NEW FIRM FORMATION IN THE RIO GRANDE DO SUL, BRAZIL: THE DETERMINANTS AND CONSEQUENCES FOR THE LOCAL DEVELOPMENT (INTERACTIVE PAPER)

Mario Duarte Canever  
*Federal University of Pelotas, Brazil, canever@ufpel.edu.br*

André Carraro  
*Federal University of Pelotas, Brazil*

**Recommended Citation**  
Available at: http://digitalknowledge.babson.edu/fer/vol29/iss22/6
INTERACTIVE PAPER

NEW FIRM FORMATION IN THE RIO GRANDE DO SUL, BRAZIL:
THE DETERMINANTS AND CONSEQUENCES FOR THE LOCAL DEVELOPMENT

Mario Duarte Canever, Federal University of Pelotas, Brazil
André Carraro, Federal University of Pelotas, Brazil

Principal Topic

This paper is about the links between new firm creation determinants, new firm rate and new firm creation consequences. Our goal is to propose and test a model that disentangles the direct and indirect relations between these three elements, which allows answering the following question: Does new firm formation really matter for the local development?

Method

Using data from 467 counties in the province of Rio Grande do Sul, Brazil, the model considers the new firm birth rate in relation to the adult population (≥ 25 years) over 1999-2000 as a cause of economic and human development for the years to come measured, respectively, by the county per capita income and a socio-economic development index – IDESE (an index similar to the Human Development Index developed by the United Nations Development Programme). As determinants of new firm creation we considered economical, demographical and institutional factors. In economic terms we use the Gini index, the average unemployment rate during 1997-1998 and the personal income growth over 1991-2000. The demographic factors are the number of industry in relation to the county’s adult population and area, the annual population growth over 1991-2000, the investments on education in 1991 and the variation in the number of year at school by the adult population between 1991 and 2000. Relevant institutional variables include the county’s percentage of the total population who received 50% or more of their income from governmental transferences and the participation of micro and small enterprises on the number of enterprises in each locality.

Results and Implications

We found strong evidence that institutional, economical and demographic factors shape the counties new firm start-up activity. Moreover support was also found for the fact that the new firm creation rate impacts the development of localities. But, unlike other researches our results suggest that the new firm formation rate itself has no effects on the economic performance. Instead, we find that this rate has a positive impact on the IDESE, but only after a certain period of time.

CONTACT: Mario Duarte Canever; canever@ufpel.edu.br; (T): +555332757256; Campus Universitário–FAEM, C.P. 354, 96010-900 Pelotas–RS, Brazil.