

# Towards a World Environment Organisation?

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## 1 Introduction

Whilst negotiations continue on the reform of the global financial architecture, there has been very little discussion of the need to redesign the loosely-knit international framework that is currently in place for addressing environmental problems, despite an increasing acknowledgement of its shortcomings. One institutional alternative that has been suggested is the creation of a World Environment Organisation (WEO) to accelerate the responsiveness of the international system to environmental challenges. This body would have a wider mandate than the WEO advocated by the director-general of the World Trade Organisation (WTO), Renato Ruggiero. His suggestion is for a WEO to act merely as a legal and institutional counterpart to the WTO.<sup>1</sup> Here we discuss some of the possibilities for an alternative World Environment Organisation (WEO), being discussed in a research project supported by the MacArthur Foundation and involving research institutions in both the developed and the developing world.<sup>2</sup>

The project recognises that global institutional design is, at present, a topic that is very much out of vogue; and this seems to be true both of environmental and other policy areas. Global organisations, such as the UN, the World Bank, IMF and WTO, are seen as too numerous; potentially captured by their own corporatist self-promotion; and, in the eyes of some, inessential, since whatever cooperative behaviour they induce could probably be generated by the parties to the cooperation without the presence of an institution. To generate interest in and support for an institutional innovation such as a World Environment Organisation therefore, one has to argue convincingly that there

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<sup>1</sup> See Ruggiero's speech at the High Symposium on Trade and Environment, 15th March 1999, available at the WTO web site.

<sup>2</sup> The project evaluates the rationale, possible organisational form and implications for developing countries of a WEO. The project is being coordinated by Professor John Whalley (Warwick) and Dr Peter Newell (IDS) with developing country partners in India (the Indira Gandhi Institute of Development Economics Research) and Argentina (Facultad Latinoamericana de Ciencias Sociales) in the first instance. A summary version of the article is also to appear in the United Nations Development Programme Human Development Report.

is an unambiguous and major problem, whose resolution is best achieved by the institution's creation. The *rationale* for a new institution is as follows:

- Despite the proliferation in international agreements on the environment since the 1970s, the rate of ecological devastation in many areas proceeds faster than ever before.
- The current way in which environmental accords are reached is excessively slow, rule- or principle-driven, often reliant upon science for progress and subject to the veto power of small numbers of states.
- The current international environmental agenda is perceived by southern countries as a northern dominated agenda which fails to address their concerns. Moreover, existing mechanisms for reconciling environment and development objectives (such as the Global Environment Facility) have made a minimal overall impact.
- There is an increasing awareness of the limits of using traditional aid and technology transfer packages to facilitate North-South cooperation. Such transfers are viewed suspiciously as a subsidy to Northern businesses seeking to offload redundant technologies that tend to entrench dependencies rather than enhance the development prospects of poorer countries.
- Many environmental agreements to date suffer from a failure of implementation. Commitments have not been met, and there has been a lack of effort to address the causes of non-compliance rooted in institutional incapacity and poor incentive structures.

## **2 Developing Countries and the WEO**

Critical to the success of a WEO will be its ability to navigate the (largely) North-South conflicts that previously have been a factor in stalling international negotiations on the environment. The negotiating histories of the ozone and climate issues, as well as Antarctica, biodiversity and forests, all suggest the ongoing importance of the contest over the apportionment of blame for environmental problems and the appropriateness of various mechanisms to 'induce' the cooperation of the South (for

example, commitment time-lags and a fund in the case of ozone; commitments conditional upon technology transfer in the case of climate change).

There is a perception among some in the North that developing countries have sought to use the concern about environmental issues as a bargaining chip for reasserting a global agenda reminiscent of the New International Economic Order of the 1970s, including demands for the regulation of transnational corporations (TNCs) and greater provision of aid. Opponents of environmental measures in the OECD have used sensitivities over these concerns as a basis for arguing against deeper involvement in international regimes to protect the environment, on the basis that Northern countries are being 'blackmailed' into making concessions to what they regard as unreasonable demands. At the same time, many developing countries view environmental issues as the latest attempt by the North to control their development. Charges of 'eco-colonialism' abound amid debates over who is entitled to lay claim to natural assets such as rainforests, which belong to one country, but whose use and exploitation have global repercussions (McCleary 1991).

Past experience suggests that institutions set up to address these problems have been disabled by accusations of bias towards a Northern agenda on environmental issues. The GEF, for example, seeks to implement conventions which Southern countries often cannot or do not want to fund (Young and Boehmer-Christiansen 1998). There was also little consultation in the creation of the GEF, particularly with the parties that were to receive its funds, and so the perception that the GEF was imposed persists. The provision of aid and technology transfer has been the principal mechanism used in the past to encourage the cooperation of less developed member states in international environmental negotiations, as side payments (compensation) to break down their resistance to undertaking commitments. A range of concerns has arisen with respect to these instruments on the part of LDCs (and others). The use of aid as a 'carrot' for participation in international environmental arrangements has been criticised on the grounds that it acts more to support Northern consultancies and southern élites, than as a solid basis for advancing sustainable development (Keohane and Levy 1997). In addition, environmental technology is often privately owned and it is difficult for states

to force companies to share their property (Forsyth 1998). More generally, with vertical 'point-to-point' transfers, there is concern that the technology is outdated and ineffective. LDCs provide useful outlet markets for the redundant technologies of the North and often help to keep Northern manufacturers of these technologies afloat. The technologies are also often not adapted to local needs and priorities, and, to be successful, skills as well as technology, have to be transferred, which rarely happens (Forsyth 1998). Hence rather than enabling 'leap-frogging', such transfers can further entrench existing inequalities and dependencies.

Given these experiences, it is easy to see why many LDCs are wary of the existing incentives offered to induce their cooperation on environmental matters. However, there has been a shift in some parts of the developing world towards an acceptance of the role that private investment can play in financing projects, manifested, for example, by acceptance of the role of joint implementation and North-South projects overseen by the Clean Development Mechanism (CDM). This may suggest a window of opportunity to contemplate a new mechanism for brokering North-South deals. Building on the lessons learned in 'debt-for-nature swaps' and the practices that will evolve within the Kyoto Protocol's CDM, there may be a case for an institution which seeks to broker deals in a more open but flexible fashion. Hence where short-term economic benefits are clear to recipients, where they are targeted at projects and the protection of resources that are of benefit and concern to recipient countries, and where such countries are involved in activating the deals themselves, opportunities that are not served by traditional aid and technology transfer become available. The challenge for a WEO is to pursue such opportunities in a way which is not regarded as a breach of sovereignty, and which allows for genuine interaction from all sides about the direction of funding commitments.

## 2.1 Objectives of a WEO

It is difficult to envisage a single institution that could simultaneously address all of these problems associated with international environmental cooperation. A WEO could nevertheless perform a number of functions that would strengthen responses to environmental degradation.

It would aim to:

(i) *Act as an intermediary and initiator of cross-country internalisation deals*

The functions of and objectives for a WEO all build on the theme that an internalisation failure exists in the global environmental area and that this can best be remedied by providing a new global institutional arrangement. The central objective for such an organisation is to facilitate cross-country deals on environmental issues which have the effect of raising environmental quality. This is a wholly different approach from that set out in Agenda 21, where a series of principles are seen as the way to build the global environmental regime. This project stresses the design of mechanisms which facilitate higher environmental quality over adherence to principles. The deals that a WEO would propose are seen as unachievable with present institutions and policy initiatives, including market-guided arrangements. A series of spin-off benefits from meeting the central objective of internalisation, such as underpinning domestic environmental policies, particularly in developing countries, can also be realised (see below).

A WEO would act as an intermediary generating internalisation arrangements between countries which are currently not taking place on global and local environmental issues. Thus, it is commonly pointed out both that side payments do not occur to any significant degree in existing inter-country environmental arrangements, and that financial resource transfers from OECD countries (where demand for global environmental quality is high) to lower income countries with significant endowments of environmental assets do not take place on a regular basis. If they occur, it is as a requirement of being a signatory to one of the global treaties such as the Framework Convention on Climate Change. Beyond this narrow category, such transfers have effectively not taken place.

This absence of financial arrangements to cement and underpin environmental arrangements occurs for good reasons. First, there are problems of time consistency. If, for example, Brazil were to promise to contain deforestation over, say 40 years, in return for financial inflows, then if the flows were paid immediately Brazil would request more funds after the initial receipt; but if funds were paid at the end

of the period, Brazil would have no assurance that payment would be forthcoming. Added to this is the problem that an arrangement entered into by one government may not be honoured by a following government which is either unwilling or unable to fulfil the terms of the agreement made to another state. Some form of intermediary guarantee for both sides is needed to reduce the element of risk involved in these transactions. Next, come problems of verification and compliance: who ensures that the pledged environmental target has been met, and what the remedies are if this is not the case? Then follow problems of free-riding: if many countries have existence value over Brazilian forests and deals are bilateral, countries free-ride on each other's deals. Lastly come problems of representing preferences for deals: who assesses and acts on behalf of the collective willingness of OECD countries to pay for slowed deforestation? This is presumably national governments, but how they are to do this and with what effect is unclear.

These and many more reasons explain why cross-country deals on environmental issues have been lowest common denominator in outcome.<sup>3</sup> They are also impediments to environmental improvement that a deal-making WEO can help to address. This is not to suggest that a WEO could resolve all of these deeply rooted problems, but that it may contribute to the alleviation of some of them. A WEO could act as an intermediary, receiving and holding funds until determinations are made as to compliance (with either transfer to the recipient country, or return to the sponsoring country). A WEO could also provide verification as to whether the terms of deals have been met, and act as a dispute settlement and arbitration vehicle. This would go much further even than the CDM which will initiate and oversee North-South transactions on climate change with oversight by the Conference of the Parties. A WEO could be proactive in identifying areas and countries between whom deals would make sense, and initiate proposals on that basis. It could coordinate single country offers and explicitly seek to internalise free riding in the deals it brokered. It could also propose mechanisms to be used in countries to assess and reflect collective willingness to pay.

In short, it could undertake any activity that filled in the gaps of Coasian deal-making (see below) on a global scale. It would obviously have no power to conclude deals – these would be for national governments to decide on; but proposals for deals, mechanisms to support deals, and arrangements to enforce deals would all be the bailiwick of the WEO. The main rationale, therefore, for a WEO is to redress failures of international negotiation in international environmental policymaking that move the global economy closer to achieving a fuller internalisation of global environmental externalities.

It is the economic theory of externalities that is germane to debate on whether or not the world needs a new World Environment Organisation, and which underpins the line of argument in this piece. This theory rests on two central contributions. Pigou (1920) was the first economist to clearly identify that where there are external effects in either production or consumption which do not appear in private agents' calculations, a tax which equates marginal private and marginal social cost will internalise the externality; this is because private decisions become coincident with appropriate social decision-making. Thus, with, say, cross-border externalities such as acid rain, the emitting country (or more precisely, producers in the emitting country) needs to bear not only their own production costs of the energy they produce, but also the costs they inflict on users of lakes outside the country. If these added costs are part of their production decisions, the externality is internalised.

Coase (1960) went beyond Pigou in two critical and key elaborations. First, Coase argued that the issue of who should pay these additional costs (or pay the internalisation tax) was a matter of property rights: who has rights to do what. Coase pointed out that economic analysis is silent on the issue of who should have these rights. Thus, in the acid rain example, do emitters have rights to produce energy, in which case lake users must bribe emitters to reduce their emissions; or do lake users have rights to uncontaminated lakes, so that emitters must bribe lake owners for permission to emit at various levels? The lake example may seem clear, but Coase

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<sup>3</sup> See also Heal's (1993) discussion of the formation of coalitions supporting international environmental agreements.

argued that for many externalities most would agree there is ambiguity as to who has property rights.<sup>4</sup> The issue of the basis upon which property rights can or should be allocated and exercised in the international environmental area has been contentious, as the debate on allocations of permits to emit carbon clearly shows. The ongoing dispute over who 'owns' the rainforests has also been the crux of the breakdown in global cooperation on this issue (Humphreys 1996; McCleary 1991). The idea of a common heritage of mankind has been one rhetorical device for depoliticising the issue of ownership, but again the cases of Antarctica and the deep-sea bed illustrate the limits of this approach where there are clear economic interests at stake (Vogler 1995).

Second, Coase argued that in the presence of an externality, bargaining (or Coasian deals) may well have already taken place, which either wholly, or partially, internalises the externality. Use of an internalisation tax where Coasian deals have already been entered into can be counter-productive and even worsen resource allocation. Subsequent literature has focused on identifying cases where such deals are likely to occur and where they are not, and how far they may have gone towards internalising externalities.

The relevance of these contributions for a World Environmental Organisation is that the present day global environmental policy regime, such as it is, has evolved in seeming ignorance of these two fundamental contributions to debate on environmental problems. We have no global environmental entity reflecting a vision and purpose comparable in design to the WTO or the IMF, such as achieving the internalisation of trans-border and global externalities. What we have instead are environmental treaties which have spawned in an ad hoc manner. Most are global, some are regional. Most have evolved from a scientific process: identifying harmful substances, setting levels for emissions, and attempting to achieve international acceptance through treaty ratification. Because many of the key global environmental issues are unidirectional

between one group of countries and other countries, the outcome of such narrowly focused treaties has often been based on minimal lowest common denominator formulae. There are effectively no side payments in such treaties; and so Coasian deals have not been facilitated by such treaties.<sup>5</sup>

(ii) *Extend and deepen treaty commitments*

A further set of activities for a WEO would be to bring existing cross-country environmental treaties under a single umbrella, with the aim of broadening and deepening existing commitments. New exchanges of concessions across areas might also be possible as a result of this. Commitments in the form of binding standards, for instance, would allow for exchanges of concessions, much as in the WTO. More innovative treaty arrangements might also allow for more progress to be made on the issue of side-payments.<sup>6</sup> By creating multiple systems of obligations and cross-referencing commitments, cooperation between more parties might also be achieved and incentives to free-ride would be reduced by a growth in zones of agreement.

(iii) *Facilitate environmental and non-environmental policy linkages*

By bringing global environmental arrangements under a single umbrella, a WEO would also make it easier for cross-country concessions to be exchanged between environmental and non-environmental areas, potentially leading to both a stronger environmental regime and gains elsewhere. Thus, developing countries might make concessions on their environmental policies in return for improved trade access (say, in textiles and apparel). A central problem in making such concessions is the existing patchwork quilt of global environmental arrangements, and by systemising these a WEO would greatly facilitate bargaining of this kind. Developing countries have, of course, been cautious over such bargaining, arguing that they should be compensated for undertaking environmental restraint of the form sought by OECD countries and fearful that a willingness to bargain indicates both a relaxation of this position and, implicitly, a concession on property rights. By providing institutional

<sup>4</sup> Coase also argued that the assignment of property rights would only be a matter of income distribution; it would not affect the outcome under internalisation.

<sup>5</sup> See the further discussions in Carraro and Siniscalco (1993), and Hoel and Schneider (1997).

<sup>6</sup> See also Barrett's (1994) discussion of self enforcing international environmental agreements.

support for connections across issue-areas in this way, however, incentives to cooperate are multiplied and the basis for cooperation is significantly broadened. Permit trading (where there have been attempts to develop credit systems for rewarding sacrifices and encouraging compliance) and debt-for-nature swaps both aim to facilitate North-South transfers, which explicitly link environmental commitments to economic gain, and demonstrate precedents for cross-issue linkages which can deal simultaneously with the concerns of both developed and developing countries.

(iv) *Use an international structure to underpin domestic environmental policy*

A central issue with environmental policy, especially in developing countries, is enforcement and compliance. An international entity in the environmental area, such as the WEO, might also lend support to those domestic groups (including NGOs) trying to raise levels of compliance within domestic policy regimes. Beyond performing the information clearing-house functions of the Commission on Sustainable Development (CSD), which collects and reviews information about parties' fulfilment of their UNCED obligations, a WEO could have at its disposal a wider range of surveillance mechanisms. It could build institutional capacity in less developed states based on a recognition that in the past compliance has been hampered by administrative weakness and poor institutional infrastructure. This is different from the current implementation of environmental agreements, where a more laissez-faire approach is adopted as to how countries choose to enforce their commitments.

## 2.2 Organisational forms

Towards these goals a WEO could take the following forms:

- In its earliest stages, the organisation would start life as a *deal-brokering intermediary body*. It would act as a unit to initiate and oversee the implementation of financial transactions, where developed countries put up a sum of money for the protection of a natural resource in the South, which the WEO administers and guarantees. It would provide verification as to whether the terms of the deals have been met as well as act as a dispute settlement and arbitration vehicle. This would go further than the proposals for an

International Bank for Environmental Settlements which would limit itself to the borrowing and lending of emissions rights.

There would be no set format for these transactions, no overarching principles or general rules to which arrangements would have to conform. Although deals would be concluded largely at a country-to-country level, countries would also represent agents within countries (consumers, companies). All countries who are members of the World Environment Organisation would have a seat on its governing council and would sign a protocol of accession committing them to engage in the creative pursuit of environmentally improving arrangements. The Council would then give an indication to member countries of the provisions a WEO offers to facilitate environmental deals. These would include verification and intermediation of financial arrangements necessary for such deals. The Council would provide examples of implementable deals, with full information as to how they might operate and be applied in various circumstances. The Council could also instruct staff to seek out possible deals and propose various cross-country arrangements.

- Added to this, the WEO could also act as a *clearing house bank* which issues credits to countries for sacrifices (measured in GNP) made in *not* exploiting a particular resource valued by the international community. These credits can then be offset against obligations in another issue area, so there is overall equity in the sacrifices countries make. For example, countries with significant rainforest cover would have an incentive to reduce deforestation because they could then avoid having to accept cuts in their greenhouse gas emissions (up to the value of their credit).

The Council could also initiate negotiating rounds across environmental issues. Because of the 'free-rider' problems associated with bilateral deals, a negotiating round with a series of deals discussed simultaneously would likely make more progress than stand-alone arrangements. The WEO Council could initiate negotiations aimed at streamlining and codifying the separate environmental treaties that now exist.

- Going further, the WEO could act as a mechanism by which environmental commitments from LDCs are rewarded (for example) with trade concessions from the North as a way of simultaneously addressing the concerns of both. The Council of the WEO could suggest possible *cross-linkage negotiations* with countries testing out what non-environment concessions may be attainable for what degree of environmental commitment. Brazil for example would be offered a degree of market access that would compensate for loss of growth incurred by reducing the rate of deforestation. The danger with proposals which seek to connect trade and environment however, is that the North may be able to exercise its trade leverage to get the South to relinquish one of the few bargaining chips it does have: control over natural resources which matter to the North. Nevertheless, with a WEO acting as an intermediary, the likelihood of this may be reduced.

Depending on the success of the WEO as a deal-brokering body, it would go on to acquire greater powers and responsibilities over time, taking on some of the functions described above. Such an entity, where it combines all of these functions, is unlikely to be implemented in the near term. There may only be sufficient political demand at this stage for the minimal deal-brokering organisation. The extent to which the international community is willing to move towards stronger institutional transformations will be a function of the perceived success of early initiatives, as well as changes in scientific understanding and levels of public concern about the environment and the global costs of a *lack* of internalisation.

The advantages of such an organisation are as follows:

- *Cooperative agreements can be struck immediately.* Deal-brokering is not tied to the normal conventions of environmental diplomacy. Whilst there would have to be some agreement on procedures, the WEO would not be constrained by the need for standard setting, or agreement on general principles. Only those parties that are interested in participating in these exchanges would have to sign up. Agreements are not driven, therefore, by the need to find a lowest common denominator formula acceptable to all. Once a critical mass is on board, a 'snowball' effect may develop whereby other countries are attracted to and drawn into the deal-making.
- Where payment is made for the preservation of a specific set of resources, *gains accrue directly to the party that makes the sacrifice* in terms of financial reward, and countries that are concerned about an issue/area/species can act immediately towards its protection.
- The North–South deals initiated by the WEO help to get round the perception that environmental concern is a guise for the West to control the development path of the South. Southern partners would be able to approach the WEO with ideas for projects to be funded and bid for money to be invested in particular environmental programmes or projects. By taking the lead in suggesting projects, *LDCs are in a better position to set the agenda.* In a 'display-by-pay' system such as this, the North would be in a position to demonstrate to Southern countries the extent of its concern about environmental problems. At the same time the gains from short-term sacrifice are made visible and therefore more acceptable to Southern parties.
- By forging links among environmental issue areas as well as between environment and non-environment issues, the *zone of potential agreement is significantly widened* and opportunities for cooperation increase. This may particularly be the case where trade issues are added and LDCs can gain an economic advantage from environmental concessions. Even in deals restricted to environmental issues, LDCs would receive direct financial 'compensation' for undertaking commitments for the benefit of the international community. This is likely to be more persuasive than asserting the stewardship responsibilities of countries that are host to globally significant ecological resources.
- By creating an immediate financial incentive towards the implementation of agreements a *WEO would improve compliance.* In broader terms, by using its status, legitimacy and resources the WEO would be in a position to support domestic environmental reform in countries where projects are being funded, by

supplying information and suggesting institutional innovation based on best practice models imported from elsewhere. As a guarantor of financial deposits from industrialised countries, the WEO would help to ensure that longer-term commitments are kept and that financial commitments are honoured.

- *It is less bureaucratic.* A minimalist 'display-by-pay' system would be less expensive to sustain than the creation of a vast new institutional superstructure. This is important in terms of the speed with which the WEO could oversee deals, but also in terms of its political acceptability in the current political climate of scepticism about excessive international bureaucracy.
- *It is realistic.* The reduced scepticism among some LDCs towards the role of private investment in meeting environmental goals, reflected in attitudes towards the use of the CDM and Joint Implementation in the Kyoto Protocol for example, suggests there is a window of opportunity to think afresh about new ways of bridging North–South conflicts in environmental debates. The fact that the private sector would assist in implementing some of these deals again helps to get around the laborious process of inter-state accord.
- *There is scope for such an institution.* The conception of a WEO as a deal-brokering entity, is unlikely to conflict with the mandate of existing institutions such as the CSD, UNEP, or GEF. However, if the WEO were to take on all the functions described above, particularly with respect to streamlining existing environmental agreements, it would undoubtedly overlap with the mandate of the CSD for example. But whilst there would clearly be a period of accommodation while these institutions establish a division of competence amongst themselves, the initial version of a WEO, as it is envisaged here, is unique and should complement rather than repeat on the work of other

international institutions. The scope of the transfers it would oversee are broader and different in nature from those which either the GEF or the CDM are responsible for.

### 3 Conclusion

Whilst environmental issues have become an addition to the lending practices of the World Bank, and an area which seemingly threatens the goal of unrestricted free trade, they have not generated an institutional transformation in the way that perceived problems arising from unregulated trade and finance have in the past, and continue to do so today. The notion that the cross-border external effects of pollution (or of global externalities) on economic activity should enter global system design has not (as far as we are aware) been previously raised. To economists it is extraordinary how the seeming central contributions to our understanding of externalities and environmental issues appear to have been so totally neglected in the efforts of recent decades to design a global environmental regime that will genuinely embody mechanisms designed to raise global environmental quality.

Clearly the proposal for a WEO sketched above does not resolve all the problems associated with the contemporary structure of international environmental cooperation. Nor does it intend to. What it does do is offer one innovative way of confronting what has been identified as a key failure of cooperation: the failure to internalise environmental costs. It does not require a total overhaul of the existing structure of environmental governance. Rather, in the initial stages at least, it could work alongside the current system of agreements which would still be necessary for dealing with environmental problems where property rights are less clearly defined.

Initially the idea will be greeted with a great deal of scepticism, but if a small group of LDCs and more industrialised partners could be drawn to the idea, an embryonic WEO could become something more powerful and far-reaching.

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