

## NONTECHNICAL SUMMARY

Policy makers are often confronted with international externalities like transboundary pollution, management of high see fisheries, coalitions to combat international terrorism, ... In order to design self-enforcing international agreements to tackle these externalities, many authors have plead for financial transfers to induce cooperative behavior. For instance, in the case of global climate policy, developing countries are unlikely to join any future agreement without sufficient financial compensation.

In this paper, a particular transfer formula is suggested that is "almost ideal" in the sense that it stabilizes, among all potentially stable agreements, the one with highest global welfare. Stabilizing means that the resulting agreement is self-enforcing, i.e. no signatory wants to leave and no non-signatory wants to join. The transfer scheme therefore makes it possible to implement the best possible global outcome given that the agreement should be self-enforcing.

The formula takes into account the "free riding" claims (i.e. their payoff when they would stand outside the agreement enjoying the benefits of the cooperative agreement of the remaining coalition without contributing to its costs) of all signatories and distributes proportionally the remaining cooperative surplus, if any.