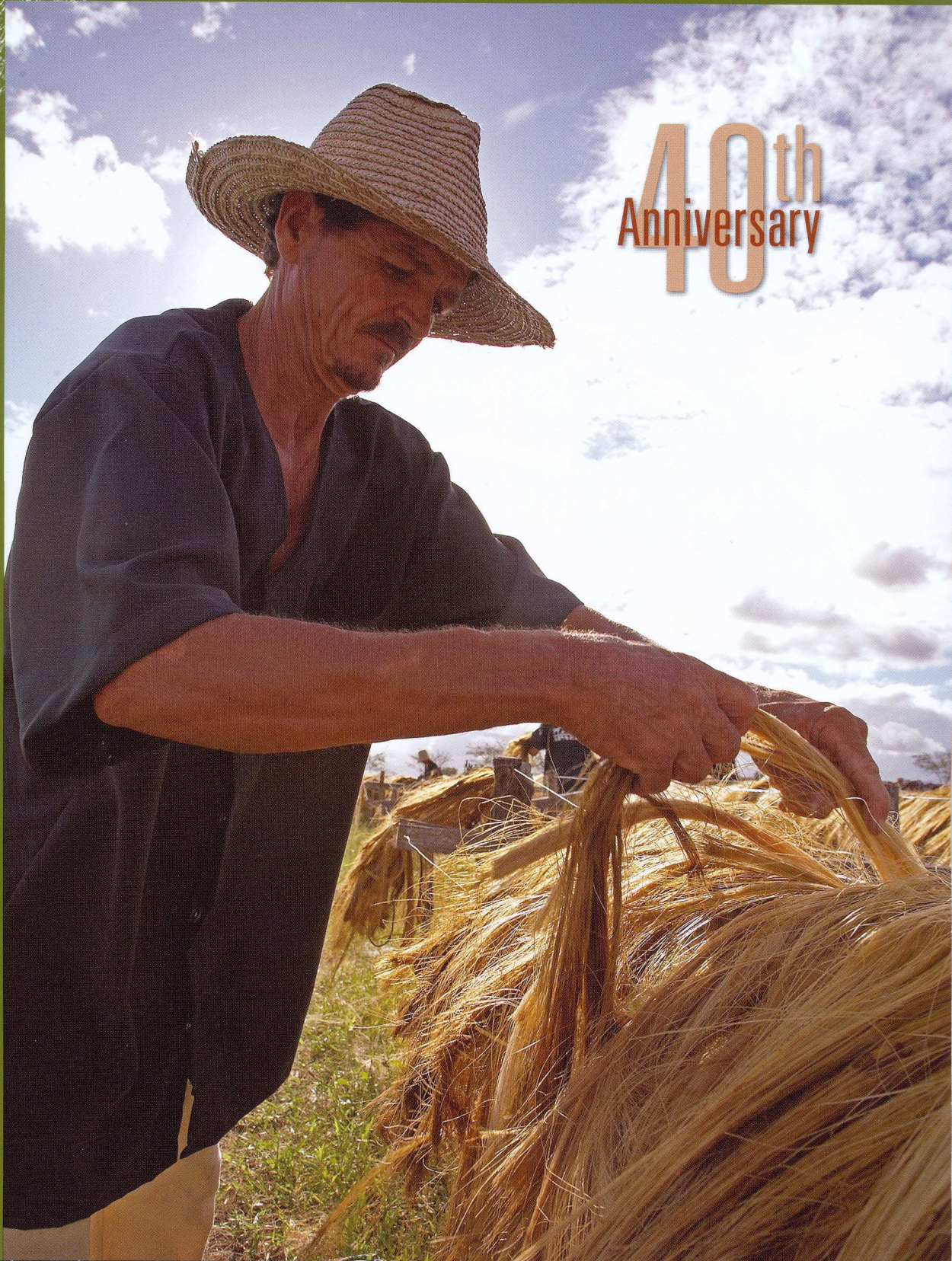


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Report: The IAF in Brazil

Fundação Getúlio Vargas (FGV) recently issued the findings of its study of eight Brazilian organizations awarded IAF grants between 1976 and 2004 and their impact on government policy and social inclusion.

When the IAF began working in Brazil, GDP was growing at an impressive 7 percent annually. Because few Brazilians shared in the gains, the result was glaring inequality in income distribution, particularly as it correlated to race, a phenomenon barely acknowledged in Brazil. IAF's program was, in fact, interrupted for a period that lasted from the late 1970s to the early 1980s, ostensibly because the projects the IAF funded were not needed.

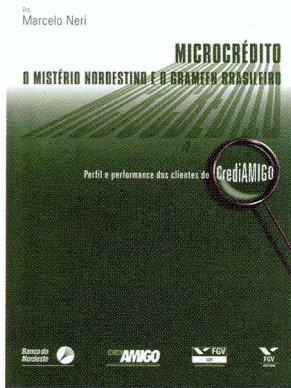
Before and after the interruption, the IAF notably invested in organizations working to put social justice on the agenda. As one of many international donors supporting these institutions, the IAF offered them flexible arrangements for funding core programs and training in advocacy skills that advanced their influence. FGV's study included CEBRAP, founded as a refuge for teachers and researchers "retired" by the military regime; Instituto Brasileiro de Análises Sociais e Econômicas (IBASE), a think-tank headed by the passionate advocate of the destitute and disadvantaged Herbert de Souza, known as Betinho; Centro Josué de Castro, which also raised awareness with its research into social conditions; and Ação Educativa, which worked to improve educational practices. FGV reported that the work of CEBRAP, IBASE and Centro Josué de Castro influenced the Lula government's Bolsa Familia program (see page 74). Ação Educativa institutionalized new practices and developed material tailored for adult education that was adopted by the Brazilian Ministry of Education.

FGV found that after elections and a new Constitution opened space for NGOs kept at bay by the military regime, the IAF focused more on poverty reduction and social inclusion. Grantee União Nordestina de Assistência a Pequenas Organizações in Pernambuco was a pioneer in microcredit (see page

73). Grantee Instituição Comunitária de Crédito—Portosol, in Rio Grande do Sul, not only delivered affordable loans to the poor but devised management tools that were adopted and disseminated by BNDES (Brazil's development bank). The IAF's support also ensured civil society's contribution to the current regulatory framework for microcredit. Sociedade para Reabilitação e Reintegração do Incapacitado (SORRI), which received a grant in 1990 to work with the disabled and research laws and services affecting them, played a role in the passage of relevant labor legislation in 1999. Instituto Palmares de Direitos Humanos, an incubator for enterprises launched by African-Brazilians, received a grant in 2004. Its leader Giovanni Harvey was appointed undersecretary for affirmative action in Brazil's Special Secretariat for the Promotion of Racial Equality and works with civil society to develop policy. "Government machinery does not generate social innovation because it is a technocracy. But it can and it should identify strategic leaders," he told FGV.

With regard to discrimination and income distribution, FGV reported progress. Since 2001, Brazilians increasingly identify as of African descent. As a result, the African-descendent portion of Brazil's population "grew" by almost 6 percent a year between 2002 and 2007. Race is still a factor in poverty, however; a white Brazilian is less likely to be poor than an African-Brazilian. Beginning in 2001, the disparity in income distribution began to improve, but it still jeopardizes prospects for a more equitable society.

FGV's report concludes that, beyond its impact on its grantees and their direct beneficiaries themselves, the IAF's support enabled Brazilian civil society to voice the needs of the marginalized and influence the domestic agenda, laws and development. Civil society's continued influence on policy is paramount to further progress. For the full study, visit www.fgv.br/cps/iafbrazil.—*Marcelo Neri, director, and Ana Beatriz Andari, researcher, Center for Social Policies, Brazilian Institute for Economics, Fundação Getúlio Vargas*



Microcrédito—O Mistério Nordestino e o Grameen Brasileiro

[*Microcredit—The Northeastern Mystery and the Brazilian Grameen*]

By Marcelo Neri et al

Fundação Getúlio Vargas: Rio de Janeiro, 2008

Available in Portuguese

While microcredit's role in reducing poverty is widely recognized, many remain unconvinced. For the skeptics, the hard data is missing, especially on whether microentrepreneurs, particularly women, invest business profits in healthcare and education for their children. In *Microcrédito—O Mistério Nordestino e o Grameen Brasileiro*, principal author Marcelo Neri and his colleagues make an important contribution to this debate by analyzing the CrediAmigo program developed in 1998 by the Banco do Nordeste do Brasil. Neri, who holds a Ph.D. in economics from Princeton University, directs the Center for Social Policies of the Brazilian Institute for Economics at the Getúlio Vargas Foundation, a leading educational and research institution, teaches in its graduate program and publishes regularly in Brazil and abroad.

Brazil's history with microcredit predates by a few years the Grameen Bank founded in 1976 by microcredit pioneer and 2006 Nobel laureate Muhammad Yunus. Projeto UNO, the first microcredit program in South America, was created in 1973 in Pernambuco with the support of Acción International and later expanded through funding from the Inter-American Foundation.

Both CrediAmigo and the Grameen Bank extend loans to groups of poor people whose only collateral is their acknowledgement that they are jointly and severally liable for repayment. The significant difference between the two entities is that the Grameen Bank operates in rural areas and CrediAmigo in cities—a reflection of demographics in Bangladesh, which is primarily rural, and Brazil, where 86 percent of the population is urban.

The reference to “Northeastern Mystery” in the title of this book is a play on the term “Brazilian mystery,” first used in 1997 by Claudio González Vega. A microfinance specialist, he questioned why the volume and quality of credit in Brazil were lower than in other countries with similar levels of income. The demand for credit in Brazil still substantially exceeds supply, but in recent years the availability of credit has expanded faster in the Brazilian Northeast than in the rest of the country. *Microcrédito* convincingly argues that CrediAmigo is the reason, solving “*o mistério nordestino*.” It also provides compelling evidence that CrediAmigo's clients are not only creditworthy, as reflected in their 84 percent rate of repayment, but that many—more than 60 percent—have used their loans to move out of poverty. This is an exceptional achievement by any standard.

Microcredit is usually defined as the concession of small loans to low-income entrepreneurs. Of course, like everyone else, poor people require a diverse range of financial services to safeguard and increase income, budget for consumption, build assets, run their businesses and manage risk. Microfinance is the term for the range of services encompassing loans, savings, money transfers and microinsurance. To be sure, credit is a means and not an end in itself. That is why its effects must be studied not only in terms of financial returns (the profitability and sustainability of the credit program) but also in terms of its impact—on businesses as well as individuals and their families.

Anyone who doubts the power of microcredit should read this book documenting with robust data a program that has reached almost 1 million clients over 10 years and has helped them provide for their families with dignity. It has good news for the clients and beneficiaries of such programs, for the ethical microfinance institutions that try to provide accessible and affordable services to the poor, and for the donors who invest in microcredit programs because of their social, economic and developmental impact. To explore the data further, visit www.fgv.br/cps/crediamigo, an interactive Web site accessible in Portuguese and English.—*Miriam Euclides Brandão, IAF representative*