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THE NEW DEVELOPEMENT BANK AND THE INSTITUTIONALIZATION OF THE BRICS

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abstract

THE BRICS – A LOOSE COALITION CURRENTLY COMPRISING BRAZIL, RUSSIA, INDIA, CHINA, AND SOUTH AFRICA – WAS FORMED WITH THE OVERARCHING GOAL OF PUSHING FOR GLOBAL GOVERNANCE REFORM. THE INITIATIVE HAS BEEN MET WITH A WIDE VARIETY OF REACTIONS, FROM OPTIMISM CONCERNING ITS ABILITY TO FOSTER SYSTEMIC CHANGE TO STRONG SKEPTICISM REGARDING THE CAPACITY OF FIVE VASTLY DIFFERENT STATES TO AGREE UPON A COMMON AGENDA AND UNDERTAKE LONG-TERM COMMITMENTS. IN THIS PAPER, WE ANALYZE THE BRICS'S NEW DEVELOPMENT BANK, ANNOUNCED IN 2014 AT THE SIXTH BRICS SUMMIT IN FORTALEZA, BRAZIL. MORE SPECIFICALLY, WE EXAMINE THE SIGNIFICANCE OF

THIS STEP FOR INSTITUTIONALIZATION OF THE BRICS COALITION IN LIGHT OF THREE CRITERIA: THE CREATION OF A COHERENT BUREAUCRACY; THE NEW INSTITUTION'S DEGREE OF SOCIAL EMBEDDEDNESS; AND THE FORMATION OF A NORMATIVE PLATFORM. WE ARGUE THAT, AT LEAST ACCORDING TO THE FIRST TWO CRITERIA, THE BANK PROJECT HELPS TO MAKE THE BRICS MORE THAN THE SUM OF ITS PARTS, GRANTING IT A COLLECTIVE AGENCY THAT ITS MEMBERS INDIVIDUALLY DO NOT POSSESS. HOWEVER, THE BANK'S FUNCTION AS A NORMATIVE PLATFORM IS STILL UNCERTAIN, AND THE NDB'S CONTRIBUTION TO THE INSTITUTIONALIZATION OF THE BRICS IS CONSTRAINED TO THE FIELD OF INTERNATIONAL DEVELOPMENT.

BRICS, NEW DEVELOPMENT BANK, INSTITUTIONALIZATION, DEVELOPMENT, SOUTH-SOUTH COOPERATION, DEVELOPMENT FINANCE

keywords

IN 2014, THE FIVE HEADS OF STATE OF THE BRICS STATES (BRAZIL, RUSSIA, INDIA, CHINA, AND SOUTH AFRICA) ANNOUNCED THE CREATION OF A NEW DEVELOPMENT BANK, MEANT PRIMARILY TO HELP CLOSE THE FINANCING GAP FOR INFRASTRUCTURE AND SUSTAINABLE DEVELOPMENT IN THE GLOBAL SOUTH. THE ANNOUNCEMENT WAS MET WITH A VARIETY OF REACTIONS: FROM ENTHUSIASTIC ENDORSEMENTS OF THE PROJECT AS PROVIDING A POSITIVE ALTERNATIVE TO EXISTING DEVELOPMENT FINANCE INSTITUTIONS, TO HIGHLY SKEPTICAL AFFIRMATIONS THAT THESE FIVE STATES ARE FAR TOO DISPARATE TO AGREE UPON A COMMON AGENDA; TO CONCERN THAT THE NEW BANK MAY POSE A SERIOUS THREAT TO WESTERN-DOMINATED DEVELOPMENT NORMS.

DESPITE THIS ONGOING DEBATE ABOUT THE NEW DEVELOPMENT BANK (NDB'S) POTENTIAL IMPACT ON THE FIELD OF DEVELOPMENT, THERE HAS BEEN RATHER SCARCE DISCUSSION OF HOW THE INITIATIVE AFFECTS THE BRICS COALITION ITSELF. WHAT DOES THE NDB REPRESENT FOR INSTITUTIONALIZATION OF THE BRICS GROUPING? WILL CONCRETE INITIATIVES HELP GRANT THE BRICS COALITION GREATER AGENCY AS A COLLECTIVE ACTOR, RENDERING IT MORE THAN THE SUM OF ITS PARTS?

Drawing on official BRICS documents released thus far, as well as interviews with BRICS government officials, we analyze the NDB initiative from an institutionalist perspective that views organizations as socially embedded within multiple and interlocking levels of social interaction. More specifically, we consider the NDB in light of three key factors relevant to the process of institutionalization of a multilateral initiative: the creation of a coherent bureaucracy; its degree of social embeddedness; and the formation of a normative platform able to influence the rule-making process in global development. All three factors are necessary for a sustainable institution that is endowed with both legitimacy and efficacy. Since the NDB project is very much a moving target, we argue that important steps have been taken towards the first and second criteria, but that the role of the NDB as a normative platform for international development is still uncertain, due in part to the inclusion of both authoritarian and democratic regimes among the BRICS. In addition there are limitations to the bank's ability to strengthen the BRICS as a political actor. If successfully implemented, the bank will help institutionalize the BRICS as an important collective actor within the field of development, but this strategy does not necessarily carry over into other fields of action featured in the official BRICS discourse, such as international security.

The paper is structured along two main sections. In the next part, we offer an overview of the scholarship on the BRICS, particularly with respect to international development cooperation; we also summarize the institutionalist approach to international organizations, proposing three general criteria for evaluating the institutionalization of the coalition. Next, we analyze the NDB with reference to the coalition's main goals. The conclusion examines some of the implications of this initiative for the field of development and offers some directions for future research.

THE BRICS FROM AN INSTITUTIONALIST PERSPECTIVE

A PLATFORM OF CONVENIENCE

Even during the Cold War, and despite the strict alliance system of that era, institutional frameworks were created advocating alternatives to the Western and Eastern economic and ideological proposals. Early efforts included the Non-Aligned Movement (NAM) and the Group of 77 (G77), both of which brought together developing countries from Asia, Africa, and Latin America. However, the overarching dispute between the two superpowers for the establishment and expansion of zones of influence around the world, along with the scarcity of resources with which to launch ambitious new initiatives, limited the scope of action of these "Third World" coalitions.

With the end of the Cold War, and especially after the decade of US hegemony, new debates emerged about the possibility of a transition towards a more multipolar or multiplex system.¹ Against this backdrop of systemic reconfiguration, some rising powers – here defined as states that have experienced some degree of economic growth and that use part of those resources to push for more influence within the international order – have worked to coordinate political positions and negotiate a more representative global governance.² They can be thought of as 'moderate reformers' that challenge current global governance even as they seek to guarantee their own policy-making autonomy.³ These efforts have yielded a variety of informal platforms and coalitions. Some of these new arrangements, including the G20, seek to bridge the so-called North-South gap, while others, such as the India, Brazil and South Africa Dialogue Forum (IBSA) and the BRICS grouping, bring together states that either identify themselves as developing countries or that, as in the case of Russia, align with the developing world's calls for global governance reform.⁴

The initial BRIC coalition – at first, without South Africa – was launched primarily to boost economic and political cooperation among its members and to press for reform of global governance. Talks began at the

1 Acharya 2014.

2 Narlikar 2013.

3 Kahler 2013.

4 Vieira, Alden 2011.

ministerial level in 2006, and the 2008 onset of the global crisis provided additional impetus for the initiative. The inaugural head of state summit – the first of (so far) seven annual meetings – was held in 2009 in Yekaterinburg, Russia. In 2011, South Africa officially joined the group, which became known as BRICS. Since then, the initiative has revolved around not only the head of state summits, but also regular ministerial meetings organized around specific cooperation topics.⁵ The coalition's agenda has broadened to include themes as varied as development, security, and education, among others.⁶



MUCH OF THE SKEPTICISM STEMS FROM THE FACT THAT THE BRICS IS A RECENT CREATION

Today, the grouping represents around 42% of the global population, with a joint GDP of approximately U\$ 16 trillion (21% of world's total) and international reserves estimated around U\$ 5 trillion, more than 80% of which comes from China. Backed by years of strong although variable economic growth, and emboldened by their relatively robust response to the first shocks of the global crisis that began in 2008, the BRICS countries became more vocal in the international arena. Their joint demand for reform of key international institutions, which they consider to be outdated because those arrangements do not reflect the current global power distribution, has been particularly salient with respect to international development. This stance stems not only from skepticism towards the models and norms promoted by Northern aid, but also from growing frustration at the lack of *de facto* reform in the Bretton Woods institutions and the UN system.⁷

Although anti-hegemonic in that they aspire to a more multipolar system, the BRICS does not aim for a systemic break. While the grouping's official discourse stresses the need for a multipolar, equitable, and democratic international order, these countries' primary aim is to expand their own influence in the world, rather than replace or disengage from established international institutions. The member states' dissatisfaction with the current global governance architecture is stressed in their summit declarations, which note that established international institutions have not proven able to adequately respond to global challenges. Their desire for change, combined with the promotion of somewhat different approaches

⁵ Stuenkel 2015.

⁶ Bohler-Muller, Kornegay 2013.

⁷ For more on this institutional inertia, see: Vestergaard, Wade 2011.

to certain international relations issues as compared with those of Western countries – for instance, regarding the importance of national sovereignty – has often led to the coalition being characterized as an anti-Western bloc. This umbrella statement tends to disregard the extent to which the individual BRICS rely upon international institutions and norms.⁸

Another common motif is that of the BRICS countries as awkward bedfellows; according to this view, the economic, historical, cultural, and geographic divergences among these states render the coalition unlikely to find common ground on substantive issues. Such narratives tend to attribute the origin of the BRICS to a Goldman Sachs paper on emerging markets,⁹ overlooking not only the deeper historical roots of the coalition (the member states had already begun to deepen ties on a bilateral basis in the 1990s), but also its growing political dimension. A narrow focus on divergences yields a pessimistic view concerning the BRICS grouping's ability to acquire agency as a collective and reasonably coherent actor; the summits, the reasoning goes, are “a mere photo opportunity.” A variant on this take focuses on the asymmetries between China – whose GDP outweighs all of the other BRICS' combined – and the remaining coalition members. In this narrative, the BRICS is nothing more than a thin multilateral veneer for Chinese interests and global ambition.

Much of the skepticism stems from the fact that the BRICS is a recent creation. Despite holding annual head of state summits since 2009, so far the coalition has no charter, headquarters, fixed secretariat, or dedicated funds with which to finance its activities. Some analysts have argued that the development of a juridical apparatus, organizational mechanisms, and financial support systems are prerequisites for promoting wider intra-BRICS cooperation and launching robust multilateral projects.¹⁰ Others note a double standard, since the established international institutions took a lot longer to be negotiated and implemented.¹¹

Diplomats from the BRICS states note that, for such a new coalition, the degree of institutionalization can sometimes be a flawed metric for success, because flexibility generates some benefits. At least during its initial stages, the loose grouping can be treated as a ‘platform of convenience’ through which member states work to find areas in which they are likeliest to find common ground. This flexibility entails a process

⁸ See Hou Zhenbo 2014.

⁹ O'Neill 2001.

¹⁰ Davidov 2012.

¹¹ Pimentel 2013.

of negotiation and accommodation rather than rigidly following a prior agreed-upon template, and it allows for greater agility in the formulation and implementation of their first joint commitments. In some areas, such as international security, finding a path of least resistance is more difficult, partly because there is a salient cleavage within the coalition that affects some of their key stances on security issues: Russia and China are UNSC permanent seat holders, whereas Brazil, India, and South Africa aspire to such a position. Likewise, three members (Russia, China, and India) are nuclear powers, whereas both Brazil and South Africa voluntarily gave up their nuclear weapons programs. On any political topics involving domestic regimes, the three democratic BRICS (Brazil, India, and South Africa) would find little common ground with China and Russia, and there are also considerable differences in how these states behave with respect to international security, both regionally and globally.

DEVELOPMENT COOPERATION: PATH OF LEAST RESISTANCE

On the other hand, the five member states seem to have many converging interests in development cooperation. First, the BRICS share the view that reform is needed within the current global governance architecture in international development. In addition to voicing demands for change within the Bretton Woods Institutions, the BRICS states have generally resisted recent efforts led by the Organization for Economic Cooperation and Development (OECD) and its Development Assistance Committee (DAC) to harmonize the principles of international development. The BRICS consider the OECD to be a “club of rich countries” promoting norms that privilege their own interests above those of recipients. Therefore, from the BRICS’ perspective, the OECD’s attempts to become the center of gravity of the development field – for instance, through the Global Partnership launched in 2014 – to lack legitimacy. Adopting a common discourse of non-interference, these states have strongly opposed (among other items) the DAC’s endorsement of political conditionalities in exchange for provision of aid.¹²

Particularly after the 2008 onset of the global economic crisis, the BRICS countries perceived a window of opportunity to increase their role in, and influence over, development financing. While OECD official

¹² Mwase, Yang Yonzheng 2012.

development assistance (ODA) flows temporarily retracted due to fiscal pressures within the donor states, South-South cooperation continued to expand.¹³ With a greater ability to pool resources, the BRICS began pushing harder for change within the Bretton Woods Institutions, exposing their frustration with the slow pace of these reforms, especially after the US Congress vetoed a 2010 agreement settled by the G20 grant emerging economies more power within the IMF. In protest, at least on two separate occasions in 2014, the BRICS countries threatened to veto a renewal of the IMF’s “New Arrangements to Borrow” crisis funds.

Second, although the role of the state in domestic development varies widely among the five member states, the coalition’s discourse promotes a more state-centric approach to international development, reinforcing their common rejection of market fundamentalism. The 2010 BRICS declaration, for instance, notes that “recent events have shattered the belief about the self-regulating nature of financial markets” and affirms the “pressing need to foster and strengthen cooperation regarding the regulation and supervision of all segments, institutions and instruments of financial markets.”

The BRICS as a collective entity thus gathers steam at a time when the Bretton Woods Institutions have lost their place as center of gravity of the field of development. Within this context, the creation of the NDB is part of a broader trend: the proliferation of development financing actors. In addition to bilateral providers of development financing and private foundations, new regional development banks, such as the Asian Infrastructure Investment Bank (AIIB) and the Shanghai Cooperation Organization bank projects, help drive the decentering of development financing.

Third, the BRICS states make use of their provision of development cooperation not only to contest the OECD’s role as a normative platform, but also to expand their own role as rule-makers (rather than simply rule-takers) in international development. To varying degrees, all five states argue that South-South cooperation is fundamentally different from Northern aid, and therefore unburdened by the legacy of colonialism that they attribute to Northern assistance. The BRICS defend principles such as horizontality, mutual benefit, solidarity, and non-conditionality, in addition to the idea that this cooperation is demand-driven. While the promotion of these principles harkens back to the Cold War Era, in the post-millennium years these countries have been able to draw on significantly enhanced

¹³ Mawdsley 2012.

financial resources for engaging in international cooperation that were not always available before.

The scope of the BRICS countries' bilateral development financing, although difficult to measure precisely due to widely diverging definitions of basic categories, has expanded rapidly in the past fifteen years.¹⁴ Some of the BRICS states' key financing institutions have budgets that surpass those of established multilateral institutions. While in 2013 the World Bank disbursed US\$40.8 billion, Brazil's national development bank, the BNDES, disbursed loans worth US\$ 88 billion, and the China Development Bank lent US\$ 240 billion. In other words, more development projects are being financed by banks that do not adhere to the norms promoted by Western-dominated institutions (for instance, South-South cooperation providers tend to impose strictly project-specific conditions, as opposed to "good governance" clauses).

Second, the coalition members see the provision of development cooperation as a tool for gaining influence and goodwill abroad. In the past few years, all five countries have vastly expanded their development cooperation projects. The provision of South-South cooperation is a way to facilitate economic, political, and defense ties bilaterally while facilitating certain multilateral goals (for instance, garnering votes for candidates for leadership positions, boosting bids to host international mega-events, and broadening support for a permanent seat at the UN Security Council). The economic rationale of South-South cooperation is reflected in the concept of mutual benefit: by expanding their development cooperation projects, these governments can also boost profit opportunities for their countries' companies investing abroad, while helping to foster growth and development in partner states.

At the same time, there are significant divergences in the scope, reach, and composition of the cooperation initiatives offered by individual BRICS members, including with respect to development financing.¹⁵ Of the five states, China is by far the largest provider of development financing, with a variety of institutions – primarily the People's Bank of China, the China Development Bank, and the Export-Import Bank of China – providing credit lines across the developing world, especially in Africa. China's projects are heavily anchored in government-to-government relationships meant to expand trade and facilitate access to raw materials, although the private sector has been gaining ground over the past decade. China's development

cooperation is conducted overwhelmingly through bilateral channels, but over the past few years it has also become a major contributor to multilateral organizations, especially the Asian Development Bank (ADB) and the African Development Bank (AfDB). In 2013, apart from engaging in the NDB initiative, the Chinese government participated in discussions to create a bank for the Shanghai Cooperation Organization (SCO) (still under design) and proposed the Asian Infrastructure Investment Bank (AIIB). China has also launched new regional funds, such as the China-Africa Development Fund.



SOME OF THE BRICS STATES' KEY FINANCING INSTITUTIONS HAVE BUDGETS THAT SURPASS THOSE OF ESTABLISHED MULTILATERAL INSTITUTIONS

Brazil has provided official development cooperation to other developing countries since the 1970s, but this role became more relevant over the past decade, as part of a foreign policy that sought to transform Brazil into a major global player, including by expanding Brazilian influence in South America and Africa. The Brazilian Cooperation Agency (ABC), a division of the Ministry of Foreign Relations, is tasked with coordinating the country's technical cooperation, which focuses on social policy niches such as agriculture, health, and education. In addition, Brazil-based transnational companies, such as Petrobras (oil and gas), Vale (mining), and Odebrecht (construction), carry out large-scale infrastructure projects abroad. These projects are often financed with credit lines from the Brazilian National Development Bank (BNDES), which has vastly expanded its financing for the export of goods and services over the past few years.

India has been a provider of development financing since shortly after its independence in 1947, but its South-South cooperation increased significantly during the 2000s. In 2012, the Development Partnership Administration (DPA) was created within India's Ministry of External Affairs and tasked with coordinating the implementation of India's grants and technical assistance, as well as tracking line credits offered by the country's Exim Bank¹⁶. In 2013, India's development assistance reached its peak so far, with a budget of US\$ 1.16 billion.¹⁷ Most of the country's grants and loans go to South Asian countries (since 2000, around 80% of the total), while most of its credit line provisions go to African countries (currently

14 Kharas, Rogerson 2012.

15 For an overview, see: Mwase, Yang Yonzheng 2012.

16 Export-Import Bank. (Editor's note – JvDb)

17 Mullen 2014.

about 60% of the total). Despite recent efforts by the government to increase coordination of India's development projects, India's management development assistance policy formulation remains highly decentralized, with strong engagement by civil society entities in some projects.

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BOTH THE OPERATIONAL AND NORMATIVE ROLES OF THE BRICS HAVE ACQUIRED GREATER SALIENCE IN GLOBAL DISCUSSIONS OF DEVELOPMENT

The collapse of the Soviet Union and the subsequent political and economic crisis within Russia considerably weakened its role as a major development cooperation provider; instead, Russia became a net recipient of aid. In 2007, the Russian government officially expressed the desire to reverse this trend, laying out priority sectors in the “Concept of Russia's Participation in International Development Assistance.” The country began re-emerging as a significant provider of development cooperation, focusing on the health, energy, and security sectors. Although its engagement is concentrated on former Soviet Union countries, Russia has officially declared promoting relations with Africa a priority goal and has launched initiatives such as the Russian-African Business Forum, created in 2011. More recently, however, with Western economic sanctions resulting from the annexation of Crimea and the ongoing conflict in eastern Ukraine, as well as the drop in oil and gas prices, Russia has experienced new budgetary pressures that may constrain its provision of development cooperation.

Although South Africa is by far the smallest of the BRICS economies, since the end of the Apartheid regime the country's development cooperation has increased considerably, mainly in Africa. South Africa is now the largest African provider of cooperation on the continent. In order to formalize and coordinate the country's development cooperation, in 2007 the government established the South African International Development Agency (SAIDA), now called the South African Development Partnership Agency (SADPA). Driven by the perception that the country's prosperity is directly linked to the development of the rest of Africa, the South African government has focused on peacebuilding (mediation, stabilization, and post-conflict reconstruction). However, there is also growing engagement in agriculture and infrastructure projects as part of a broader effort to foment the region's trade and economic integration and, consequently, expand the market for South Africa's services and manufactures.¹⁸

18 Besharati 2013.

In addition to representing a strategy for expanding influence abroad, the BRICS countries' development cooperation is also a response to a real need: the scarcity of infrastructure and industrialization investment in much of the developing world. During the 1950's, the Bretton Woods institutions focused on major infrastructure projects. However, over time, these institutions turned towards social and economic policy, even as developing countries' infrastructure needs deepened.¹⁹ A recent report by McKinsey Global Institute concluded that around US\$57-67 trillion in infrastructure investment would be needed in order to realize the world's potential growth by 2030 – an amount corresponding to approximately 60% more than the world's infrastructure investment during the last 18 years.²⁰ Some analysts estimate that, given current rates of investment in infrastructure, an investment deficit of around US\$1 trillion annually will remain.²¹

These factors help to explain why development cooperation, and especially development financing, has emerged as the main path of least resistance for the BRICS – and therefore, a realistic starting point for the institutionalization process. At the 6th BRICS Summit in Fortaleza, Brazil, in June 2014, the BRICS announced the launch of two new international financial institutions. The contingency reserve agreement (CRA) consists of a US\$100 billion monetary fund, which members can draw on to boost liquidity in cases of finance crises. As agreed upon in Fortaleza, China will provide US\$41 billion to the CRA's initial capital; Brazil, Russia, and India will contribute US\$18 billion each; and South Africa will allocate US\$5 billion. While the BRICS stress the mechanism's complementarity with respect to existing international arrangements (indeed, the CRA treaty provides for formal linkages to the IMF),²² some analysts believe that the CRA presents a direct challenge to current global financial system.

The other major initiative formally announced in Fortaleza is the NDB. The relevance of this initiative stems not only from the BRICS' push for global governance reform, but also from the ongoing debates about the role of cooperation providers in financing the Sustainable Development Goals (SDGs). With the post-2015 debates in full swing, both the operational and normative roles of the BRICS have acquired greater salience in global discussions of development.²³

19 Chin 2014.

20 Canuto 2014.

21 Bhattacharya, Romani 2013.

22 BRICS 2014.

23 Kharas et al. 2014.

 INSTITUTIONALIZATION AND MULTILATERALISM

A sociological stance on multilateral organizations calls for analyzing these institutions not only with respect to inter-state relations, but also with reference to their organizational dynamics and their broader social relations.²⁴ This approach has been applied not only to established multilateral organizations, but also to looser coalitions, including BRICS.²⁵

According to Barnett and Finnemore,²⁶ international organizations (IOs), far from being mere handmaidens of states, acquire a degree of autonomy when individual members have compelling reasons to delegate some authority. Once endowed with a degree of autonomy, IOs acquire agency in two key ways. First, they help define the interests that states and other actors by leveraging material resources that can be used to influence others – for instance, financial resources. Second, IOs derive agency from their ability to guide behavior in other ways, for instance through agenda-setting (by influencing what is discussed and then decided) and norms-setting (shaping what is considered to be acceptable behavior by international relations actors).

The power of IOs depends in part on the degree of institutionalization of the organization – in other words, the development of rules, norms, and decision-making procedures that define the expectations, interests, and behaviors of the actors involved.²⁷ From a legalistic perspective, institutionalization refers to the adoption of rules and commitments compatible with international law.²⁸

Here we rely on the institutionalist perspective to analyze the process through which the BRICS develops as a distinct political space – a supranational site of governance that is structured by rules, procedures, and activities.²⁹ The importance of institutionalization is acknowledged in official BRICS state documents; for instance, Brazil's Ministry of External Relations refers to the need for “vertical institutionalization” (consolidation of regular meetings at different levels of government) as well as “horizontal institutionalization” (broadening of the coalition agenda to include a wider variety of areas of practice) of the coalition.

24 Koch, Stetter 2013; Brechin, Ness 2013.

25 See, for instance, Larionova 2012.

26 Barnett, Finnemore 2005.

27 Goldstein et al. 2000.

28 Abbott et al. 2000.

29 Sweet et al. 2001.

Drawing on the new economic sociology, we adopt a broader view of institutionalization, going beyond the confines of international law to consider the dynamics of the institution within its broader field of action (in this case, international development). More specifically, we examine the creation of the BRICS New Development Bank in light of three interrelated aspects: the formation of a coherent bureaucracy, the degree of social embeddedness, and the creation of a normative platform. These criteria are derived from Max Weber's³⁰ interpretation of the emergence of bureaucracy as a particular type of administrative structure developed through rational-legal authority. More recent literature on the role of bureaucracies in development has gone beyond these internal organizational characteristics to also consider how bureaucracies are linked to external structures such as social networks.³¹ They also consider certain bureaucracies as key loci for the formulation and dissemination of international norms.³² The three criteria below are inspired by this broader conceptualization of the internal dynamics and broader localization of institutions:

- A *coherent bureaucracy* refers to the ability to form an organizational structure approaching ideal-type Weberian characteristics, including “hierarchical organization, delineated lines of authority in a fixed area of activity, action taken on the basis of and recorded in written rules, bureaucratic officials need expert training, rules are implemented by neutral officials, career advancement depends on technical qualifications judged by organization, not individuals.”³³ The rational-legal authority ascribed to the bureaucracy enables the organization to work towards stated and unstated goals without being captured by individual interests.
- *Social embeddedness* refers to an actor's behavior within the context of the broader social relations in which it operates.³⁴ Organizational fields are composed not of isolated actors but rather of interlinked organizations that interact through formal and informal channels, and organizational change is caused in part by the diffusion of organizational repertoires of behaviors and models of action.³⁵ This means international organizations cannot be examined solely with respect to the internal dynamics of their bureaucratic structures.

30 Weber 1920.

31 Evans 1995.

32 Finnemore, Sikkink 1998.

33 Weber 1920.

34 Granovetter 1985.

35 DiMaggio, Powell 1991.

- Finally, in order to contribute to the institutionalization of the coalition, an initiative must be able not only to “do its job,” but to engage in agenda- and *norms-setting*. If the BRICS are to have normative influence in the field of international development, the NDB must be relevant to broader discussions about what is termed acceptable behavior within international development.

We contend that all three factors are necessary to the consolidation of an institution that has both legitimacy and efficacy. In addition, the NDB will need to gain legitimacy not only before the BRICS countries, but also before the broader international development community.

THE NEW DEVELOPMENT BANK AND BRICS INSTITUTIONALIZATION

PROSPECTS FOR A COHERENT BUREAUCRACY

The BRICS New Development Bank was first proposed in 2012 by the Indian delegation to the 4th BRICS summit in New Delhi. The five heads of state asked their Finance ministers to analyze the creation of a new development bank focusing on infrastructure and sustainable development in the BRICS and in other developing countries. Once the idea was deemed viable, at the following BRICS Summit (in Durban, in 2013), the leaders decided the coalition would create the institution. That following September, they met again at the margins of the G20 meeting in St Petersburg to assess progress on the project.

In parallel, development banks from the five countries – Brazil’s BNDES, the China Development Bank Corporation (CDB), the Bank for Development and Foreign Economic Affairs (Vnesheconombank), the Export-Import Bank of India (Exim Bank), and the Development Bank of Southern Africa Limited – signed cooperation agreements and Memorandums of Understanding on topics such as viability studies, personnel training, experience sharing, and discussions of credit facility in local currency.

It is worth noting that, on the same occasion, two other agreements were signed. The “BRICS Multilateral Coop and Co-financing Agreement for Sustainable Development” aims to boost cooperation on sustainable development, for instance by financing projects connected to sustainability and the low-carbon economy. The second agreement, “BRICS Multilateral Infrastructure Co-financing Agreement for Africa,” reflects host president Jacob Zuma’s efforts to place African infrastructure at the heart of the BRICS development agenda.³⁶ The agreement seeks to facilitate bilateral partnerships between BRICS countries’ development banks, provide support for development of infrastructure, boost trade, and expand investments on the African continent.³⁷

By the 6th BRICS summit in Fortaleza (2014), the coalition was ready to formally announce the NDB. According to the official statement, the institution is intended to “mobilize resources for infrastructure and sustainable development projects in BRICS and other emerging economies and developing countries, complementing the existing efforts of multilateral and regional financial institutions for global growth and development” by providing “loans, guarantees, equity participation and other financial instruments, cooperat[ing] with international and financial organizations, and also provid[ing] technical assistance for projects it will support.”³⁸ The grouping also released the formal agreement for the new institution, with fifty articles spelling out the bank’s basic operations and governance structure.

What do these steps – and the plans outlined so far – mean for the institutionalization of the coalition? First, with respect to the creation of a coherent bureaucracy, the agreement determines the rules of membership: the bank is open to all members of the United Nations, borrowing and non-borrowing alike, but the BRICS states will retain their status (and certain privileges) as founding members. The initial subscribed capital of US\$50 billion is being equally distributed among the BRICS (with an initial authorized capital of US\$ 100 billion), and the voting power of each member equals its subscribed shares in the bank’s capital stock.

The institution’s basic governance structure is also clearly laid out and does not depart in major ways from existing development banks: the NDB will have a Board of Governors, a Board of Directors, a President, and Vice-Presidents. The president will be elected from one of the founding

³⁶ Zuma 2013.

³⁷ BNDES 2013.

³⁸ BRICS 2014.

states on a rotational basis, and there will be at least one VP from each of those members. These provisions allow the BRICS to “lock in” a degree of influence over the bank even as the agreement permits some flexibility in the acceptance of new members.

“ INCREASING CHINA'S PROPORTION OF CAPITAL IN THE BANK MIGHT HELP TO RAISE THE INSTITUTIONS RATING

The negotiations in Fortaleza also covered the bank's headquarters location. The dispute over the host country caused a last-minute stalemate in negotiations on the NDB, since India – as the original proponent of the institution – requested that the bank be headquartered in New Delhi. China, on the other hand, pressured other BRICS leaders to endorse Shanghai as the host city. The impasse was only overcome when Brazil – eager to have an agreement in place by the end of the summit – gave up its bid for the bank's first presidency, granting the privilege to India and accepting instead the first leadership of the Board.³⁹ These compromises allowed China to persevere, and Shanghai was selected as the NDB location.

Some analysts (especially those from China) have argued Shanghai is a natural choice because of the city's existing infrastructure and its business and financial services. Others believe that the decision not only reflects the Chinese government's efforts to make Shanghai into a global financial center, but also reaffirms China's dominant role within the BRICS. China's insistence on hosting the Bank has aroused concerns that the institution may serve Chinese priorities and pave the way for a “Beijing Consensus.” Increasing China's proportion of capital in the bank might help to raise the institutions rating, since the Chinese government has a high Moody's rating.⁴⁰ However, unfettered dominance by China would be detrimental to the process of institutionalization because it would erode the new bank's legitimacy as a multilateral, reformist effort.⁴¹

The NDB's implementation is by no means a given: the project needs parliamentary approval from all five states (as of March 2015, both India and Russia's parliaments had ratified the agreement) and is contingent upon the continuation of political as well as financial commitment. In addition

39 Soto 2014.

40 Griffith-Jones 2014.

41 Abdenur 2014.

to oscillating growth rates, the BRICS face plummeting commodity prices, as well as lingering domestic challenges. For now, however, the NDB agreement lays out the foundational stones of a bureaucracy that, while clearly advancing the common interests of the BRICS countries, also has key elements of bureaucratic autonomy. Other aspects of this organizational structure are still under design – From where will bank staff be drawn? What will career trajectories look like? If consolidated, a coherent bureaucracy would help make the BRICS more than the sum of its parts, at least within the realm of international development.

SOCIAL EMBEDDEDNESS

Development finance institutions do not exist within a vacuum; they are interconnected into a global network through channels that include overlapping memberships, cross-organizational staff flows, and formal agreements for joint initiatives. The NDB, like other multilateral finance institutions, has built-in ties to key development banks from the founding members. In discussions leading up to the formal announcement of the bank, five institutions were identified and have been participating in the general discussions.

The field of development can best be described as an interlocking web of multilateral institutions, bilateral providers, and a wide array of non-state actors that are deeply interconnected at multiple levels. Thus, social embeddedness of the NDB also relates to linkages with actors (state and non-state alike) beyond the founding members. The announcement of the NDB was couched in the language of complementarity, not only from the BRICS grouping itself – the NDB agreement's first article refers to “complementing the existing efforts of multilateral and regional financial institutions” – but also from other actors within the field. During a July 2014 visit to New Delhi, for instance, President Jim Young Kim stated that the World Bank was ready to provide the new bank with technical assistance; he also played down the notion that the two institutions would vie for projects, stating that “the only competition we have is with poverty.”

Whether or not the two banks end up vying for the same markets, clientele and projects the NDB project may contribute towards a readaptation of current financial institutions, including the ongoing

restructuring of the World Bank. Furthermore, the NDB agreement makes provisions for interaction with other actors within the field of development, primarily states. For instance, the agreement allows for the future enlargement of the membership (presumably not just developing countries) and will allow prospective member states to sit in as observers during Board meetings. It will also accept (contingent upon Board approval) other international financial institutions as observers. The agreement openly states that, to fulfill its purpose, it will “cooperate as the Bank may deem appropriate, within its mandate, with international organizations, as well as national entities whether public or private, in particular with international financial institutions and national development banks.” This phrasing leaves open the possibility of cooperating not only with state banks, exim and development banks, and other national institutions, but also private sector entities involved in financing and implementing infrastructure projects internationally.

On the other hand, the agreement makes no mention of civil society. This is important for two key reasons. First, some of the BRICS states’ bilateral provision of development cooperation involves close partnerships with civil society entities such as NGOs, professional associations, diaspora communities, and labor unions. This is the case, for instance, of both Brazilian and Indian South-South cooperation, parts of which have been pioneered by civil society. Second, civil society groups in the BRICS countries have been working together to accompany the process of institution-building, often contesting what they perceive to be a lack of transparency and of inclusion within the bank’s creation process. During both the Durban (2013) and Fortaleza (2014) summits, local civil society groups articulated with their counterparts in the other BRICS countries to hold “parallel” meetings dedicated to questioning the impact of such an institution, including with respect to environmental, human rights, and labor conditions. There is also concern among such groups with the institution’s transparency; Article 15 of the agreement (“Transparency and Accountability”) is the most succinct within the document, mentioning only that “The Bank shall ensure that its proceedings are transparent and shall elaborate in its own Rules of Procedure specific provisions regarding access to its documents.” There is clearly concern among civil society groups in the democratic BRICS that the coalition, and the NDB more specifically, are being shaped in ways that favor the interests and values of the two autocratic members.

One aspect of social embeddedness that will only become clear when and if the bank comes to full fruition concerns the interlocking

social networks that typically emerge across international organizations, especially those acting within the same field. There is significant cross-over in staff among related institutions; for instance, economists from the IMF and the World Bank often “migrate” over to regional development organizations, and vice versa. In addition, employees also tend to come from a narrow background; in 1996, Wade⁴² noted that around two-thirds of World Bank economists were certified by US universities, and that a full 80% had graduated from North American or British universities (the vast majority of them from a small number of elite institutions). While these trends reinforce linkages among institutions beyond the state-level, they also generate considerable redundancy in the knowledge and worldview of staff populating those organizations. The NDB agreement does not mention the recruitment or training of its future staff, nor whether measures will be taken to ensure a certain proportion of employees and contractors from the founding states.

THE NDB AND DEVELOPMENT NORMS

The role of an institution as an arena for contesting, proposing, and launching norms emerges with time and cannot easily be gleaned from its foundational documents. However, some elements can be inferred from the BRICS’ broader positions within the field of development. At the 2013 BRICS summit in Durban, President Xi Jinping called upon the BRICS to help set the international development agenda – a clear sign that the coalition’s development initiatives are not merely designed to “fill the gap” in infrastructure financing.

Rather, the NDB is also being launched as an alternative to Western-dominated institutions. The BRICS have criticized not only the Bretton Woods institutions in their current configurations, but also the OECD. These countries have, to varying degrees, resisted the DAC’s efforts to set global norms by specifying the key principles, practices, and standards of assistance. BRICS governments have insisted that South-South cooperation is fundamentally different from Northern aid in that these flows are more horizontal, based on relations of mutual benefit, and devoid of political conditionalities. As a result, these providers of South-South cooperation resist being pigeonholed as “new donors” and have been reluctant to adhere to the Aid Effectiveness agenda.

42 Wade 1996: 15-16.

Thus far, however, the BRICS have acted more as “norms blockers” (resisting the principles endorsed by Northern institutions) than “norms entrepreneurs.” The concept of sustainable development, for instance, is at the heart of the NDB, but no robust definition has been provided in the bank agreement. In terms of operationalization, it is also not clear how (and to what extent) the new bank will develop models and standards for project monitoring and evaluation. In light of the current ambiguities, civil society groups – not only within the BRICS themselves but also elsewhere – may create new pressures for the NDB to address issues of human rights, environmental impact, and labor conditions.



IF THE NDB'S FOCUS ON HEAVY INFRASTRUCTURE LEADS TO A NEGLECT OF OTHER DIMENSIONS OF SOCIOECONOMIC DEVELOPMENT, SOME OF THE MISTAKES OF THAT ERA MAY BE REPEATED, AT AN EVEN GRANDER SCALE

Likewise, the BRICS have reaffirmed their stance on not applying political conditionality to loans, but it is still unclear how this position might affect the bank's operations and its normative influence. While all of the BRICS have stood by the position of non-interference in other countries' domestic affairs, some of the members might push for preferences in partnerships. China, for instance, typically does not provide major loans to states that maintain formal ties to Taipei, in accordance to its “One China Policy.” Russia, especially after the start of the Ukraine crisis, has adopted a stronger anti-Western stance and has sought to deepen its ties to former Soviet republics. At the summit in Fortaleza, Russian President Vladimir Putin called upon the BRICS to create “a system of measures that would help prevent the harassment of countries that do not agree with some foreign policy decisions made by the United States and their Allies.” The extent to which founding members' geopolitical considerations will influence the NDB's norms and practices, for instance through implicit diplomatic conditionalities and preferences, remains to be seen.

There are also lingering questions regarding how, and to what extent, the NDB will contribute to the post-2015 development framework, especially in light of the Sustainable Development Objectives (SDGs). The 2014 BRICS declaration claims that the member states' “economic growth and social inclusion policies have helped to stabilize global economy, to foster the creation of jobs, to reduce poverty, and to combat inequality,

thus contributing to the achievement of the Millennium Development Goals,” and it states that the BRICS will continue to help “to define the international agenda in this area, building on its experience in addressing the challenges of poverty and inequality”. However, the BRICS have issued no statement so far regarding how the NDB project, or their broader approach to international cooperation, relates to the SDGs.

Finally, there are lingering questions about the NDB's heavy focus on large-scale infrastructure – an approach that harkens back to the early years of the Bretton Woods Institutions, when a belief in “spatial trickle down economics” led development specialists to believe that creating pockets of prosperity would automatically lead to broader externalities.⁴³ If the NDB's focus on heavy infrastructure leads to a neglect of other dimensions of socioeconomic development, some of the mistakes of that era may be repeated, at an even grander scale. On the other hand, making the NDB relevant to global debates about development norms would allow the BRICS to increase the institution's influence even beyond its operations.

CONCLUSION

Development cooperation, and especially development financing, has emerged as the path of least resistance for the BRICS: the area in which the coalition members have been most successful at finding enough common ground to launch concrete initiatives with long-term goals. If successfully implemented, the NDB will grant legitimacy and boost the capacity of a grouping that openly challenges the current global governance system, endowing the coalition with a degree of autonomy that it currently lacks. So far, the NDB's contributions towards institutionalizing the BRICS as an international relations actor in its own right – above and beyond the agency of its individual members – can only be gleaned from the foundational documents and the broader political negotiations surrounding the new bank.

From an institutionalist perspective, the project seems to be making progress along two important criteria. First, the establishment of a coherent bureaucracy capable of carrying out the institution's primary functions looks feasible, partly due to these states' vast previous experiences with development financing, including through existing multilateral platforms.

⁴³ Rodrik 2013.

Second, the NDB plans also include provisions to socially embed the new institution within a broader constellation of actors, both state and private, involved in international development. However, no mention is made of civil society, which not only is an integral part of some of the BRICS' South-South cooperation initiatives, but also has begun contesting the coalition, including the bank project itself.

As for the third criteria – the creation of a normative platform – the BRICS' ability to launch a purposive normative agenda is still unclear, and its potential cannot be inferred from the NDB agreement. While the coalition has adopted clear stances against the imposition of political conditionalities and favors a discourse of non-interference in other countries' domestic affairs, the kind of large-scale infrastructure projects the NDB will finance invariably entail some degree of local and regional political impact. The BRICS concept of sustainable development, also featured prominently in NDB negotiations, also remains underspecified.

The norms of the NDB are likely to emerge incrementally, as credit lines and other operational aspects are hammered out; far from pragmatic details, these are focal points of negotiations where political and ideological divergences will emerge and must be sorted in order to operationalize the new bank and provide it with a normative framework. More broadly, the BRICS must decide how the NDB fits in within global discussions of international development, including those (like the SDG debates) undertaken through the United Nations. This must be done as a truly multilateral effort, rather than as a China-dominated endeavor, which would undermine not only the legitimacy of the NDB, but of the BRICS grouping as a whole.

The successful implementation of the NDB would grant the coalition a higher degree of legitimacy and authority, allowing the BRICS to press more effectively for reform of global governance. However, the NDB's contribution towards institutionalization of the BRICS will remain restricted to the domain of international development. If the BRICS leaders intend to make the coalition into a multi-faceted initiative able to yield concrete initiatives on different areas of international relations, the grouping cannot rely on the NDB and CRA alone and must look for additional paths of least resistance.

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by E. Kania

MOSCOW'S PAST AND PRESENT - KOTELNICHESKAYA (ONE OF "STALIN'S SEVEN SISTERS")
OVERLOOKING A PRESENT DAY BUILDING SITE.