# Chapter 19 - Budget Analysis

Svanhildur Thorvaldsdottir and Ronny Patz

*Geschwister-Scholl-Institut für Politikwissenschaft, LMU Munich*

***Pre-print of a draft chapter***
***on budget analysis in international organizations,***
***19 December 2019***

**We invite comments to this draft version of the text. Please contact svanhildur.thorvaldsdottir@gsi.lmu.de and ronny.patz@gsi.lmu.de**

Please cite this version as (future versions may be available):

Thorvaldsdottir, Svanhildur; Patz, Ronny (forthcoming). "Budget Analysis", in: Badache, Fanny; Dairon, Emilie; Kimber, Leah R., Maertens, Lucile (eds.). *Introduction to International Organization Research Methods,* Ann Arbor: University of Michigan Press, Chapter Version 1.0 (19 Dec. 2019)

*Acknowledgements*

*The paper presents insights gathered during the project "Resource Mobilization in International Public Administration: Strategies for the Financing of International Public Policy", funded by the German Research Foundation (DFG) as part of the Research Unit "International Public Administration" (FOR 1745, http://ipa-research.com). We thank Fanny Badache, Emilie Dairon, Leah R. Kimber and Lucile Maertens for inviting us to contribute to the volume. We thank Susanne Steigerwald for her research assistance.*

## Chapter 19. Budget Analysis

Svanhildur Thorvaldsdottir (LMU Munich)
Ronny Patz (LMU Munich)

What IO has the biggest budget? What is the fastest growing IO? Where do IOs spend their money, and what policy domains are underfunded? Does the USA dominate IOs when it is the largest contributor? How much influence do non-state donors such as the Bill and Melinda Gates Foundation have on IOs? Who decides where IOs spend their money? Is the budget of the EU the same type of budget as the African Union budget or the budget of the International Organization for Migration? And what are the key challenges in measuring budgets, revenues and expenditures while achieving validity, reliability and completeness?

### Recognizing variation in IO budget types

Measuring and analyzing the budget of an IO can mean many things—and defining this is also the key challenge in studying IO budgets (see Challenges below). At national level, a budget usually refers to legislation adopted to fix annual or multiannual spending, based on income generated from taxes, debts and other revenue sources of the state. In IOs such as the European Union (Becker et al. 2017), United Nations system agencies (Patz and Goetz 2019; Thorvaldsdottir 2017) or regional IOs in the Global South (Engel and Mattheis 2019), a budget can be very similar to typical public budgets but it can also mean very different things. For example, the EU budget and budget procedure compares well to a nation state budget, while the IOM budget is mostly based on individual projects instead of centrally adopted spending priorities.

In general, an IO budget might be an authoritative document through which IO revenue from states' membership contributions is fixed. It can define how spending is allocated to broad spending categories, or it may allocate available funds down to the last staff position. However, an IO budget may also be an indication of needs such as in the case of UNHCR in recent years. Whether those needs can be addressed by the IO depends on whether government, private and other donors provide sufficient voluntary contributions. In other IOs, budgets may be a combination of both worlds, partially defining membership contributions and spending allocation but otherwise just reflecting spending ceilings for certain spending categories for

which fundraising is necessary. In the WHO, this model is called an integrated budget (see Patz and Goetz 2019).

These differences could mean that comparing two budgets means comparing needs in one case and expected income in the other, maximum ceilings for expenditure in one case and expected allocation of funds in the other. Beyond these definitional differences, *measuring* budget figures can also imply doing very different things. Broadly speaking, the key difference is between measuring the *budget* as a political or administrative decision about income and/or allocation; measuring the *revenue* as actual income an IO can generate, in most cases from state contributions; and *expenditures* of IOs that it implements in a given period (usually a year). Each of these may be more or less important for different research questions.

When measuring budgets, revenues and expenditures, one then has to differentiate between *contractual obligations* such as budget commitments or pledged contributions for a given period—which may not be honored in time or not at all—and *actual disbursements* such as IO expenditures or donor contributions received. This differentiation is important, for example in the case of UNESCO where, for several years after 2011, the agency membership adopted a budget that included the USA contributions on paper, but which were never paid, requiring an additional implementing plan to the official budget that was quite different in size.

**The relevance of studying IO budgets and IO budgeting**

IO budgets, their revenue and their expenditures are among the most measurable dimensions of IO activities. These data provide an overview over the size and growth (or decline) as well as the geographical or policy focus of IOs. Budgetary data, if well-selected and when available, also allow for a comparison across IOs. These data are important dependent or independent variables in quantitative research on the evolution of IOs and their operations.

Understanding these dimensions matters because IOs are crucial providers of global public goods and they depend on resources to do so. IOs are also significant distributors of multilateral and sometimes even bilateral aid (‘multi-bi aid’), in some cases comparable to medium-size states and thus worth studying. In general, where IOs have access to sufficient and flexible resources, they can gain certain levels of autonomy (Ege and Bauer 2017). As such, they have independent influence and power in international relations, and studying their financing may

allow to understand their potential for power and influence, as well as how other actors may influence IOs. This includes tracing influence of government donors (Thorvaldsdottir 2017) as much as looking at the scope of private donors' influence on IOs (Seitz and Martens 2017) or broader questions of 'trojan multilateralism' (Sridhar and Woods 2013) in which IOs become dependent on key contributors.

**Data sources for IO budgeting research**

There are various ways to approach measuring IO budgets, IO revenue and IO expenditures. For the most recent years, usually the past one or two decades, there are now datasets available with varying levels of detail, accuracy, and coverage (see Challenges). Typical source but not necessarily reliable and valid sources might be the Yearbook of International Organizations[1] (only overall annual budget figures without clear-cut budget definitions, no expenditures); the OECD-DAC databases[2] (not necessarily the entire expenditures of IOs and only a limited ); the financial statistics provided by UNSCEB for the UN system[3] (but with consistency issues going back in time); as well as individual IOs' websites (which are not stable). Recently, the International Aid Transparency Initiative (IATI) has started to provide additional data, especially at project level[4] but also by agency[5].

Thus, quick research can rely on a number of pre-existing datasets, some provided by IOs, some provided by academic researchers. Often there is however no alternative around finding and analyzing official budget documents that provide the level of detail needed and include the relevant definitions of what is and is not included in the figures. Among the most useful documents are audited financial statements, which most IOs produce and which often contain the most reliable and detailed figures. When they are not available from IOs, they may be accessible through the archives of relevant national ministries to which they have been sent from IOs. Similarly, annual reports that include budget and financing sections are useful document, but not all include detailed financial data. Where they exist in annual reports, they often provide more contextual information than audited financial statements, which can help improve validity. If one works with pre-existing databases, it is worth checking figures used in

[1] https://uia.org/yearbook.
[2] https://stats.oecd.org/Index.aspx?QueryId=92146.
[3] https://www.unsceb.org/content/un-system-financial-statistics.
[4] http://d-portal.org/ctrack.html#view=search.
[5] https://www.iatiregistry.org/publisher.

these datasets against audited financial statements or annual reports to check whether figures are correct and whether they reflect valid measurements in line with the research question for which data is collected.

**Potential pitfalls in IO budget research**

The multitude of definitions of what a budget actually is in different IOs is the starting point for a lot of confusion. Many researchers do not actually clarify which aspect they study and whether the budgets and budget figures they compare are actually comparable. Thus, a multitude of questions are asked with regard to budgets, revenues and expenditures of IOs that do not necessarily match what is measured.

Thus, clarifying research definitions of IO budget research is the first challenge, and checking how IOs define what they include in their budgets and financial reports at different points in time is key to using budget figures for valid time series, panel and cross-sectional analyses.

For example, studying the EU budget with a focus on *commitment appropriations* may help answer questions about general political priorities and why the European Parliament cares about these. Studying EU budget *payment appropriations* instead would give a hint to how much member states actually have to contribute in a given year, which makes these figures much more important for states who are critical of the EU budget. Measuring EU budget *outturn* or expenditures may tell something about implementation, an aspect that may be more important for the European Commission, national bureaucracies or the recipients of EU funds and thus rather for research questions from the domain of public administration than from IR.

These definitional challenges make delegating the collection of IO budget figures to research assistants who are not also experts of the IOs of interest difficult. It requires lead researchers to invest extensive time in making sure the right kind of budget, revenue and expenditure data is collected in line with consistent definitions. Among the challenges is to define what to include into an analysis. Many IOs have extensive "budgetary galaxies" (Crowe 2017), including segmented side-budgets (Patz and Goetz 2019), trust funds (Reinsberg et al. 2015) and a variety of earmarked voluntary contributions both inside and outside core budgets (Graham 2017). Decisions to include these in one case but not in another can lead to distortions. Data for many

objects in these budgetary galaxies may not be available over time, or may be relabeled or can change with changing international accounting standards (Bergmann and Fuchs 2017)

The key challenge is however the availability, quality, and comparability of IO budget data.[6] Trying to construct a database with reliable IO budget, revenue and expenditure data beyond the past decade for your own research project can be difficult. While websites of IOs have become better in recent years and some IOs even start making downloadable datasets available for individual years and for all relevant financial data, finding official and final figures for any given year can be hard or impossible unless there is a dedicated, stable and up-to-date budget website.

When studying official documents instead of datasets, the question is where to find final and authoritative figures. Sometimes the official final budget is only decided in a governing body resolution, and all that is published are draft budgets that do not include final figures. Sometimes donor contributions are published in detail in audited financial statements while detailed expenditures at headquarter or field level are not reported. Expenditure databases may only include certain types of expenditure, such as project spending, but not institutional budgets. Finding historic data may often be impossible, especially if there are no online databases with official documents going back in time. Experience in the UN system shows that IO archives may not collect budgetary or financial documents in a consistent manner, so that field research may not provide consistent financial documentation either. Some older financial documents, when available, may simply be unreadable or require excessive manual work to transform printed data into machine-readable datasets.

However, trying to collecting well-defined and detailed budget figures over extended period of times can provide substantive insights that are worth the effort. If one has overcome or managed the challenges outlined above, there are then key other aspects to keep in mind in analyzing the data:

First, there is a difference between *nominal* and *real* budget figures. A budget may increase nominally from one year to the next, but due to inflation a nominal *increase* can be a real budget *cut*. A lot of political debates in IO governing bodies therefore are about real and nominal budget growth. The same applies to actual contributions of donors: an increase or decrease in a

[6] For the UN system see: Dag Hammarskjöld Foundation and UN MPTF Office (2018, Chapter 3).

donor's contributions in the currency of the IO (Euro, US-Dollar, Swiss Franc etc.) can be due to exchange rate fluctuations and not due to political considerations.

Second, the level of detail of budget data analysis may shape your findings. Macro-level spending categories in an IO budget may remain very stable over time, suggesting a status quo orientation. However, actual allocation of funds to single beneficiaries may shift dramatically, both with regard to geographic location or with regard to policy domain, suggesting punctuated or even erratic responses to outside influence or to actual needs. For example, WHO may have the same overall expenditures in the Democratic Republic of Congo in two consecutive years, but in the first year this is coming from the core budget and is spent across the country while in the second year this is based on earmarked contributions from a special fund to tackle Ebola. Country-level data may suggest stability, policy-level data can reveal significant change both at the donor and recipient level.

Third, comparing data across IOs may suffer from validity issues because of 'double delegation' (Michaelowa et al. 2019). For example, the EU co-finances other IOs such as regional organizations in the Global South (see various chapters in Engel and Mattheis 2019) or UN organizations (Michaelowa et al. 2019). This can lead to double counting (see Dag Hammarskjöld Foundation and UN MPTF Office 2018, Chapter 3) when one is interested in the overall importance of multilateral spending or it may lead to odd comparisons, for example between the EU and the AU, where the former is actually the largest donor to the latter.

Overall, the challenges for valid, reliable and complete data collection of IO budget, revenue and expenditure data are diverse. Pragmatic solutions will often be to understand what kind of data is available and then adapt research questions accordingly. This is fine, even though reviewers might always ask for more. More important is to be transparent about definitions used and about data sources, so that IO budget research can slowly accumulate insights, even if different researchers study financial data with different questions at different levels of analysis. Because when it is done well, such research can contribute significantly to the understanding of key aspects of the work and life of international organizations.

**References**


Becker, Stefan; Bauer, Michael W.; de Feo, Alfredo (eds.) (2017). *The New Politics of the European Union Budget*, Nomos.

Bergmann, Andreas; Fuchs, Sandro (2017). 'Accounting Standards for Complex Resources of International Organizations', Global Policy 8(S5), 26–35.

Crowe, Richard (2017). 'The European Budgetary Galaxy', European Constitutional Law Review 13(3), 428–452.

Dag Hammarskjöld Foundation and UN MPTF Office (2018). 'Financing the UN Development System: Opening Doors', available at: https://www.daghammarskjold.se/wp-content/uploads/2018/09/financial-instr-report-2018-interactive-pdf_pj.pdf.

Ege, Jörn; Bauer, Michael W. (2017). 'How Financial Resources Affect the Autonomy of International Public Administrations', Global Policy 8(S5), 75–84.

Engel, Ulf; Mattheis, Frank (eds.) (2019). *The Finances of Regional Organisations in the Global South. Follow the Money*, Routledge

Graham, Erin R. (2017). 'The institutional design of funding rules at international organizations: Explaining the transformation in financing the United Nations', European Journal of International Relations 23(2), 365–390.

Michaelowa, Katharina; Reinsberg, Bernhard; Schneider, Christina (2019). 'The Politics of Double Delegation in the European Union', International Studies Quarterly 62, 821–833.

Goetz, Klaus H.; Patz, Ronny (2017). 'Resourcing International Organizations: Resource Diversification, Organizational Differentiation, and Administrative Governance', Global Policy, 8 (S5), 5-14.

Patz, Ronny; Goetz, Klaus H. (2019). *Managing Money and Discord in the UN. Budgeting and Bureaucracy.* Oxford University Press.

Reinsberg, Bernhard; Michaelowa, Katharina; Eichenauer, Vera Z. (2015). 'The rise of multi-bi aid and the proliferation of trust finds', in M. Arvin (ed.). *The Handbook on the Economics of Foreign Aid.* Cheltenham: Edward Elgar.

Seitz, Karolin; Martens, Jens (2017). 'Philanthrolateralism: Private Funding and Corporate Influence in the United Nations', Global Policy 8(S5), 46-50.

Sridhar, Devi; Woods, Ngaire (2013). 'Trojan Multilateralism: Global Cooperation in Health', Global Policy 4(4), 325–335.

Thorvaldsdottir, Svanhildur (2017). Not with a bang, but a whisper: how states influence the United Nations; PhD thesis, University of Rochester. Available at: http://hdl.handle.net/1802/33455.