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***Globalization, Agency, and Institutional
Innovation:
The Rise of Public-Private Partnerships in Global
Governance***

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Globalization, Agency, and Institutional Innovation: The Rise of Public-Private Partnerships in Global Governance

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ABSTRACT

Public and private actors increasingly cooperate in global governance, a realm previously reserved for states and intergovernmental organizations (IOs). This trend raises fascinating theoretical questions. What explains the rise in public-private institutions and their role in international politics? Who leads such institutional innovation and why? To address the questions, this paper develops a theory of the political demand and supply of public-private institutions and specifies the conditions under which IOs and non-state actors would cooperate, and states would support this public-private cooperation. The observable implications of the theoretical argument are evaluated against the broad trends in public-private cooperation and in a statistical analysis of the significance of demand and supply-side incentives in public-private cooperation for sustainable development. The study shows that public-private institutions do not simply fill governance gaps opened by globalization, but cluster in narrower areas of cooperation, where the strategic interests of IOs, states, and transnational actors intersect.

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"The United Nations once dealt only with governments. By now we know that peace and prosperity cannot be achieved without partnerships involving governments, international organizations, the business community and civil society. In today's world, we depend on each other."

–Kofi Annan, UN Secretary-General¹

Introduction

International organizations (IOs) and states cooperate increasingly with non-state actors as partners in global governance. The Global Fund to Fight AIDS, Tuberculosis, and Malaria was established in 2001 jointly by states, IOs, non-governmental organizations (NGOs), and the private sector as one of the largest institutions for health policy financing. The World Commission on Dams coordinated in 1998 a voluntary agreement between governments, international financial institutions, and non-state actors on norms and procedures for the construction of large dams. The Global Alliance for Vaccines and Immunization was launched in 2000 by the Bill and Melinda Gates Foundation in cooperation with IOs, states, and NGOs to increase the rate of childhood immunization. The Global Compact is another prominent partnership of the new millennium between the United Nations (UN) Secretariat, businesses, and other interested agencies and stakeholders for the diffusion of environmental, social, and human rights norms embedded in UN documents.

Cooperation between state and non-state actors is not an entirely new phenomenon in international relations. Historical examples include the Red Cross, a non-profit organization working with a mandate from the Geneva Conventions (1949); or the World Conservation Union (IUCN), an advocacy organization serving as the

¹ United Nations Foundation. Available at <http://www.unfoundation.org/partnership/index.asp>. Accessed November 14, 2005.

Secretariat for the Convention on International Trade in Endangered Species of Wild Flora and Fauna (1973). However, the number of such public-private partnerships has increased dramatically since the turn of the 21st century, from about 50 in the 1980s to more than 400, according to a survey reported by Kaul (2005). As the above quote from the UN Secretary General Kofi Annan suggests, public-private cooperation is becoming an important modus operandi of global governance, a realm traditionally reserved for states and international institutions.

The rise in public-private cooperation has been matched by proliferation of concepts to describe it. The term “public-private partnerships” is by far the most commonly used in the policy literature and official documents.² Others have introduced concepts such as “public-policy networks,” “multi-sectoral networks”, or “learning networks” that emphasize the flexible, horizontal structure of public-private cooperation.³ Here, I conceptualize public-private partnerships as institutions, understood broadly as agreed upon rules, conventions, norms, and decision making procedures.⁴ Public-private institutions are thus defined as voluntary agreements between state and non-state actors that establish a set of norms, rules, practices, or implementation procedures that apply to multiple levels of governance. They involve joint decision-making and provision of public goods that go beyond ad-hoc interactions, lobbying, or contracting. The broader epistemology of public-private institutions allows us to avoid the proliferation of terminology and analyze these institutions in relation to other elements of global governance regimes.

² See among others Kaul and Conceicao 2005; Reich 2002; Stern and Seligmann 2004; Widdus 2001.

³ Benner, Reinicke and Witte 2004; Reinicke 1999; Reinicke and Deng 2000; Ruggie 2002b.

⁴ For this conceptualization of institutions I draw on Keohane 1984; Krasner ed. 1983; and Ostrom 1990.

The increased institutionalization of public-private cooperation raises fascinating theoretical and policy questions. First, it requires the literature of international institutions, which has been dominated by state-centric models, to account for the inclusion of non-state actors in global governance institutions. Why do states and international organizations share policy-making and implementation authority with non-state actors? Second, the rise of public-private institutions challenges the literature to account for institutional diversification and innovation. Under what conditions would international institutions evolve to include multiple stakeholders? Who leads these efforts of institutional innovation and why?

Case studies of prominent public-private institutions explain these agreements largely with the functional need to address the governance gaps of globalization and the resulting societal backlash.⁵ Others argue that public-private cooperation reflects the rise of non-state actors and the inevitable weakening of the state.⁶ Factional demand accounts of public-private institutions are important, but analytically insufficient. They move too abruptly from macro conditions to institutional choice, and fail to specify the micro incentives of different actors to choose public-private institutions over other options. Demand-side analyses also underplay the interests and power of states and IOs to lead and shape public-private agreements; and cannot account for the patterns of public-private cooperation.

This paper advances the theoretical understanding of public-private cooperation by elaborating the incentives of states and IOs to supply institutional innovation. I build on the new line of institutional research that applies principal-agent models to study IOs

⁵ Reinicke and Deng 2000; Ruggie 2002a, 2004; Benner, Reinicke, and Witte 2003

⁶ Mathews 1997; Schmidt 1995.

as cooperation agents of states.⁷ The analysis contributes to the principal-agent model of IOs by focusing on the agents and their interests, rather than mostly on principals and their mechanisms of control. It specifies the incentives of IOs to innovate and cooperate with non-state actors, and the conditions under which states as principals would support such agent-driven innovation. It shows that public-private institutions do not simply crop up where intergovernmental or state institutions fail, as demand-side accounts might imply. Instead, public-private institutions cluster in narrower areas of cooperation, where the strategic interests of IOs, states, and transnational actors intersect. Public-private institutions are thus best understood as innovations that are embedded in and supplement the system of intergovernmental cooperation, rather than a radical departure from intergovernmentalism that challenge the authority of states.

The paper develops the argument as follows. The next two sections elaborate the demand and supply logic of public-private institutions, contrasting the observable implications of functional demand, political demand, and political supply hypotheses. The theoretical propositions are evaluated using several methods. First, I survey the broad trends of public-private cooperation against the patterns predicted by the theory. I then use statistical analysis to test the relative importance of demand and supply side factors in explaining the variation in public-private cooperation for sustainable development. The paper claims two distinctive contributions to the literature on international institutions. Conceptually, it offers a political theory of organizational change and involvement of non-state actors. Empirically, it moves away from high profile case studies toward a systematic mapping and analysis of the causes and role of public-private cooperation.

⁷ Nielson and Tierney 2003; Pollack 1997; Grant and Keohane 2005; Hawkins et al. forthcoming 2006.

Why Innovate? The Demand for Public-Private Institutions

Globalization and Functional Demand for Public-Private Institutions

Functionalist accounts of public-private institutions extend in some ways the functionalist logic of the dominant neo-liberal theories of international institutions. The rationalist neo-liberal perspective emphasizes the role institutions play in facilitating cooperation between states through information sharing, iteration, reciprocity, and credible commitments.⁸ The constructivist perspective emphasizes a different functional role of institutions in constructing, validating, and diffusing norms, which become constitutive of a global community of states and influence state identity and behavior.⁹ Public-private institutions, it has been argued, emerge to provide similar functions of information sharing, reciprocity, building and diffusion of norms, implementation of agreements, and supply of public goods in an era of intense globalization and governance failures.¹⁰ Globalization has extended the reach of markets and negative transnational spillovers such as diseases, crime, and environmental degradation. At the same time, the jurisdiction of states remains too narrow and international institutions too weak to tackle governance problems effectively. Global public and private actors cooperate on new institutional solutions to plug in governance gaps, else they risk societal backlash and the unraveling of the global economic system.

⁸ For overview of neoliberal institutionalism see Axelrod and Keohane 1986; Keohane 1984; Martin and Simmons 1998.

⁹ For overview of constructivism see Finnemore and Sikkink 2001; Ruggie 1998.

¹⁰ Benner, Reinicke, and Witte 2003; Reinicke and Deng 2000, Ruggie 2002a, 2002b.

John G. Ruggie (2002a) extends the parallel between the functional roles of state-centered institutions and public-private institutions most eloquently in his paper “Taking Embedded Liberalism Global.” Just like trade liberalization in the post World War II era required the institutionalization of social bargains and norms domestically¹¹, similar social bargains are needed at the global level now to offset the turbulent effects of globalization. The following quote summarizes the argument succinctly:

The combination of global governance gaps and governance failures.... created an organization niche that civil society actors began to occupy, and from which they have been engaging the global business community in the attempt to combine their newly acquired rights with new social responsibilities. Now we are slowly beginning to come to full circle: business wants help to channel some of the pressure it faces into the construction of at least minimally functioning public sectors, including at the global level (Ruggie 2002a, 20).

The functionalist logic of public-private institutions raises the question why are these institutions more likely to succeed, where public institutions have failed? Why should publics trust that an agreement between the very actors that contribute to globalization and its risks, and the institutions that have failed to correct them would, in fact, result in more effective governance? Case studies of public-private institutions point to a number of functional advantages. Public-private agreements are typically non-legally binding, flexible, and non-hierarchical.¹² The legal voluntarism makes actors more likely to agree on a set of rules, which might seem too risky to commit to on a firmer contractual basis. Cooperation is thus encouraged through flexibility, which further reduces transaction costs and long-term risk, and facilitates coalitions of the willing on issues previously deadlocked by divergent interests. The involvement of different state and non-state actors, another important characteristic of public-private institutions, in turn leverages

¹¹ Ruggie 1982.

¹² Benner, Reinicke, and Witte 2003; Kaul 1995; Reinicke and Deng 2000; Andonova and Levy 2003.

resources, information, and expertise, which could compensate for “operational gaps” in the capacity of international or domestic institutions.¹³ The direct involvement of societal actors is also said to decrease at least for some constituencies the “participatory gap” between societies and international institutions.¹⁴

The functionalist logic of public-private institutions thus emphasizes the growth in governance gaps in the traditional state-based system as a consequence of globalization, and the functional need to address these glaring governance gaps through flexible institutions that leverage the resources of state and non-state actors.

This logic can be summarized in the following functional demand hypothesis:

H1: Public-private institutions are likely to emerge in response to governance gaps in state-centered governance systems. All else being equal, the greater the number and severity of governance gaps, the greater the functional demand for institutional innovation and public-private cooperation.

It is useful to state the functionalist logic in the form of testable hypothesis in order to tease out its observable implications. One implication, for example, is that public-private institutions would tend to emerge as substitutes for lack of effective international or domestic governance. They should be in greatest demand, where governance problems have been identified, but there are no, or weak intergovernmental regimes to address them. Similarly, states with weaker capacity should be more willing to establish and get involved in global public-private institutions to compensate for policy failures. The functionalist logic thus specifies an important baseline condition for public-private cooperation. However, it leaves a lot of questions unanswered. Gaps in international and domestic public governance have always existed. Why haven't public-private

¹³ Kaul 2000; Reinicke and Deng 2000.

¹⁴ Reinicke and Deng 2000.

institutions been tapped to a greater extent earlier? If these flexible institutions have so many advantages, why are they not used more extensively? What triggers the political will for institutional innovation? Clearly the functional demand logic identifies a necessary, but insufficient condition for public-private cooperation. It needs to be supplemented with a political logic of societal demand and incentives for public institutions to supply such cooperation.

Transnational Actors and Political Demand for Public-Private Institutions

Demand-side accounts of public-private cooperation also emphasize the rise of non-state actors and their interest to participate directly in governance institutions.¹⁵ These accounts build on the broader transnational relations literature, which analyzes the evolving role of non-state actors in international relations.¹⁶ Studies in transnational relations point to several mechanisms through which non-state actors increase the political demand for institutional innovation and public-private cooperation.

To begin with, the transnational sector has grown steadily since the 1970s; a trend that intensified in the 1990s as a result of democratization and the information revolution. The number of international NGOs rose from approximately 2,795 in 1974, to 14,333 in 1989 to 20,851 in 2003.¹⁷ The number of multinational companies increased from about 3,500 in 1960 to 65,000 in 2001.¹⁸ The resources of transnational actors also augmented considerably, in some instances outweighing those of small states.¹⁹

¹⁵ Cutler, Haufler, and Porter 1999; Reinicke and Deng 2000; Ruggie 2003; Mathews 1997.

¹⁶ Keohane and Nye 1971 drew attention to the growing significance of transnational actors in international relations. Studies that elaborate and summarize the transnational relations literature include, among others, Risse-Kappen 1995; Keck and Sikkik 1998; Tarrow 2005.

¹⁷ Yearbook of International Organizations 2004.

¹⁸ Scholte 2005.

¹⁹ Nye 2003.

This growth in numbers and resources has, in turn, enabled advocacy organizations to form thicker activist networks and expose governance failures and violations that were traditionally considered domestic matters. Global activists have strengthened the voice of local groups and have used the markets, media, and domestic courts to shame, press, and litigate abuses of human, social, and environmental rights.²⁰ More recently advocacy organizations have also capitalized on their expertise to establish a number of “private” governance institutions. These range from certification institutions such the Forest Stewardship Council and the Global Exchange organization to privately funded capacity building programs for biodiversity, women’s rights, human rights, and humanitarian assistance.²¹

The spheres of transnational advocacy networks and IOs have never been completely separate. International institutions have played an important indirect role in facilitate transnational activism by providing arenas for interaction, by legitimizing norms, and serving as levers to amplify pressure for norm diffusion and compliance.²² Advocacy organizations have also used their resources to criticize and campaign against IOs associated with the global economic order. Increasingly, NGOs have demanded more direct participation in global governance institutions, which brings additional resources, political legitimacy, and ultimately more influence.²³ In sum, the growth of the transnational advocacy sector increases political demand for public-private cooperation by exposing governance failures at multiple levels, by

²⁰ Keck and Sikkink 1998; Risse, Ropp and Sikkink 1999; Wapner 1996.

²¹ Cashore et al. 2004; Gerrefi et al. 2001.

²² Keck and Sikkink 1998.

²³ Fox and Brown 1998; Mathews 1997; Tarrow 2001; Willetts 2001.

demonstrating capacity to establish private systems of governance, and pressing for direct participation in international institutions.

Partly in response to advocacy and consumer pressure, transnational business has also demonstrated increased flavor for flexible self-regulation and public-private cooperation. The literature on corporate social responsibility and certification institutions identifies a range of incentives for business to get involved in voluntary institutions: advocacy and consumer pressure, preemption of stricter regulations, shareholder pressure, exportation of voluntary norms to level the playing field, enlightened corporate leadership, as well as traditions of philanthropy.²⁴ Business demand for public-private cooperation can be interpreted as an extension of corporate voluntarism. Cooperation with state and intergovernmental institutions could bring additional advantages to self-regulation such as political risk management, subsidization of risky research and development, visible philanthropic opportunities, legitimacy, or simply put the “UN logo,” as cooperation with UN agencies is informally referred to in business circles. Public-private institutions could entail some risk for business, however, as they establish rules and procedures that could be viewed as the slippery slope to greater public scrutiny, litigation, and more regulation.²⁵

In sum, globalization has not simply opened governance gaps; it has also increased the power and political incentives of transnational actors to demand and participate in new, more flexible governance solutions. The density of the transnational demand for institutional innovation and flexible regulation is thus likely to be an

²⁴ Cutler, Haufler, and Porter 1999, Gareffi et al. 2001; Garcia-Johnson 2000; Haufler 2000; Nelson 2004; KPMG 2005; WEF 2005.

²⁵ Nelson 2004.

important determinant of public-private cooperation. This logic is captured in the following political demand hypothesis:

H2: The greater the density of transnational actors and the greater their interest in self-regulation and direct participation in global governance, the greater the likelihood of public-private cooperation, everything else equal.

H2 imposes narrower conditions for the emergence of public-private institutions compared to the functionalist H1. Of course, transnational demand for new institutions reflects, at least to some extent, concern about governance failures and is not completely independent of the functionalist logic. It is also true, however, that transnational actors have their own organizational and political priorities, and are not uniformly interested in all governance gaps. H2 suggests that public-private institutions would not address just any governance gaps, or even the greatest, or most numerous governance gaps as implied by H1, but predominantly issues close to the agenda of transnational interests. The lack of access to sanitation, safe water, or medicine might be among the gravest governance problems for the world's poor, for example. But more public-private cooperation might concentrate on issues such as global biodiversity or the development of new medicines, in which many transnational actors share interest. The political demand hypotheses H2 also implies that non-state actors, seeking to maximize their interests, might enter partnerships not with states that have the weakest capacity as the functionalist logic would imply, but with states and institutions that are most hospitable to their objectives.

The political demand logic thus adds an important piece in explaining public-private institutions. The puzzle remains incomplete, however, without elaborating the

incentives of public actors to engage in, or “supply” public-private institutions. Why do states delegate authority to public-private institutions if they are unwilling to increase the authority of intergovernmental institutions? Why do IOs and states share policy-making and implementation power with non-state actors? The demand-side logic implies that states and IOs have little choice. Squeezed between markets, governance failures, and a growing transnational sector, states are losing ground and shifting power to the non-state sector.²⁶ Such arguments, however, appear unduly dismissive of the power and authority of states and IOs to respond selectively to transnational pressures and craft public-private institutions in ways that supplement rather than circumvent their power. The next section examines the conditions under which public actors initiate or support public-private agreements.

Who Innovates? Incentives to Supply Public-Private Institutions

International Organizations as Agents of Institutional Change

The neo-liberal literature on institutions has traditionally accorded little attention to the behavior of IOs as actors. It focused on the prior question of the role of international institutions as arenas facilitating cooperation. More recently, however, scholars in the neo-liberal tradition have applied the principal-agent framework, first developed in microeconomics for the study of the firm,²⁷ to analyze the structure, role, and accountability of IOs in international cooperation.²⁸

²⁶ Mathews 1997.

²⁷ Alchian and Demsetz 1972; Williamson 1985.

²⁸ See Grant and Keohane 2005; Moravcsik 1999; Pollack 1997; Nielson and Tierney 2003; Hawkins et al. forthcoming 2006.

I develop the principal-agent model of IOs further to specify the conditions under which IOs, as agents, would have both incentives and opportunities to innovate and supply public-private institutions. So far, most principal-agent models of IOs have focused attention on the principals, e.g. the nation states, and their mechanisms of delegation and control.²⁹ Nielson and Tierney (2003), for example, illuminate the complexity of delegation chains in international relations and show that environmental reforms in the World Bank were driven to a large degree by a change in the environmental preferences of its most powerful principals. Here, I shift the focus more squarely on the agents to understand whether, and under what conditions, IOs themselves might have incentives and space to lead institutional innovation in general, and public-private cooperation in particular.

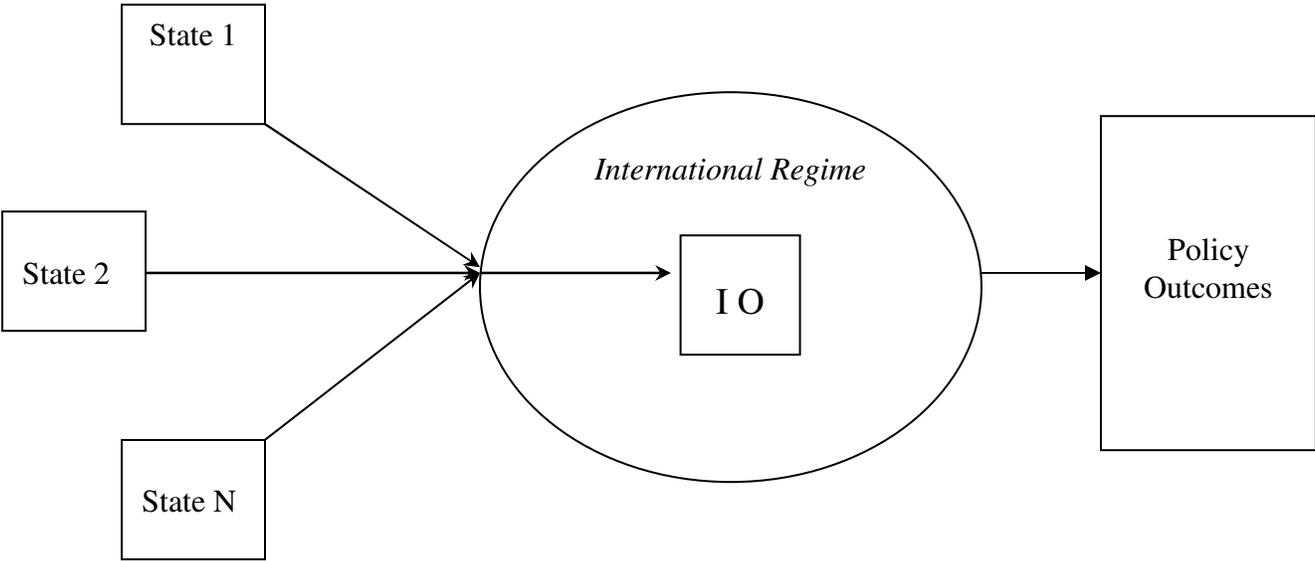
I assume a simple chain of delegation between nation states as principals and IOs as agents. States act as multiple, unitary principals. They agree collectively on the parameters of an international regimes and delegate authority to IOs (which are typically the secretariats of the international agreements) to facilitate the monitoring, implementation, maintenance, or strengthening of the regime.³⁰ As a consequence of incomplete contracting, specialized knowledge, asymmetric information, and the presence of multiple principals, IOs have some “agency slack.” Agency slack is understood here as the leeway the agent has to pursue its organizational interests that might diverge from those of its principals. These are all standard assumptions of

²⁹ The work of Barnett and Finnemore 2004 is an important exception. It departs from the delegation framework and uses a bureaucratic organization model to examine the bureaucratic incentives and influence of IOs.

³⁰ Recent analyses point out that regimes vary in the extent to which delegation to IOs takes place (see Hawkins et al. forthcoming 2006). This paper is primarily interested in cases where some delegation has taken place already.

delegation models. Figure 1 illustrates this scheme of international cooperation and delegation, which results in policy outcomes that can be evaluated by external actors and the public at large.

Figure 1 Delegation model of international organizations (IOs)



I also assume that like all agents, IOs have an organizational interest to increase their resources and authority, independent of the preferences of the principals. This implies that IOs are likely to have incentives to promote cooperation in their areas of

expertise, since the degree of cooperation affects their existence, resources, and authority. It is safe to assume, for example, that the United Nations Environmental Program (UNEP) would seek to promote environmental cooperation, that the World Trade Organization (WTO) would seek to promote free trade, or that the World Health Organizations (WHO) would seek to promote more effective health cooperation. IOs' interests in welfare-improving cooperation might coincide fully or not at all with the collective preference of its principals, or might coincide with the preferences of some principals, but not others. This makes the principal-agent relationship between IOs and states somewhat different and more complex, than principal-agent relations of economic organizations, for example. It is hard to envisage that the management of the company would have incentives to promote the growth of the firm, while the ownership or some part of it would not.

Another important difference between IOs and economic agents, which is not sufficiently explored in the literature, is that slack can be disadvantageous as well as advantageous for the agent in international politics. Agency slack is usually taken as synonymous with advantage to pursue the agent's special interests.³¹ This may be indeed the case in the context of the firm. If the management is interested in short-term self enrichment over the long-term performance of the firm, the absence of adequate control could only help the realization of its ulterior objectives. In international relations, however, as a consequence of considerably more complex chains of delegation, agency slack can be distinctly disadvantageous for IOs, when failures of inter-governmental cooperation translate into bad reputation and public attacks against the agent. IOs stand closer to policy outcomes in the cooperation chain (Figure 1), and it is often difficult for

³¹ Williamson 1985.

the public to distinguish what portion of the governance failures are result of weak cooperation among principals and what portion is due to agency inefficiency.

The unwillingness of states to include social and environmental considerations in trade negotiations, for example, is a failure of inter-governmental cooperation, but it translates into negative reputation of the WTO. Similarly, advocacy groups first attacked the World Bank (e.g. the agent) for the damaging environmental and social effects of large infrastructure projects approved by both donor and recipient states (e.g. the principals), and only later targeted their pressure at the US as the Bank's strongest principal to reform the organization.³² IOs are much more visible and an easier targets of organized contention, compared to the multitude of states, which ultimately shape international policies.

Paradoxically, critics would blame the IO even when it is tightly controlled by its principals as in the case of the World Bank and the WTO. It is thus the perception of agency slack and weak agency accountability due to complex delegation, which makes IOs vulnerable to public criticism, rather than the actual size of the agency slack. The attacks against the WTO intensified, for example, after cases in which it ruled against unilateral trade restrictions based on environmental considerations, in effect enforcing state-negotiated rules that gave precedence to trade over other policies. However, the very demonstration of some slack of the agency to interpret those rules made it an even more likely target of public discontent. Thus, because of agency visibility and the existence of agency slack (no matter large or small), failures of cooperation are often interpreted not as failure of the principals to cooperate, but as failure of IOs to provide global governance.

³² Gutner 2002; Nielson and Tierney 2003.

Principals, on their part, are often too willing to use international institutions as public opinion shields for their lack of interest to cooperate. The US, for example, has argued since the 1990s that the UN is an inefficient bureaucracy as a justification for unilateral actions or for withholding payments and cooperation commitments. Similarly, the failures of international development cooperation have been largely blamed on development institutions such as the World Bank and the International Monetary Fund (IMF). This strategy allows both donor and recipient states to focus on the shortcomings of the agencies, which to some degree undoubtedly exist, and to underplay their own failures. In sum, the perceived agency slack of visible IOs makes them an easy target for some public opinion slack that in many instances, albeit not all, should more rightly be targeted at national governments.

When negative public pressure mounts, while the willingness of states to advance cooperation and prop-up their agents is low, there are strong incentives for international organizations to innovate in order to deflect public pressure, augment their resources, and increase their effectiveness. That is where agency slack and initiative can be a positive force for innovation. IOs can innovate only within the bounds of what is politically acceptable to their principals, a point bluntly reinforced by recent discussions within the US Congress about the financial mechanisms through which it can control UN reforms.³³ While it is difficult to specify an exact formula of the size of agency slack, several factors are likely to influence the space which IOs might have to experiment with new institutional mechanisms such as public-private partnerships. IOs are likely to have more slack for institutional innovation in highly technical issue areas,

³³ Agence France Presse 2005.

where the benefits of specialization and delegation tend to be higher than the risks.³⁴ IOs would also have more slack to involve non-state actors in areas of broad agreements among states, but little headways in terms of practical implementation of these agreements: two conditions that are also likely to reduce the risks and increase the benefits of delegation and public-private cooperation. By contrast, in areas of sharply defined and divergent interests, principals are more likely to share a procedural interest in tight sovereign control over IOs. Finally, organizations controlled by a small number of powerful states are likely to have less slack for innovation, as states would be both more capable and interested in exerting tight control to minimize potential relative losses due to agency activism. By contrast, organizations with universal memberships might enjoy more slack, all else equal, as principals face more collective action problems and might be interested to set a broad and more diffused mandate of the organizations to avoid decision-making deadlocks.

When IOs have both incentives as well as enough slack for institutional innovation to increase the efficiency of cooperation, public-private partnerships could be particularly attractive. They are flexible and can complement existing institutions, without having to redraw the original rules of delegation. The involvement of advocacy organizations allows for a more constructive dialogue with the very critics of IOs and brings in more specialized expertise. Cooperation with the business sector could strengthen the organizational capacity of IOs by leveraging financial, technical, and managerial resources. Such incentives make IOs the most likely entrepreneurs of public-private institutions. The conditions for international agency supply of public-private partnerships can be summarized in the following hypothesis:

³⁴ Hawkins et al. forthcoming 2006.

H3: IOs are the actors most likely to initiate public-private cooperation. Everything else equal, their propensity to innovate will be greater, the larger the agency's slack. Agency slack, in turn is likely to be greater for organizations with universal membership, broad policy mandates, and operating in policy areas that require more technical expertise.

The incentives for IOs to supply public-private institutions are again not completely independent from the existence of functional and political demand for innovation, reflected in H1 and H2. However, the supply side logic of H3 also indicates that IOs would respond selectively to governance gaps and public pressure, depending on their organizational incentives and slack. H3 thus further narrows the conditions for public-private cooperation. It suggests that IOs would cooperate with non-state actors to complement their resources and authority, rather than to substitute for inter-governmental failures as the functionalist hypothesis H1 might imply. Finally the principal-agent logic behind H3 also suggests that states, particularly powerful ones, are likely to retain considerable control over the direction and extent of public-private cooperation. To complete the supply-side analysis, therefore, the next section considers the incentives of states to support public-private institutions.

States as Principals of Institutional Change

We can assume that states, as the key actors in international affairs, are likely to support institutional innovation only if it extends rather than circumvents their influence. States that are supportive of transnational actors and their objectives are more likely to favor public-private cooperation. Advanced liberal democracies, in particular, provide the home base for most large, transnational business and advocacy organizations. They are thus likely to lose little influence and gain soft power through the involvement of

non-state actors. The advanced democracies supply most of the financial assistance to support international cooperation and institutions. The involvement of home-based actors in the implementation of international agreements is likely to increase rather than decrease their control over cooperation outcomes.

States are, furthermore, likely to support the inclusion of non-state actors in global institutions if there is some degree of convergence between state and non-state ideologies and objectives. Countries interested in strengthening environmental cooperation, for example, would be inclined to include environmental NGOs in international institutions. By contrast, states interested in keeping tight sovereign control over the development of their natural resources might be least inclined to invite NGOs to the negotiations table. By a similar token, countries such as the U.K., the Netherlands, and the US, which have already experimented domestically with flexible public-private approaches to policy-making, are more likely to be interested to export flexible modes of regulation internationally.³⁵

Developing countries, which are most often the hosts, rather than the home of powerful transnational actors, are likely to be more skeptical about public-private institutions, fearing indeed a power-shift away from their relatively weak governments.³⁶ Nevertheless, the promise of leveraging private resources and expertise to boost domestic institutions could prove attractive for developing governments that are proactively seeking reform. Costa Rica, for example, was one of the first developing states to venture public-private agreements for biodiversity management, driven by its environmental administration. The experience of Costa Rica also suggests that states

³⁵ Osborne 2000; Warner and Sullivan 2004.

³⁶ King 2001; United Nations General Assembly 2001.

that are more actively involved in traditional intergovernmental cooperation are more likely to have pro-active domestic agencies that are inclined to support institutional innovation and transnational public-private cooperation.³⁷

National agencies, like IOs, have interests to expand their resources, mandates, and policy effectiveness, independent of the policy preferences of their political principals. The more domestic agencies are involved in international cooperation the more likely they are to also have some agency slack and expertise to initiate transnational coalitions, both purely transgovernmental as well as public-private agreements.³⁸ In sum, states' propensity to support public-private cooperation is likely to reflect domestic interests, norms, and the incentives of pro-active agencies to extend international and transnational cooperation. The following hypothesis summarizes the conditions for state supply of public-private institutions:

H4: All else equal, states are more likely to support public-private institutions, the more liberal they are, the more hospitable they are to transnational actors and their norms, and the more state agencies are involved in policy reform and intergovernmental cooperation.

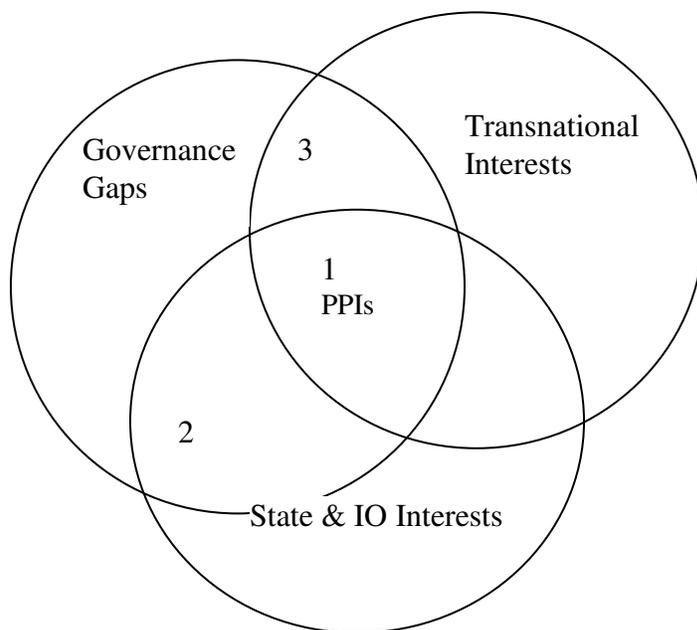
The state supply hypothesis H4 again implies that public-private institutions are more likely to complement domestic and international institutions. Paradoxically, they would tend to cluster not where state governance is weakest, as implied by the demand-side logic, but within entrepreneurial states and agencies that seek to extend through voluntary coalitions a set of norms and policies.

³⁷ Steinberg 2001.

³⁸ Haas 1989; Slaughter 2004; Steinberg 2001.

Elaborating both the demand and supply side logic of public-private institutions in the form of testable hypotheses allow us to better specify the conditions for public-private cooperation, and evaluate the evidence against these predictions. Figure 2 summarizes the driving forces of public-private cooperation. It indicates that public-private institutions would be established to tackle governance gaps in relatively narrow circumstances, where transnational pressure and state and organizational interests intersect (Area 1, Figure 2).

Figure 2 Conditions for public-private institutions (PPIs)



- 1: PPIs
- 2: Expansion of public institutions and networks
- 3: Private institutions

Figure 2 reveals that public-private institutions are unlikely to provide answers to many governance gaps that are off the radar screen of large transnational actors.

Expanding or improving the reach of intergovernmental institutions and other mechanisms of public governance such as transgovernmental networks (Area 2, Figure 2) is likely to hold most promise for addressing the majority of remaining governance problems.

Area 3 in Figure 2, in turn, captures a scenario, where transnational pressure exists to close governance gaps, but international institutions and states have limited incentives to engage in public-private rule-making and implementation. Under such conditions, non-state actors might find both incentives and capacity to establish purely private institutions, including a variety of certification, capacity building, or information systems.

Figure 2 suggests that public-private institutions are likely to find a relatively narrow niche in the broad institutional map of global governance, and are likely to be path-dependent on other institutional choices. It also reveals that while international institutions maintain a dominant role, the picture of global governance is likely to get more complex and dynamic with the emergence and expansion of the areas of purely private, transgovernmental, and public-private forms of governance. The next section examines the broad trends in public-private institutions against the predicted patterns.

The Rise of Public-Private Institutions in Global Governance

A comprehensive picture of the universe of public-private institutions is difficult to map, as these institutions tend to be decentralized, flexible, and often narrowly focused. Yet pooling information on broad trends is much needed to assess the sources of

institutional innovation and the role of public-private institutions beyond isolated cases.³⁹ Here I seek to discern some trends in public-private cooperation, based on cumulative reading of the literature⁴⁰ and policy documents.

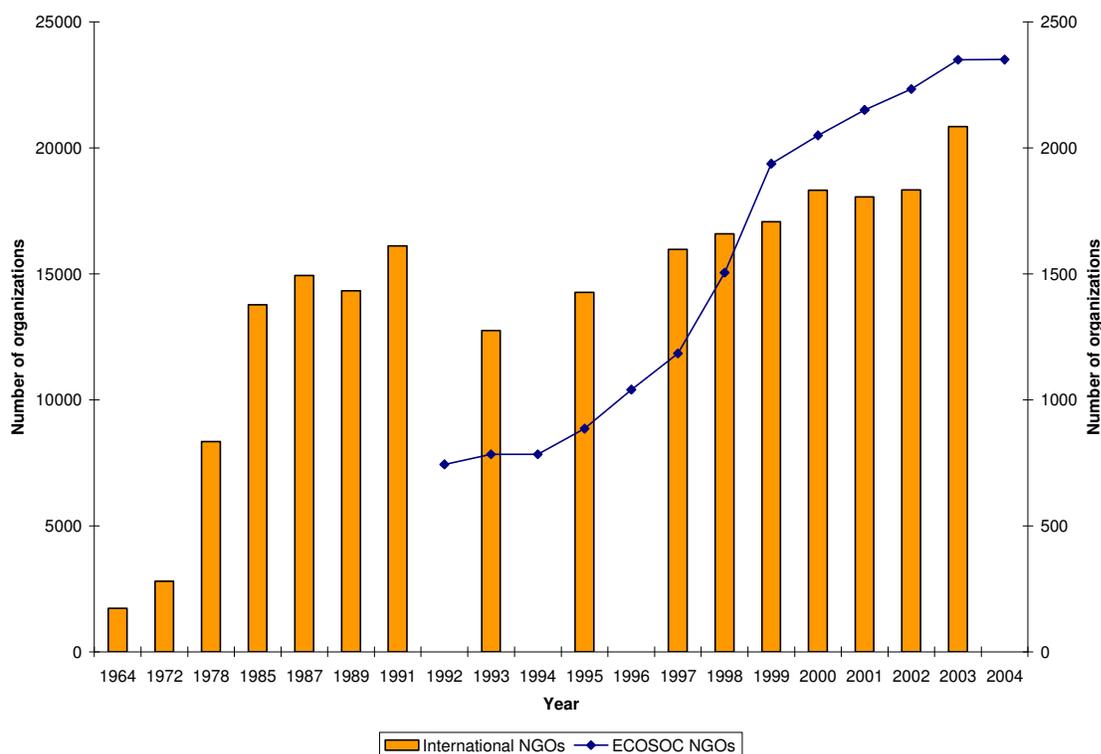
The first trend apparent even from the publication dates of existing studies is the aforementioned rise in public-private institutionalization toward the turn of the 21st century. The coincidence between the rise of globalization and the rise in the number of public-private partnerships gives at first sight credence to the functionalist explanation of these institutions as solution to the governance failures of globalization.

A second look reveals, however, the highly political nature of these public-private institutions. Partly, although not entirely in response to globalization, the political demand for regulatory voluntarism and participation in global governance increased dramatically during the second half of the 1990s. Figures 3 and 4 track several indicators of the growth in transnational demand for direct, voluntary governance by NGOs and business actors respectively. Figure 3 reveals that while the number of transnational NGOs grew at similar or slower rates during the 1990s compared to the previous two decades, distinctive for the late 1990s is the exponential increase in the number of NGOs seeking and gaining consultative status at the UN Economic and Social Council (ECOSOC).

³⁹ Kaul 2005; Ruggie 2004

⁴⁰ Benner, Rienicke, and Witte 2003; Gupta et al. 2002; Richter et al. 2004; Reinicke and Deng 2000; Witte, Streck, and Benner 2003; Steets 2003; 2004; Kaul et al. 2005; United Nations Foundation 2001; Widdus 2001; Reich 2002; Ruggie 2002a; 2000b; 2003; Timmer and Juma 2005.

Figure 3 Growth in NGOs demand for participation in global governance institutions



Source: Yearbook on International Organizations 2004 Available at <http://www.uia.org/statistics/pub.php>. Accessed in October 2004;
 UN Economic and Social Council (ECOSOC) data. Available at <http://www.un.org/esa/coordination/ngo/about.htm>. Accessed in October 2005

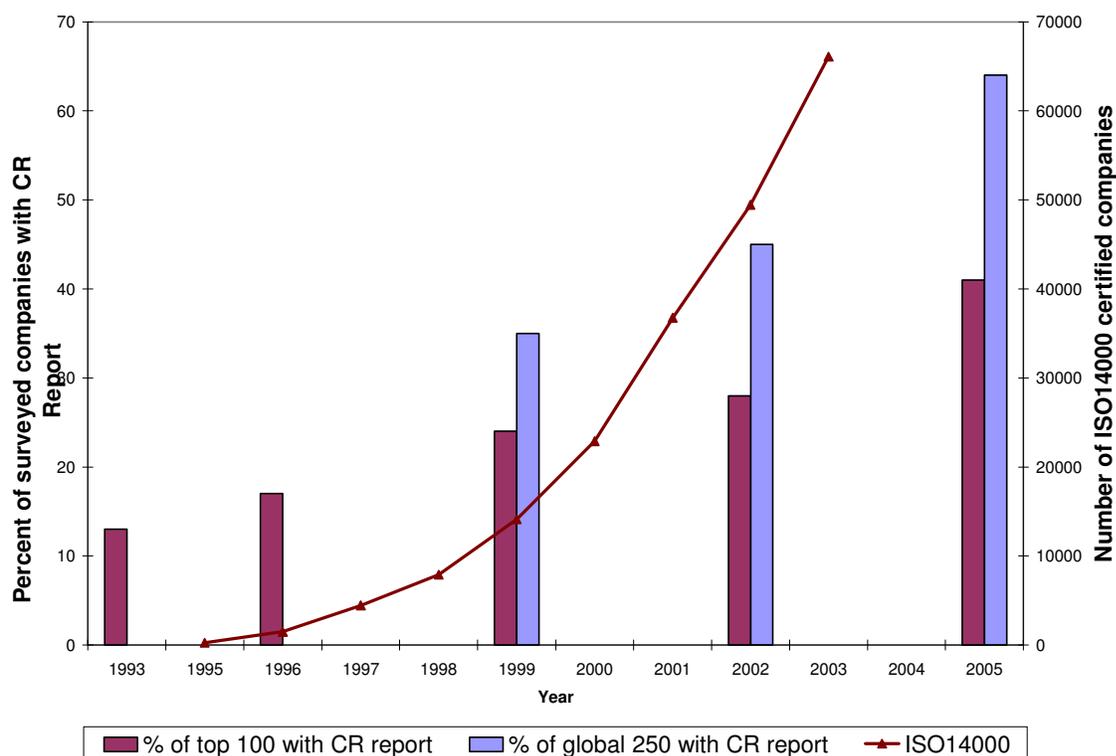
Another aspect of the NGO demand for institutional reform and direct influence over global governance is the dramatic surge of NGO-led campaigns against international economic institutions toward the end of the 20th century.⁴¹ The unraveling of the Multilateral Treaty on Investment (MAI) in 1998 was one of the crown achievements of the transnational movement. NGOs leaked the draft treaty text that was being negotiated under the auspices of the Organization of Economic Cooperation and Development (OECD), and rallied a successful global campaign against it, charging lack of transparency and disproportionate representation of commercial interests. The next, even more visible if not more effective event, was the mass protest at the 1999

⁴¹ Tarrow 2005.

WTO meeting in Seattle. More protests followed against the IMF and the World Bank in Prague (2000), and the G7 meeting in Genoa (2001), to name just a few of the most prominent examples.

The intensified transnational activism of NGOs during the late 1990s was paralleled by an intensified interest in regulatory voluntarism by the business sector, reflected in Figure 4. According to KPMG's *International Survey of Corporate Responsibility Reporting 2005*, the share of global companies carrying out Corporate Responsibility (CR) reports roughly doubled during the decade. Figure 4 shows that while in 1993, about 13% of the surveyed top 100 national companies had a CR report, in 2005, the share of the surveyed top 100 companies with CR reports increased to 41%. Similarly, in 1999, just 43% of the surveyed global 250 companies had CR reports, while in 2005, 65% of the surveyed global 250 companies had CR reports. Business participation in voluntary certification programs also increased rapidly, as reflected for example by the exponential growth in the voluntary ISO14,000 certifications for environmental management (Figure 4). In sum, Figures 3 and 4 reflect the exponential increase since the mid 1990s in transnational interest in flexible and direct global governance.

Figure 4 Trends in business self-regulation and corporate responsibility (CR) reporting



Source: KPMG 2005

Governments and international institutions hardly capitulated to the governance demands of transnational actors, however. Instead, they responded selectively to the intensified transnational pressures for governance innovation and direct inclusion. Notably, the WTO and the IMF, which are among the chief targets of the anti-globalization movement have been among the least interested in reform in general, and public-private cooperation in particular. This contradicts purely demand-side explanations. These organizations have neither strong incentives, nor leeway to cooperate directly with non-state actors. Both are controlled by a select set of principals. IMF's resources and broad policies are set by its Executive Board, where a small

number of industrialized donor countries hold a significant share of the votes.⁴² The WTO has increased its membership over time, but according to strict accession rules. Even more importantly, the principals of these two institutions share a common procedural preference to maintain tight sovereign control over the agencies, which leaves little space for the involvement of non-state actors. The most influential principals of the WTO and the IMF, furthermore, have maintained strong financial and political support of the organizations. As a consequence, there has been little interest and relatively little slack on the part of these IOs to get involved in public-private cooperation or any substantial institutional reforms, criticisms of governance gaps notwithstanding.⁴³

The World Bank is an interesting exception. It is relatively tightly controlled by its principals, but underwent reforms and has experimented with public-private partnerships. The institutional reforms within the World Bank, however, have not been a direct response to the globalization critics of the late 1990s, but rather a result of earlier advocacy pressure that targeted not just the agency, but also the recipient and donor countries, and particularly the US as the chief principal.⁴⁴ In sum, while the anti-globalization movement and public-private institutionalization happened largely simultaneously, the latter does not seem to provide a direct response to the main grievances of the former.

The majority of public-private institutions described by the literature and policy documents are led or supported by core UN agencies.⁴⁵ This trend cannot be explained solely by demand-side factors either. It is suggestive of the importance of supply-side

⁴² Barnett and Finnemore 2005; Martin 2006 forthcoming; Stiglitz 1998.

⁴³ Stiglitz 1998; Sachs 2005.

⁴⁴ Gutner 2002; Fox and Brown 1998; Nielson and Tierney 2003.

⁴⁵ Reinicke, Deng, and Witte 2000; Ruggie 2002a, 2003; Kaul 2005; UNFIP 2005; Witte, Streck, and Benner 2003.

incentives, agency leadership, and slack as driving forces of public-private cooperation. Unlike the World Bank, the IMF, and the WTO, core UN institutions have not faced many frontal attacks from transnational NGOs. These institutions did face, however, mounting criticism of bureaucratization, ineffectiveness, and lack of transparency. Such criticisms were used by states, and particularly the large donor countries, to justify budget arrears and cooperation fatigue. Criticism of ineffectiveness, coupled with dwindling budgets provided clear agency incentives to seek some type of institutional reform to increase agency resources and deflect criticisms. In addition, a number of UN institutions, including the UN Secretariat, have broad mandates and universal membership, which provided enough agency slack to experiment with flexible governance in cooperation with non-state actors.

The UN stumbled into public-private cooperation as a mode of institutional revitalization in 1997, when the organization faced its biggest financial crisis of unpaid membership dues. The US Congress had failed to approve the appropriation of the US contribution to the UN budget, which then accounted for roughly 30% of the UN's revenues. The same year, US philanthropist Ted Turner donated \$1bn to the UN, the largest private grant in the history of the UN. The UN Foundation, which was established to manage the Turner grant, is probably one of the most celebrated examples of a public-private institution. In 1998, under the initiative of the UN Secretary General Kofi Annan, the UN Foundation established a special branch, the United Nations Fund for International Partnerships (UNFIP), to encourage governance through

public-private collaboration and to serve as a clearing house for such initiatives with UN agencies.⁴⁶

In 1999, the Secretary General initiated the Global Compact as one of the most visible public-private institutions to promote the implementation of 10 universal principles on human rights, labor rights, the environment, and anti-corruption. Under Annan's leadership, the UN member states adopted the Millennium Development Declaration, which set eight Millennium Development Goals as a blueprint for coordination between IOs and states to reduce poverty. Goal #8 of this blueprint calls for multiple stakeholder partnerships to define and implement poverty-reduction policies. The role of agency incentives, slack, and leadership as drivers of UN reforms and public-private cooperation is evidenced in the following quotation by John Ruggie (2003), who served as chief adviser for strategic planning to Kofi Annan at the time when many of these innovations were undertaken:

Contrary to the conventional wisdom expressed in much of the media, the UN system has generated highly innovative responses to the challenges posed by globalization. It has done so despite, not because of, its constitutional configuration and largely by maneuvering around constraints posed by governments rather than at their bidding (317).

The activism of the UN Secretariat was paralleled by other UN agencies. Under the leadership of Gro Harlem Brundtlandt, the WHO launched the Roll Back Malaria Partnership in 1998. Roll Back Malaria is public-private agreement between WHO, other IOs, business, societal organizations, and national agencies, with the objective to adopt and implement policies that would reduce malaria deaths by 50% by 2010 and 75% by 2015.⁴⁷ The number of public-private partnerships for health grew rapidly, from 1 in

⁴⁶ UNFIP 2005.

⁴⁷ Bellegoyen 2000.

1982, to 33 in 1998, to 91 in 2003. WHO and The United Nations Children's Fund (UNICEF) have been the two organizations most involved in these initiatives, participating respectively in 42 and 19 such institutions. The World Bank, the US Centers for Disease Control & Prevention, and the Bill and Melinda Gates Foundation have also been among the most active entrepreneurs of public-private cooperation for health.⁴⁸

In 2002, the UN organizers of the World Summit on Sustainable Development proposed the adoption of some 230 public-private agreements as official outcome of the inter-governmental conference.⁴⁹ The United Nations Development Program (UNDP) followed in 2002 with the Equator Initiative, a public-private institution, which seeks to advance biodiversity conservation in cooperation with local communities.⁵⁰

In sum, the larger share of the public-private institutions established at the turn of the 21st century seems to reflect the agency of UN organizations, as well as the entrepreneurship of UN leaders and non-state actors. This trend falls in line with the argument summarized in hypothesis H3, which emphasizes the supply side incentives of IOs to lead such innovation. Another interesting trend that emerges, and which also cannot be fully accounted for by demand-side factors, is the high concentration of public-private institutions in the areas of health and environmental policies. According to a study by Kaul (2005), over 50% of some 400 global public-private partnerships surveyed dealt with health or the environment. The portfolio of UNFIP, which is broadly representative of UN-supported public-private initiatives, also indicates that roughly 43% of UNFIP funding was allocated for health programs, about 25% for environmental

⁴⁸ Initiative on Public-Private Partnerships for Health. 2005

⁴⁹ Andonova and Levy 2003; Witte, Streck, and Benner 2003.

⁵⁰ Timmer and Juma 2005.

partnerships, and 21% for women's rights and population partnerships. By contrast, the issues of peace, security, and human rights, where significant governance gaps surely exist, have attracted only a limited number of partnerships and together only 8% of UNFIP funding.⁵¹ The low rate of public-private cooperation for human rights is particularly puzzling from a demand-side perspective, given the high density of transnational advocacy networks. In human rights policies, however, there has been considerably less interest on the part of states, both developed and developing, to yield sovereignty and delegate authority to intergovernmental institutions, let alone to institutions that mix public and private authority. As a consequence, IOs and human rights NGOs seem to have maintained looser networks of interaction and support, with so-far limited institutionalization of public-private cooperation.

The broad trends in public-private institutions confirm their political rather than functional nature. While individual partnerships indeed focus on specific gaps of governance, the universe of partnerships tends to emphasize relatively technical issue areas, populated by dense transnational interests, and governed by international agencies with broad mandates and membership. The following section further analyzes the significance of demand and supply factors identified in hypotheses H1-H4, in a quantitative and qualitative analysis of public-private institutions for sustainable development. Sustainable development cooperation is well-suited for such analysis. We know from the existing literature that potential explanatory factors - the density of environmental NGOs, transnational business initiatives, intergovernmental cooperation, and agency incentives and slack – have varied considerably over time, and across

⁵¹ UNFIP 2005.

states and environmental regimes.⁵² This variation allows us to trace the causal mechanisms that facilitate or inhibit public-private cooperation. There is also considerable variation in the propensity of states to lead and participate in public-private institutions for sustainable development. The availability of data on both explanatory factors and the extent of public-private cooperation across states makes it possible to use quantitative techniques to test the relative significance of demand and supply variables as determinants of public-private cooperation.

Background: From Intergovernmental to Public-Private Environmental Cooperation

The background of environmental cooperation reflects a fascinating evolution from largely intergovernmental regimes to a broader mix of intergovernmental, purely private, and public-private institutions. Of interest here is to understand the forces behind this institutional diversification, and more specifically what motivates states, IOs, and non-state actors to cooperate in joint institutions for the environment.

The 1972 UN Conference on the Human Environment in Stockholm, Sweden, symbolizes the first large effort of environmental institutions building, although international treaties on the management of selected species and resources existed beforehand.⁵³ The Stockholm meeting was entirely an intergovernmental affair. It reflected the interests of Western democracies, which experienced a rise in domestic environmental concern during the 1960s. The Soviet Block boycotted the meeting over

⁵² Cashore et al. 2004; Haas, Keohane, and Levy 1993; Haufler 2000; Keck and Sikkink 1998; Prakash and Potoski 2006; Wapner 1996; Young 1989; 1997.

⁵³ Conca and Dabelko 2004; Haas, Keohane, and Levy 1993.

the disputed recognition of two separate German states. Developing countries also showed little interest, as environmental contamination was considered a problem of the industrialized world. The meeting resulted in the creation of UNEP, an intergovernmental agency, and stimulated the establishment of domestic environmental agencies. Later in the 1970s and 1980s, the Soviet Union saw the environment as a convenient “low-politics” platform for détente and increased its participation in environmental cooperation. The number of environmental institutions grew steadily covering complex global resources and problems.⁵⁴

The 1992 Conference on Environment and Development in Rio De Janeiro, Brazil was the second major meeting intended to strengthen environmental cooperation and increase the involvement of developing countries. At the Rio conference, there was also a visible increase in NGO demand for more direct influence over environmental regimes. Some 14,000 NGOs registered at Rio, compared to 170 that had registered at Stockholm, demanding greater consultation and oversight in international environmental agreements.⁵⁵ Governments and IOs, however, had no incentives to share authority and create public-private institutions. The newly democratized post-communist states were interested in strengthening and benefiting from intergovernmental institutions. Developing countries, if anything, opposed the influence of transnational NGOs. They saw the NGOs campaigns of the 1980s against large infrastructure projects as threats to their sovereignty and development.⁵⁶ In addition, both developed and developing states, which had divergent interests on the issues of climate change, biodiversity, and

⁵⁴ Haas, Koehane and Levy 1994; Miles et al. 20002; Victor, Raustiala and Skolnikoff 1997; Young 1989, 1997.

⁵⁵ Conca and Dabelko 2004; Mathews 1997.

⁵⁶ Conca 1998; Keck and Sikkink 1998.

environmental financing that were being negotiated, had strong incentives to maximize their control over institutional outcomes. IOs also had little incentives for institutional innovation through partnerships with non-state actors, as they anticipated the strengthening of intergovernmental institutions.

The outcomes of the Rio conference remained strictly intergovernmental, despite increased transnational-actor demand for direct influence. States adopted *Agenda 21*, a programmatic document endorsing the concept and policies of sustainable development. They also agreed on the UN Framework Convention on Climate Change and the Convention on Biological Diversity, both of which were broad agreements intended to facilitate further more specific regulations. In addition, a permanent Commission for Sustainable Development was established within the UN Secretariat. The Global Environmental Facility was also set up as a new, shared agency between the World Bank and the UNDP. These outcomes reflected tough inter-governmental bargains that left little space for non-state actors. As one Brazilian diplomat stated after the Rio Conference: “Brazilian interests are reinforced in the majority of the documents... We came out of the negotiations without the slightest scratch to our sovereignty.” (cited by Conca 1998, p. 78).

At the 2002 World Summit on Sustainable Development (WSSD) in Johannesburg, South Africa, environmental cooperation moved from the realm of strictly intergovernmental relations into the realm of mixed intergovernmental and public-private governance. The density of environmental NGOs and their demand for direct governance had further intensified. An estimated 8,000 NGOs⁵⁷, including advocacy,

⁵⁷ Data available at: http://www.johannesburgsummit.org/html/basic_info/faqs.html#joburg1. Accessed in October 2004.

business, and research organizations clamored for attention and influence at Johannesburg. Non-state actors had also gotten increasingly involved in setting up non-state governance programs in the areas of biodiversity, forestry, environmental managements, and environmental reporting, many of which they showcased at Johannesburg by setting up informal side-events.⁵⁸

At Johannesburg, unlike the Rio conference, the increased societal demand for participation in global governance was met with interest by some IOs and states. By 2002, there were over 460 international treaties on the environment⁵⁹, but the practical implementation of environmental agreements was highly variable, and sustainable development objectives were lagging behind.⁶⁰ Some governments, most notably the US, used arguments of institutional ineffectiveness and implementation failures to justify their lack of support for further cooperation and institutional funding. There was thus broad agreement on the objective of sustainable development, but little agreement on the mechanisms to achieve it. This provided incentives and space for actors that sought positive results of the meeting to experiment with more flexible mechanisms.

The UN Commission for Sustainable Development as organizer of the Conference had particularly strong incentives to protect their reputation and avert a potential failure of the WSSD. The UN organizing bureau designed a call for public-private partnerships for sustainable development, and proposed their registration as Official Type II outcomes, Type I outcomes being intergovernmental agreements. Most developed countries endorsed the proposal, seeing it as means to appease domestic

⁵⁸ Conca and Dabelko 2004, Speth 2004.

⁵⁹ Number of environmental treaties in 1999, as reported by Environmental Treaties and Resource Indicators (ENTRI). Palisades, NY: CIESIN, Columbia University. Available at: <http://sedac.ciesin.columbia.edu/entri/>. Accessed on August 07, 2005.

⁶⁰ Miles et al. 2002; Victor, Raustiala, and Skolnikoff 1998; Speth 2004.

critics and advance policies selectively. Developing countries were initially skeptical, fearing that such public-private agreements would simply repackage existing assistance, rather than augment resources for sustainable development. In response, the UN authors of the Type II approach specified that all partnerships must be additional to existing initiatives.⁶¹

The outcomes of the Johannesburg summit were, as a result, quite different from the strictly intergovernmental outcomes of the summits in Stockholm and Rio. Governments agreed on a relatively weak intergovernmental *Plan of Implementation*. The European Commission, acting with the support of its member states, initiated the Johannesburg Renewable Energy Coalition as a voluntary transgovernmental agreement to promote renewable energy. The Conference adopted over 230 public-private partnerships as Official Type II outcomes. Jonathan Lash, President of the World Resources Institute, optimistically characterized the WSSD private-public agreements as: "...the first stirring of a new way of governing the global commons – the beginning of a shift from the stiff formal waltz of traditional diplomacy to the jazzier dance of improvisational solution-oriented partnerships that may include non-governmental organizations, willing governments, and other stakeholders" (cited by Witte and Streck 2003, 2). In an interesting twist of history, one of the public-private institutions launched at the Johannesburg meeting was the Amazon Regional Protected Areas (ARPA). ARPA is an agreement between Brazil, the World Bank, and the World Wildlife Fund on rules and financing for the conservation of some 12% of the Brazilian Amazon, covering areas roughly equal to the size of Spain. Such a strong conservation agreement, which entitles the World Bank and a transnational NGOs to oversee its implementation, would

⁶¹ Andonova and Levy 2003; Witte, Streck, and Benner 2003.

seem unthinkable from the point of view of the Brazilian diplomat that guarded so zealously Brazil's sovereignty in biodiversity management back at the Rio Summit in 1992.

The background of global environmental cooperation shows that both political demand as well as political supply factors had to be in place for institutional diversification toward public-private cooperation. In 1972, the nature of the Cold War system was such that governments maintained exclusive control over cooperation. By 1992, there was an increased transnational actor demand for direct participation in environmental governance, but no interest on the part of states and IOs to engage in public-private cooperation. By 2002, transnational actor networks grew denser and more capable to propose alternative institutions. At the same time, there was also distinctive agency and state interest to supply "jazzier" institutions of public-private governance.

The leadership pattern of the partnerships adopted at the WSSD provides striking evidence of the critical role of IOs and state agencies in the institutionalization of public-private cooperation, a trend consistent with the supply side hypotheses H3 and H4. IOs initiated about 29% of the WSSD public-private partnerships, while developed states led another 22%. IOs that were most active in leading public-private agreements were UNEP and UNDP, both characterized by universal membership, broad technical mandates, and more leeway for innovation. Most of the WSSD government-led agreements were proposed by development agencies of advanced industrialized states seeking to supplement their cooperation efforts. Developing countries, which have greatest functional need for better governance, remained skeptical about public-private

cooperation, and lead only about 6% of all WSSD partnerships, a share similar to that of research institutions.⁶²

Although supply-side incentives dominated the leadership of public-private institutions established at Johannesburg, transnational demand played an important role as well. NGOs, mostly large transnational organizations such as the World Conservation Union, The Nature Conservancy, and the World Resources Institute, led about 24% of all WSSD partnerships. Interestingly, business organizations remained lukewarm about public-private institutions at Johannesburg, leading just 3% of the partnerships.⁶³

In sum, IOs, government agencies, and large advocacy organizations dominated the move toward the institutionalization of public-private governance for sustainable development. The history of the institutional diversification in environmental cooperation thus provides evidence broadly supportive of hypotheses H2 and H3, which emphasize respectively transnational demand for institutional modification, and the critical role of IO entrepreneurship in supplying public-private cooperation. The next section deepens the empirical analysis further to test the relative influence of demand and supply side incentives on public-private cooperation. I use a sample of some 231 public-private agreements adopted at the Johannesburg Summit to assess the significance of functional demand (H1), transnational actor demand (H2), and state supply incentives (H4) as determinants of state participation in public-private institutions for sustainable development.

⁶² Andonova and Levy 2003.

⁶³ Ibid.

Determinants of Public-Private Cooperation for Sustainable Development

The Model

The model of public-private environmental cooperation developed here specifies the dependent variable as STATE PARTICIPATION IN PPIs, which is measured as the number of WSSD public-private agreements, in which countries participated as of February 2003. National patterns of participation in public-private institutions are worth exploring to test alternative hypotheses of public-private cooperation for several reasons. Theoretically, there is a great degree of cross-country variation in the potential explanatory variables of public-private cooperation identified by the theoretical analysis: governance capacity, institutions, density of transnational actors, domestic norms, policy reforms, and involvement in intergovernmental cooperation. This variation provides an opportunity to examine the relative significance of the functional demand, political demand, and state-supply hypotheses advanced in the theoretical section. From a more practical perspective, it is also useful to explore the variation in public-private cooperation not only across issue areas and time periods, but also across states. Such analysis would illuminate the conditions for state involvement in a more diverse menu of global governance institutions and cooperation with non-state actors.

To operationalize the dependent variable and subsequently the explanatory variables, I use the *WSSD Public-Private Partnership Database*.⁶⁴ The database is constructed on the basis of 231 PDF documents describing some 231 public-private partnerships registered at the WSSD web site as of 12 February, 2003.⁶⁵ It codes

⁶⁴ Ibid.

⁶⁵ The documents were accessed at <http://www.johannesburgsummit.org/>. February 12, 2003.

information on the leadership, country participation, and issue orientation of these 231 partnership agreements. The partnership data is merged with other country-specific data from the World Development Indications⁶⁶ and the Environmental Sustainability Index (ESI).⁶⁷

The descriptive statistics of the dependent variable, STATE PARTICIPATION IN PPIs, suggest that states varied considerably in their propensity to sign onto public-private agreements for sustainable development at the WSSD Summit. On average states participated in 4.3 WSSD partnerships, while the maximum state participation in the sample was in 33 partnerships and the minimum was in 0 partnerships, with a standard deviation of 5.6. France, the US, South Africa, Japan, and Indonesia, for example, were among the most active states, each participating in over 25 environmental partnerships. States such as Croatia, Iceland, Estonia, Saudi Arabia, and Ethiopia were among some 37 states that did not participate in any partnerships.

This variation raises interesting questions related to the theoretical analysis. Are public-private partnerships motivated primarily by functionalist concerns about weak governance capacity, by the political demands of transnational actors, or by the strategic interests of states and domestic agencies to supply partnerships as mechanisms to extend their influence and selectively supplement intergovernmental cooperation? To explain the cross-country variation in public-private cooperation, the model considers several sets of explanatory variables.

The first set of explanatory variables seeks to discern the extent to which gaps in state governance motivate STATE PARTICIPATION IN PPIs, as implied by the

⁶⁶ World Bank 2002.

⁶⁷ World Economic Forum et al. 2002 and 2001.

functionalist hypothesis (H1). The model operationalizes environmental governance capacity in four different ways. First, I use two measures of income as indirect proxies for environmental governance capacity. The binary variable LOW INCOME has a value of 0 for countries coded by the World Bank as “high income countries” and a value of 1 for the rest of the sample. Specification 2 of the model uses a continuous measure for income, GDP, which is operationalized as the natural logarithm of the countries’ Gross Domestic Product (GDP) per capita in purchasing power parity.⁶⁸

The literature on environment and development suggests that countries with higher income tend to have greater capacity for environmental policy and governance, because of higher public concern and greater availability of resources to invest in environmental management.⁶⁹ According to the functionalist logic, therefore, the variable LOW INCOME should have a positive sign, as low-income countries should have more functional incentives to compensate for governance gaps through public-private institutions. The coefficient of GDP should be negative, as wealthier countries should have less need to participate in public-private partnerships to compensate for public policy failures, everything else equal.

The model also uses two policy-specific measure of environmental governance capacity. The variable ENV PLANS is specified as the number of national environmental plans adopted by a country.⁷⁰ The ability of states to adopt such plans is considered a good indicator of environmental management capacity, and the World Bank and other institutions have encouraged developing and transition countries, for example, to

⁶⁸ Source of income data: World Bank 2002.

⁶⁹ World Bank 1992.

⁷⁰ Data from ESI 2002, see World Economic Forum et al. 2002.

enhance their environmental policy planning.⁷¹ The functionalist hypothesis H1 implies a negative coefficient for this variable, as countries with stronger domestic capacity for environmental policy should have less functional need to participate in public-private institutions, everything else equal.

Another measure of environmental governance gaps is the variable REDUCE STRESS, which is a composite measure of countries' capacity to reduce environmental systems' stress.⁷² The functionalist hypothesis implies a negative coefficient for the REDUCE STRESS variable. Countries that score lower along this variable have less environmental management capacity and experience greater environmental stress, which should increase the functional demand for institutional innovation and collaboration with private actors for the environment.

The second set of explanatory variables tests the influence of transnational actor demand on participation in public-private institution, as identified by the political demand hypotheses H2. The variable TRANSNATIONAL NGOS is specified as the number of World Conservation Union member organizations per million of population in each country.⁷³ The World Conservation Union is one of the oldest, largest, and most active transnational environmental organizations. A greater number of World Conservation Union affiliate organizations reflect greater density and influence of transnational NGOs, which according to H2 should increase political demand for state participation in public-private institutions. The variable ISO14,000 captures the trans-nationalization of voluntary environmental standards among the business sector. It is specified as the

⁷¹ World Bank 1994.

⁷² Data from ESI 2002, see World Economic Forum et al. 2002.

⁷³ Ibid.

number of ISO14,000-certified companies per country as of 2001.⁷⁴ Greater number of ISO14,000-certified companies reflects greater demand by the business sector for voluntary and flexible environmental governance. According to the political demand hypotheses H2, ISO14,000 should have a positive effect on states' participation in WSSD public-private institutions.

The third set of explanatory variables explores supply-side incentives for states and national agencies to extend their influence and resources through public-private institutions, as identified in the state supply hypotheses H4. The variable CIVLIB, taken as reported in the ESI2001, measures domestic political freedom on a scale 1 (free) to 7 (least free).⁷⁵ According to H4, the coefficient of CIVLIB should be negative, as liberal countries, which score closer to 1, are more likely to support the inclusion of non-state actors in international governance. The variable TREATIES, specified as the number of international environmental agreements signed by a country as of 2001,⁷⁶ is a measure of state involvement in inter-governmental institutions. The variable ODA, which is specified as a composite measure of the sum of international donations and receipts of a particular country, is a second indicator of countries' engagement in international cooperation.⁷⁷

The state supply logic of public-private institutions summarized in H4 suggests that countries that are more actively involved in intergovernmental cooperation might also be more active in endorsing public-private institutions as another mechanism to extend cooperation. Moreover, the domestic agencies of states that are involved in

⁷⁴ Data from ESI 2001, see World Economic Forum et al. 2001.

⁷⁵ Ibid.

⁷⁶ Ibid.

⁷⁷ The ODA variable is constructed on the basis of ODA inflow and outflow data reported by the World Bank 2002.

international cooperation are more likely to have agency-specific interests and capacity to engage in transnational institutions. This logic implies a positive sign of TREATIES and ODA. Alternatively, however, the functionalist logic might imply a negative sign of ODA, as countries with lower ODA might seek to participate in public-private institutions to compensate for gaps in inter-governmental assistance. Similarly, it could be stipulated that countries which participate less in binding inter-governmental TREATIES, would participate more in flexible public-private institutions to appease public opinion, rather than advance cooperation.

Finally, the model controls for two factors likely to influence countries' involvement in the WSSD public-private agreements. The variable HOST controls for the reputation incentives of the host countries of the preparatory and the actual WSSD meetings to support public-private partnerships. It has a value of 1 for Indonesia and South Africa, and 0 for the rest of the countries. The variable LARGE POPULATION has values of 1 for the quartile of countries with largest populations and 0 for the other states.⁷⁸ It controls for the fact that large countries are likely to be attractive partners in public-private institution, as they have greater global impact and attract more attention by donors and transnational actors. Table 1 presents the summary statistics of the dependent and explanatory variables.

Table 1 Determinants of country participation in public-private institutions for sustainable development. Descriptive Statistics

⁷⁸ Data from World Bank 2002.

Variable	N	Mean	Std Dev	Minimum	Maximum
STATE PARTICIPATION IN PPIs	205	4.346342	5.6170302	0	33
LOW INCOME	205	0.746342	0.4361696	0	1
ENV PLANS	196	1.795918	1.4950118	0	7
TRANSNATIONAL NGOS	195	4.584615	7.7729885	0	52
ISO14000	196	162.1582	626.00563	0	7155
ODA	197	7.87E-17	0.9974457	-0.660417	5.6613859
TREATIES	197	23.47208	25.532002	1	139
HOST	205	0.004878	0.069843	0	1
LARGE POPULATION	193	0.227979	0.4206203	0	1
CIVLIB	189	3.492064	1.9769121	1	7
GDP	174	8.378699	1.1135181	6.182085	10.589434
REDUCE STRESS	142	51.38028	12.867416	9.4	70.3

Results

The model of country participation in public-private institutions for sustainable development is tested in a sample of 205 countries, using least square regression analysis. Table 2 presents the regression results. These results indicate that transnational interests and supply-side incentives of states already involved in international cooperation are key determinants of state participation in the WSSD public-private agreements. Contrary to the functionalist logic of public-private cooperation, governance gaps seem to have little effect on state’s propensity to participate in public-private institutions.

Table 2 Determinants of country participation in public-private partnerships for sustainable development. Regression results.

Variable	Specification 1		Specification 2	
	Estimate	t Value	Estimate	t Value
Intercept	-1.35966	-0.58	3.46669	1.08
LOW INCOME	0.02292	0.01		
ENV PLANS	0.73045*	2.94	0.66847*	3.17
TRANSNATIONAL NGOS	0.15998*	2.74	0.16641*	3.17
ISO14000	0.00228*	3.74	0.00225*	4.2
ODA	0.65202**	1.69	0.59839**	1.72
ENV TREATIES	0.03034	1.35	0.03109*	1.95
HOST	20.10203*	4.71	20.27517*	5.2
LARGE POPULATION	2.88162*	3	2.83087*	3.34
CIVLIB	0.09665	0.42	0.05723	0.31
REDUCE STRESS	0.02942	0.88		
GDP			-0.35835	-1.02
Adj R-Sq	0.59		0.61	
N	140		171	

* p < .05; ** p < .10

The variable LOW INCOME is insignificant, suggesting that poorer states which typically have low governance capacity are not anymore likely to participate in WSSD partnerships than rich states. The continuous measure of economic capacity GDP is similarly insignificant (Table 2, Specification 2). These results do not support the functionalist understanding of public-private institutions as primarily driven by governance gaps. The results also reveal that while wealthier countries were, on balance, more likely to lead public-private partnerships at Johannesburg, the level of economic development is not an important determinant of countries' overall participation in such institutions.

The measure of countries' ability to reduce environmental degradation, REDUCE STRESS, also appears insignificant, indicating that countries facing greater environmental stress are not more likely to participate in public-private institutions (Table 2, Specification 1). ENV PLANS is the only governance capacity variable that is significant, but positive, contrary to the implications of the functionalist hypothesis H1.

Rather than attracting states with weaker capacity for environmental planning, the WSSD public-private institutions attracted states with stronger capacity for environmental management, everything else equal. This finding falls more closely in line with the state supply hypothesis H4, which implies that countries with developed or reformist environmental policy might be driven by their environmental bureaucracies to participate in public-private institutions.

The analysis confirms in a strong way the importance of transnational actors in public-private cooperation for sustainable development. The variables TRANSNATIONAL NGOS and ISO14,000 have highly significant and positive coefficients. These results support the propositions elaborated in H2 that powerful transnational interests are likely to be the key source of political demand for public-private cooperation. Countries hospitable to large transnational networks and interests are considerably more likely to get involved in public-private institutions, compared to countries with a smaller transnational advocacy sector, or countries where business is less interested or able to obtain ISO14,000 certification. Interestingly, however, the broader measure of domestic political liberties, CIVLIB, is insignificant. Both relatively liberal and illiberal countries got involved in the Johannesburg public-private partnerships, contrary to the implications of H4 that liberal states are more likely to endorse the involvement of non-state actors. The overall level of domestic liberties seems less important determinant of states' participation in public-private institutions, compared to the presence of strong transnational sectors able to mobilize political demand for such institutions.

Of the variables measuring supply-side incentives for states to participate in public-private institutions, the coefficient of ODA is positive and significant at the 10% level. The positive sign of ODA suggests that the more countries are involved in foreign aid transactions, the more their governments and development agencies are likely to have interest and political skill to participate in public-private institutions, a finding broadly supportive of H4. Contrary to the functionalist logic, countries less involved in foreign aid cooperation are not more likely to participate in public-private institutions to compensate for deficiencies in official assistance. The variable TREATIES, reflecting state involvement in intergovernmental environmental cooperation, is also positive and significant in Specification 2, which uses the continuous measure for economic development GDP. It is, however, insignificant in Specifications 1, which uses a binary measure of wealth, LOW INCOME, which while insignificant is relatively highly correlated with TREATIES (correlation coefficient $-.53$) and interferes with the significance of the TREATIES variable. The results of Specification 2 indicate that states that participate more in intergovernmental environmental institutions are also more likely to participate in public-private institutions, everything else equal. This finding falls in line with the supply-side logic of public-private institutions elaborated in H4. The result also supports indirectly the argument that intergovernmental institutions are likely to spur and facilitate public-private cooperation. The analysis does not provide evidence supportive of the skeptical view that laggards in international cooperation are more likely to participate in voluntary public-private institutions to deflect public pressure and to weaken intergovernmentalism.

The two control variables are both significant and influential. The coefficient of HOST reveals that Indonesia and South Africa, the host countries of the preparatory and actual meetings respectively, were considerably more likely to get involved in public-private partnerships compared to other states, everything else equal. The variable LARGE POPULATION is also positive and significant, suggesting that the largest, most visible countries were about twice as likely to be part of public-private partnerships at Johannesburg. These results confirm again the leading role of political, reputation, and strategic incentives as key determinants of the patterns of public-private cooperation. Pro-active states and agencies participated in public-private agreements at the WSSD Meeting to reinvigorate cooperation and to attract strategic partners, rather than to target consistently gaps in environmental governance or to circumvent intergovernmentalism.

Conclusion

The rise of public-private institutions since the turn of the 21st century is not a transient phenomenon. These institutions reflect the growing complexity of international politics. They are a form of institutional innovation, driven by IOs, transnational entrepreneurs, and government agencies seeking to strengthen the effectiveness of cooperation as well as their institutional mandates and resources. To analyze the role of public-private

cooperation in global governance, this paper elaborates a theory of the political demand and supply of public-private institutions. This approach yields several important results and contributions to the study of cooperation and institutions.

The analysis reveals that although public-private institutions are motivated by a quest for better, more creative governance in an era of globalization, they would hardly provide an answer to all governance failures. Public-private partnerships target problems strategically and selectively. They cluster in areas of overlapping transnational, IO, and state interests, in which they could meaningfully refine, strengthen, and supplement public policy.

The analysis of public-private institutions for sustainable development confirmed that such institutions emerge not where most functionally needed, but where political entrepreneurs have incentives to innovate. The broad trends of public-private cooperation also revealed that the areas of sustainable development, health, and to some extent women's rights have so far provided the most fertile ground for collaboration between public and private actors. In these, and potentially in other areas characterized with high density of transnational interests and proactive public agencies, partnerships are likely to be important new mechanisms of transnational governance.

IOs have been among the most important entrepreneurs of public-private cooperation. By elaborating the principal-agent model of delegation to IOs and focusing on agency behavior, this paper specifies the conditions for agency-driven innovation. It shows that IOs with broad and relatively technical mandates are likely to have more incentive and enough leeway to seek flexible governance and public-private partnerships.

Paradoxically, “powerful” IOs, such as the WTO and the IMF, tend to be tightly controlled by a set of principals and have exhibited little interest or space to innovate. These organizations are powerful not despite states’ interests, but because states have vested in them substantial resources and authority. These conclusions belly the public perception of IOs as the runaway villains of globalization and ineffective cooperation. It suggests that indeed states, particularly powerful ones, retain a large degree of control in global governance. States have a critical role to play, along with entrepreneurial IOs and transnational actors, in the process of institutional innovation to tackle global problems.

The paper also points to several avenues for future research. More data and analysis is needed to examine the effects of public-private institutions. If public-private institutions are justified by the functional need for better governance, but driven by powerful transnational and state interests, do they fulfill their governance promise? Have the rules and procedures established through public-private agreements affected actor behavior, policy outputs, and the international regimes in which they are embedded?

The international relations literature would also benefit from further exploration of the institutional diversification in global governance. As suggested by Figure 2, an increasing number of purely private, public-private, and transgovernmental institutions interact with intergovernmental regimes. While considerable knowledge is being generated on each of these new forms of governance, we still lack a cumulative analysis of the conditions under which different institutional forms are selected, and the interaction between them. Understanding the diverse institutional landscapes of

contemporary regimes is an important research agenda in an era of complex governance.

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