bank (yet no interviewee mentioned the opposite). An experienced official said that ‘it was arrogant how the Bank dealt with its partners and this led to the proliferation of boards – anti-Bank trust funds.’<sup>4</sup> The ‘lack of transparency’ regarding how IDA projects are approved and the ‘rigidity of formal procedures’ further undermined the trust of some donors in the World Bank, leading them to favor venues outside the institutional framework of the Bank.<sup>5</sup> Another official from the Global Environment Facility (GEF) secretariat argued that ‘donors use the GEF to influence the World Bank,’<sup>6</sup> explaining how they pushed for enhanced fiduciary standards and social standards in the Governing Council that went beyond the related provisions at the World Bank and other implementing agencies. The same official also speculated that influence considerations might have been relevant as to why donors agreed to the establishment of the Green Climate Fund – an entity that is even more independent from the World Bank than the Global Environment Facility.

While these are the only two interviewees who explicitly mentioned regime-level strategies of donor influence, evidence is more plenty for trust funds hosted at the World Bank. Many interviewees agreed that ‘donors want to push the Bank into new issue areas.’<sup>7</sup> For example, the Nordic donors wanted to promote a human rights agenda inside the Bank and therefore established the Nordic Trust Fund, which was eventually approved by the Executive Board.<sup>8</sup> In contrast, there is no evidence that large donors use trust funds to promote specific policies. The Executive Director from the United States said: ‘I am less certain we use trust funds in a way to steer the Bank in a certain direction.’<sup>9</sup> Another motivation for influence is not related to substantive policy but procedural insurances: Donor governments need to account for their contributions before domestic auditors and their own constituents. Trust funds indeed trigger special reporting requirements that enable donors to demonstrate results back home for their multilateral contributions.<sup>10</sup>

Attempts of influence are not limited to big powers. To the contrary, especially smaller states are desperate to wield influence and hence punch above their formal as reflected in their share of votes in the Executive Board. The Australian Executive Director said: ‘In the Pacific context, the idea of influencing Bank policies is interesting.’ The flexibility of trust funds makes them a useful instrument to channel aid according to salient partisan interests: ‘Since trust funds are often single-use instruments with clear purpose and clear timeframe, they fit with government thinking.’<sup>11</sup> The choice of a trust fund portfolio does not seem to reflect a desire for influence at first sight, but by supporting specific priorities through the underlying trust funds, a donor naturally provides incentives for the Bank to adjust its activities. This is evidence of influence.

While so far all influence seems to be geared toward specific development issues, it may in principle be used to advance self-serving purposes. An experienced official claimed that ‘donors want to expand their sphere of influence beyond their bilateral programs’ and accused the United States of being ‘the worst abuser [that] uses trust funds for its own foreign policy agenda.’<sup>12</sup> The Executive Director from that country said: ‘There are other levers [than trust funds] we can use as largest shareholder [...]’<sup>13</sup> In fact, as is well known, the United States leveraged IDA contributions to influence IBRD policies in the 1990s.<sup>14</sup>

A final issue is what it tells about the relationship between the donors and the Bank if these donors increasingly rely on trust funds. For a regional trust fund coordinator, the growing use of trust funds implies that donors value the World Bank as an entrusted partner 'with a large network on the ground.'<sup>15</sup> Bank staff also mentioned cost-effectiveness: Compared to its competitor trustees, the Bank charges only a small management fee. An Executive Director from a small donor country summarized that the Bank 'has its comparative advantages.'<sup>16</sup>

In sum, donors indeed use trust funds (as well as the global funds established outside the Bank) as a tool of unilateral influence, primarily to promote specific development themes and procedural reforms, but less so to further other foreign policy objectives. Moreover, medium-sized donors seek more influence than large donors.

### **Mechanisms of influence**

My interviews suggest that donors influence the Bank through trust funds at two levels. First, donors wield widespread influence at the programmatic level. They determine fund priorities at the design stage as well as when they reconvene annually to review the program.<sup>17</sup> This sort of influence is natural – trust funds enable donors to pursue programmatic priorities that they would otherwise not be able to pursue through the formal governing mechanism.

Second, donor influence can extend to the operational level. At the operational level, donors are heterogeneous and possibilities for influence vary across funding type. As a general rule, donors are less willing and less able to wield operational influence with increasing number of other donors in the trust fund. But even within multi-donor trust funds, donors increasingly challenge the common framework and seek to inscribe certain restrictions on their contributions (through so-called 'notional earmarking'). In rare cases, for example when the trust fund supports a theme that does not traditionally feature in Bank assistance, donors influence the allocation of funds to concrete projects as they are part of the relevant vetting committees.<sup>18</sup> Some single-donor trust funds by design enable donors to vet project proposals, but this is common only among 'new donors' (emerging economies) and Asian donors.<sup>19</sup>

Patterns of influence also differ across types of activities that the trust funds support. For trust funds at the country level – typically recipient-executed trust funds – donor involvement is almost uncontroversial from the perspective of Bank staff. In general, the Bank allows donors to participate in its supervision missions.<sup>20</sup> There seems to be demand, especially from regional donors. In the words of an Executive Director: 'We have always pushed for joint missions, for example in Jakarta.'<sup>21</sup> In another region, the Bank accepted the quest from a lead donor to have its technical staff participating on the ground.<sup>22</sup> In-country collaboration is often essential for project success and donor engagement is less driven by the desire to influence the Bank but to share knowledge to the mutual benefit.

For Bank-executed trust funds – trust funds supporting the generation of global knowledge and analytical work – donor involvement more unambiguously reflects a desire for influence. Bank officials interviewed warned that the Bank should not rely too much on Bank-executed trust funds because these funds easily substitute the 'Bank budget' – the administrative budget of the Bank that it can use to fund activities at its own discretion – and can be used by donors to infiltrate



development thinking of Bank staff.<sup>23</sup> According to one trust fund manager, one strategy to wield influence through trust funds is a ‘straight augmentation of the Bank budget’ – for example to finance studies. In fact, the United Kingdom almost exclusively financed the work on the ‘World Development Report’ in FY 2013. This issue caused heated debates in the Executive Board.<sup>24</sup> An Executive Director from a large donor country (known as being skeptical toward trust funds) said it made him concerned that half of the knowledge products from the Bank are funded from trust funds. His conclusion was that ‘obviously you can have influence [through trust funds] beyond what is proportional to your share and which undermines the current governance structure.’<sup>25</sup> Supporting this claim, Bank staff complained that donors sometimes want to ‘clear reports – a common practice among SIDA, DFID, NORAD, the Netherlands, the European Commission, and also Korea, but less so among USAID, Spain, Italy, and Ireland’<sup>26</sup> One program manager further complained about undue influence because ‘donors wanted to comment on [...] research results before publication.’<sup>27</sup>

Influence also is a matter of time. In general, the Bank has sought to involve donors more upstream and donors have reduced their appetite for influence.<sup>28</sup> For example, the Bank-Netherlands Partnership Program was the primary lever for the Netherlands to promote results orientation and specific sectors yet uncharted by the Bank. Arguing that these objectives were achieved, the Netherlands phased out the program in FY 2012. Before termination of the program, the Netherlands pulled back from vetting individual projects.<sup>29</sup> More recently, the Board has become more unified toward the position that ‘trust funds are growing, hence we must make sure that this is not distorting [...] and that there is no influence through the back door.’<sup>30</sup> The Board added one pillar to the existing regulations to strengthen information sharing. Some middle-income countries in concert with a few donors even pushed for the requirement of full approval of all trust funds by the Board because they feared that donors would have too much influence on countries that are large recipients of trust funds.

Finally, the willingness to exert influence – particularly to micromanage aid programs – is a function of the economic cycle. In the aftermath of the financial crisis, donors tightened their monitoring activities in trust funds.<sup>31</sup> For example, a manager of a global program reported a general trend ‘to wield more influence’, and particularly during the financial crisis, ‘the United Kingdom applie[d] more scrutiny on budgets due to own cutbacks.’<sup>32</sup> A regional trust fund coordinator summarized that ‘the financial crisis has changed things [...] donors have come under more pressure to account for aid money’, and ‘earmarking is the second challenge.’<sup>33</sup>

In sum, donors wield influence through trust funds in multiple ways and at various levels. While trust funds almost always imply programmatic influence, they do not necessarily give donors operational influence. Operational influence is uncontroversial or even beneficial at the country level, but more controversial at the sector level when it comes to the global knowledge work of the Bank. With the financial crisis and the associated pressures on aid budgets, many donors have sought greater influence on operational procedures.

### **Effectiveness of attempts to wield influence through trust funds**

In general, interviewees acknowledge that trust funds visibly shape World Bank operations. An adviser explained: ‘Political change in donor countries has a huge influence [...] trust fund priorities reflect donor rhetoric from five years earlier.’<sup>34</sup> Conversely, a legal adviser argued that ‘it is very hard



to influence the policy agenda of the Bank through trust funds [...] it does not seed the work of the Bank.<sup>35</sup> Whether or not attempts of donor influence are really effective depends on the substance of the issues at hand, the types of activities and where they are managed, and the experience of staff in negotiating with donors.

First, there is a difference between development programs and operational rules. All interviewees confirm that donors cannot use trust funds to circumvent operational rules. A legal advisor stated that if a donor has requirements that are incommensurate with World Bank operational policies, the World Bank cannot accept the money. The advisor gave the example of the 'ABC policy' – a distinct approach to dealing with HIV/AIDS in development programs mandated by the United States that is not commensurate with World Bank rules.<sup>36</sup> Another issue is national procurement. A central unit staff member explained that 'some donors want national companies to benefit from trust funds, especially the midsized centralized donors and the "new donors" which did not yet make the disastrous experience with tied procurement as DFID and the Nordics.'<sup>37</sup> The Bank can only accept earmarking if it does not discriminate any particular donor. The only case where aid tying is possible is the donor-funded staffing program, through which a given donor can finance a staff position to be filled with its own national.<sup>38</sup>

Second, the types of activities supported through the trust fund affect the efficacy of donor influence. According to a regional trust fund coordinator, 'micromanagement is more an issue with the networks [the global sector units at Bank headquarters].'<sup>39</sup> Another regional trust fund coordinator said: 'Donors push hard, but we say "no" [...] we only accept contributions when they fit our work program, we are not a contractor.'<sup>40</sup> Conversely, in the network units, trust funds have often paved the way for new issue areas that became mainstreamed into Bank work. An official from a central unit stated: 'Trust funds should go into innovative issues, but the World Bank must strike a balance with alignment with its own priorities.'<sup>41</sup> Influence is particularly evident in high-salience issues, for example results-based management. A trust fund manager acknowledged that in that program, 'donors wanted to push the Bank and it did work: the results-based management agenda is now mainstreamed.' Moreover, 'donors have put rules in place to make sure that the trust fund is not taken over by the Bank – for example a panel of experts with donor representatives or a threshold on the percentage of funds that could benefit Bank-executed activities.'<sup>42</sup> This quote suggests that donor influence is greatest at the design stage.<sup>43</sup> The risk is that the Bank might lose legitimacy in the eyes of developing countries because it falls prey to donor agendas. According to a central unit official, 'the Bank still has not proven that trust funds would not displace its own priorities.'<sup>44</sup>

Third, donors have great leverage in the design stage – the phase in which they negotiate with Bank staff on the governance of the fund. According to Bank rules, earmarking is not possible in multi-donor trust funds, but donors can negotiate indicative preferences into the administrative agreement that Bank staff try to (and usually do) satisfy. This has led to the proliferation of 'windows' within multi-donor trust funds.<sup>45</sup> While indicative preferences can be included in the administrative agreement, donors maintain even more flexibility by also using 'notional earmarking' during the operational phase of trust funds. One global program manager said donors could not earmark in theory, but 'we try to accommodate their priorities,' for example by asking for country lists (indicating which countries shall be assisted or not with the respective donor contribution).



Evidence of influence is not limited to the design stage though. Several interviewees (notably, at upper management levels) assert that there is no donor interference once trust funds are established.<sup>46</sup> For example, Bank staff insist that project selection is entirely in the hands of the Bank. A regional trust fund coordinator said: ‘We cannot allow donors to select projects.’<sup>47</sup> However, staff members from operations report different experiences. A program manager gave the following hypothetical example on typical considerations of Bank-internal project selection committee members: ‘If project proposals come in from Panama and Uganda, and donors know better Uganda, then they will be more critical on Panama, so the Uganda project is more likely to get funding upfront.’<sup>48</sup> This is evidence of anticipatory obedience, which is also reflected in the statement of another program manager: ‘We need to stay in good terms with [donors].’<sup>49</sup>

The above quotes indicate evidence of donor influence at all stages of the trust fund cycle and across different trust fund programs. Structural criteria can explain some variation in the effectiveness of donor influence. As one manager from a small program speculated: ‘Probably the rules are stricter in the established programs, but we are a niche, a boutique shop, and hence donors have more leverage.’<sup>50</sup> Notwithstanding the structural differences, residual variation often relates to the individual experience of trust fund managers and donor officials, because every new trust fund involves a bargaining relationship in which both sides learn.

#### **4. Conclusion**

This paper examined to what extent donors use trust funds as a lever of influence at international development organizations. Theoretically, I distinguished four scenarios of influence that result from the interaction of two dimensions – the purpose of influence (whether it serves idiosyncratic goals of a donor or whether it aims at changing multilateral agency policies), and the locus of influence (whether donors directly influence a given organization or whether they do so by altering the regime in which the organization operates). My review of the relevant literature indicated that donors wield influence at all levels. As to the locus of influence, donors have used regime-level strategies by creating global funds in issue areas such as health, education, and the environment. As a source of earmarked funding, these global funds enable donors to wield programmatic influence over established multilaterals, while also wielding symbolic influence (given their high visibility) and challenging their universal representation. While global funds undermine established multilaterals as policy-making venues, they rely on the latter for implementation of development programs. A recent literature on ‘orchestration’ – a mode of governance in which a focal organization coordinates policy and works through several intermediaries for the benefit of some ultimate targets – emphasizes the merits of such division of labor by design (Abbott, Genschel, Snidal, and Zangl, 2015).

In addition, donors have used intra-organizational strategies by supporting special-purpose trust funds hosted inside multilateral organizations. These trust funds can be used to wield programmatic influence and operational influence. Using a vast number of interviews with World Bank staff and Executive Directors, I have shown that donors seek influence through trust funds and their respective attempts are often successful. In rare cases (if at all), donors used trust funds to further their idiosyncratic objectives. In most cases, a group of donors with like-minded preferences established a trust fund to promote certain development themes that did not previously feature in World Bank



activities, for example good governance, human rights, gender equality, and fragile states. Surprisingly, these trust funds were the tool of medium-sized donors rather than large donors, which apparently have other means to advocate for policy change. This might relate to the fact that small donors as opposed to large donors have not much leverage to threaten withdrawal of core contributions, but they can incentivize agency staff to explore new areas by promising additional trust fund contributions.

While the evidence suggests a generally declining trend of donor influence, the issue is still relevant and might become further relevant as the economic situation in many donor countries deteriorates. Moreover, 'new donors' (emerging market economies), which are known among Bank staff for their tighter control of resources, might further increase their trust fund contributions. Moreover, as administrative budgets at many organizations stagnate, donors are increasingly able to influence the agenda on analytical work that would usually be covered by these budgets but that is covered to a considerable extent by trust funds.

This paper has focused on the World Bank to examine the issue of donor influence through trust funds, but its results are applicable beyond the World Bank context. UN agencies and the World Bank are similar in important ways: Both are 'service organizations' rather than 'forum organizations' (Cox and Jacobson, 1973), which implies that in both organizations, the same types of decisions (i.e., programmatic and operational) and pathways of influence (i.e., initiation and control) predominate. UN agencies have structural features that make them even more susceptible to donor influence. In particular, UN agencies are completely dependent on donor outlays; big portions of their budgets are earmarked, mostly for individual projects. The predominance of single-donor trust funds also implies greater potential for influence even at operational levels.

Future research might take a more analytical stance and explain why donors want influence, why agencies accept such influence (beyond the obvious reason that they need resources to stay relevant), and under which conditions donors opt for regime-level strategies versus intra-organizational strategies to wield influence. Another issue relates to the conditions of success of influence, which can be attributed to state power (as discussed in this paper), the collective configuration of donor interests and the intensity of such interests, and negotiator characteristics. Finally, future research could examine the relative weight of 'influence' in comparison with other motives underlying the use of trust funds, using quantitative research methods. One alternative motive for why a donor may use trust funds is lack of capacity (Michaelowa et al., 2016). Moreover, trust funds may be instrumental to roll over aid budgets into the subsequent year, given that in many countries, donor bureaucracies have to spend their funds at the end of the year. Finally, a trust fund may have a ceremonial purpose, enabling the donor to respond to domestic pressure to act upon specific development issues. Examining these questions would further contribute to our understanding of trust funds as a new phenomenon in multilateral development finance.



## Author biography

Bernhard Reinsberg is postdoctoral research associate at the Centre for Business Research at the University of Cambridge. His research broadly is about the political economy of international organisations, covering more specifically recent transformations in financing practices toward earmarked funding, informal governance, and the effectiveness of the policies undertaken by these organisations.

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<sup>1</sup> The figure of USD 8 billion excludes the European Union, which has become a pass-through multilateral in recent years (Michaelowa et al., 2016).

<sup>2</sup> The analysis draws on 25 out of these 75 interviews. The interviews not referenced here provided important background information on World Bank trust funds but did not explicitly cover issues related to donor influence.

<sup>3</sup> Influence is hard to measure because it is essentially an estimate of the strength of the relationship between policy goals and actual outcomes from the perspective of the wielding actor.

<sup>4</sup> Interview 65 with Lead Operations Officer (August 26, 2013)

<sup>5</sup> Since FY 2012, the Bank has made public the minutes of Executive Board meetings but ‘a lot is still arcane.’

<sup>6</sup> Interview 61 with Head of Operations (August 22, 2013)

<sup>7</sup> Interview 65; Interview 20 with Legal Counsel (July 31, 2013); Interview 13 with Coordinator (July 26, 2013); Interview 47 with Operations Officer (August 12, 2013)

<sup>8</sup> Interview 13

<sup>9</sup> Interview 58 with Executive Director (August 20, 2013)

<sup>10</sup> Interview 3 with Partnership Adviser (July 19, 2013); Interview 20

<sup>11</sup> Interview 56 with Adviser to Executive Director (August 19, 2013)

<sup>12</sup> Interview 65

<sup>13</sup> Interview 58

<sup>14</sup> Interviews 20 and 58

<sup>15</sup> Interview 7 with Trust Fund Coordinator (July 24, 2013)

<sup>16</sup> Interview 69 with Adviser to Executive Director (August 27, 2013)





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<sup>17</sup> Interview 27 with Trust Fund Coordinator (August 2, 2013); Interview 73 with Senior Operations Officer (August 28, 2013)

<sup>18</sup> Interview 12 with Trust Fund Manager (July 26, 2013)

<sup>19</sup> Interview 44 with Senior Operations Officer (August 9, 2013)

<sup>20</sup> Interview 27

<sup>21</sup> Interview 56

<sup>22</sup> Interview 27

<sup>23</sup> Interview 7

<sup>24</sup> Interview 49 with Manager (August 13, 2013). Especially Switzerland was echoing concerns of developing countries in the Board on the lack of control of trust funds.

<sup>25</sup> Interview 59 with Adviser to Executive Director (August 21, 2013)

<sup>26</sup> Interview 65

<sup>27</sup> Interview 73

<sup>28</sup> Interview 49

<sup>29</sup> Interview 42 with Senior Operations Officer (August 9, 2013)

<sup>30</sup> Interview 49

<sup>31</sup> Interview 48 with Senior Partnership Specialist (August 13, 2013); Interview 49; Interview 52 with Program Officer (August 14, 2013); Interview 65; Interview 68 with Trust Fund Coordinator (August 27, 2013)

<sup>32</sup> Interview 52

<sup>33</sup> Interview 68

<sup>34</sup> Interview 1 with Adviser (central unit) (July 15, 2013)

<sup>35</sup> Interview 20

<sup>36</sup> Interview 20

<sup>37</sup> Interview 48

<sup>38</sup> Historically, the other exception was a makeshift trust fund in the 1990s. In this trust fund, supported by all donors except the United States, donors excluded American companies from contract award because the United States withheld their IDA contributions to pressure for reform (Weaver, 2007).

<sup>39</sup> Interview 51 with Trust Fund Coordinator (August 14, 2013)

<sup>40</sup> Interview 19 with Trust Fund Coordinator (July 31, 2013)

<sup>41</sup> Interview 47



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<sup>42</sup> Interview 67 with Sector Manager (August 26, 2013)

<sup>43</sup> Interview 12

<sup>44</sup> Interview 65

<sup>45</sup> Interview 68

<sup>46</sup> Interview 12; Interview 11 with Senior Operations Officer (July 26, 2013)

<sup>47</sup> Interview 27

<sup>48</sup> Interview 12

<sup>49</sup> Interview 73

<sup>50</sup> Interview 52



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## Supplemental appendix

**Table A1:** List of interviews

ID	Position	Staff type	Date
1	Adviser	Central Units	15.07.2013
2	Lead Economist	Task Team Leader	15.07.2013
3	Partnership Advisor	Trust Fund Coordinator	19.07.2013
4	Trust Fund Coordinator	Trust Fund Coordinator	23.07.2013
5	Trust Fund Coordinator	Trust Fund Coordinator	23.07.2013
6	Senior Operations Officer	Task Team Leader	23.07.2013
7	Trust Fund Coordinator	Trust Fund Coordinator	24.07.2013
8	Consultant	Central Units	24.07.2013
9	Senior Resource Management Officer	Trust Fund Coordinator	24.07.2013
10	Trust Fund Coordinator	Trust Fund Coordinator	25.07.2013
11	Senior Operations Officer	Task Team Leader	26.07.2013
12	Trust Fund Manager	Task Team Leader	26.07.2013
13	Coordinator	Task Team Leader	26.07.2013
14	Lead Economist	Central Units	29.07.2013
15	Donor focal point	Central Units	30.07.2013
16	Trust Fund Coordinator	Trust Fund Coordinator	30.07.2013
17	Senior Resource Management Officer	Central Units	30.07.2013
18	Operations Officer	Central Units	30.07.2013
19	Trust Fund Coordinator	Trust Fund Coordinator	31.07.2013
20	Legal Counsel	Central Units	31.07.2013
21	Legal Counsel	Central Units	31.07.2013
22	Program Manager	Task Team Leader	01.08.2013
23	Senior Economist	Task Team Leader	01.08.2013
24	Senior Operations Officer	Task Team Leader	01.08.2013
25	Adviser	Task Team Leader	02.08.2013
26	Senior Transport Specialist	Task Team Leader	02.08.2013
27	Trust Fund Coordinator	Trust Fund Coordinator	02.08.2013
28	Program Manager	Task Team Leader	02.08.2013
29	Senior Adviser		05.08.2013
30	Co-financing Officer	Task Team Leader	06.08.2013
31	Senior Partnership Specialist	Trust Fund Coordinator	06.08.2013
32	Senior Operations Officer	Central Units	06.08.2013
33	Senior Adviser		06.08.2013
34	Senior Governance Specialist	Task Team Leader	07.08.2013
35	Senior Adviser		07.08.2013
36	Managing Director	Central Units	08.08.2013
37	Adviser		08.08.2013
38	Senior Program Officer	Central Units	08.08.2013
39	Senior Partnership Specialist	Central Units	08.08.2013
40	Director	Task Team Leader	08.08.2013
41	Director	Central Units	09.08.2013
42	Senior Operations Officer	Central Units	09.08.2013
43	Senior Economist	Task Team Leader	09.08.2013



44	Senior Operations Officer	Trust Fund Coordinator	09.08.2013
45	Program Officer	Task Team Leader	09.08.2013
46	Resource Management Analyst	Task Team Leader	12.08.2013
47	Operations Officer	Central Units	12.08.2013
48	Senior Partnership Specialist	Central Units	13.08.2013
49	Manager	Trust Fund Coordinator	13.08.2013
50	Senior Partnership Specialist	Central Units	13.08.2013
51	Trust Fund Coordinator	Trust Fund Coordinator	14.08.2013
52	Program Officer	Task Team Leader	14.08.2013
53	Operations Adviser	Task Team Leader	15.08.2013
54	Director	Central Units	16.08.2013
55	Financial Analyst	Task Team Leader	16.08.2013
56	Adviser		19.08.2013
57	Senior Program Coordinator	Task Team Leader	19.08.2013
58	Senior Adviser		20.08.2013
59	Adviser		21.08.2013
60	Adviser		22.08.2013
61	Head of Operations	Task Team Leader	22.08.2013
62	Trust Fund Coordinator	Central Units	23.08.2013
63	Trust Fund Manager	Task Team Leader	23.08.2013
64	Head	Task Team Leader	23.08.2013
65	Lead Operations Officer	Central Units	26.08.2013
66	Senior Partnership Specialist	Trust Fund Coordinator	26.08.2013
67	Sector Manager	Task Team Leader	26.08.2013
68	Trust Fund Coordinator	Trust Fund Coordinator	27.08.2013
69	Adviser		27.08.2013
70	Adviser	Task Team Leader	27.08.2013
71	Adviser		27.08.2013
72	Program Manager	Task Team Leader	28.08.2013
73	Senior Operations Officer	Task Team Leader	28.08.2013
74	Lead Economist	Task Team Leader	28.08.2013
75	Lead Poverty Specialist	Task Team Leader	28.08.2013

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