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The impact of credit unions on the local development of Brazilian small towns

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Introduction

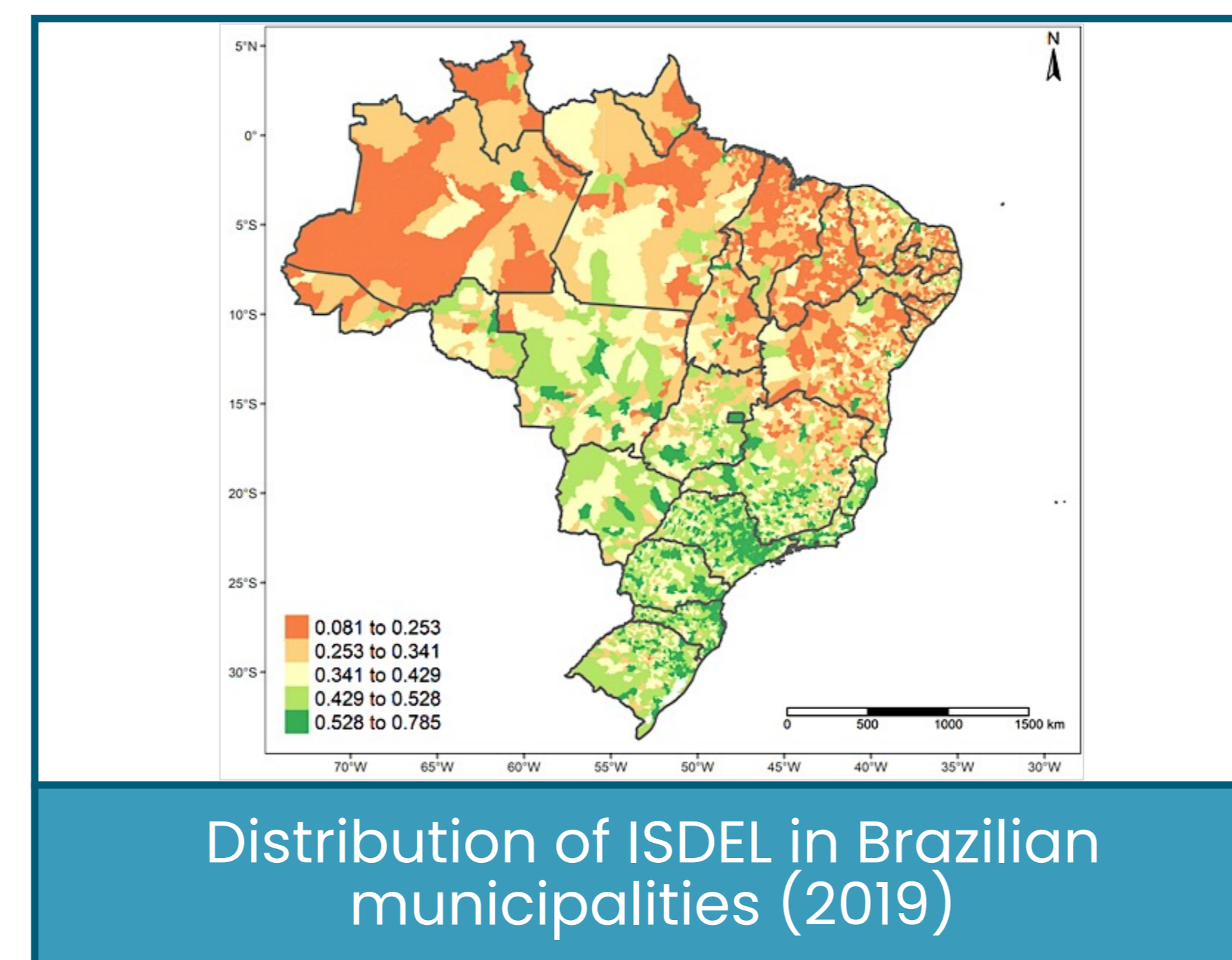
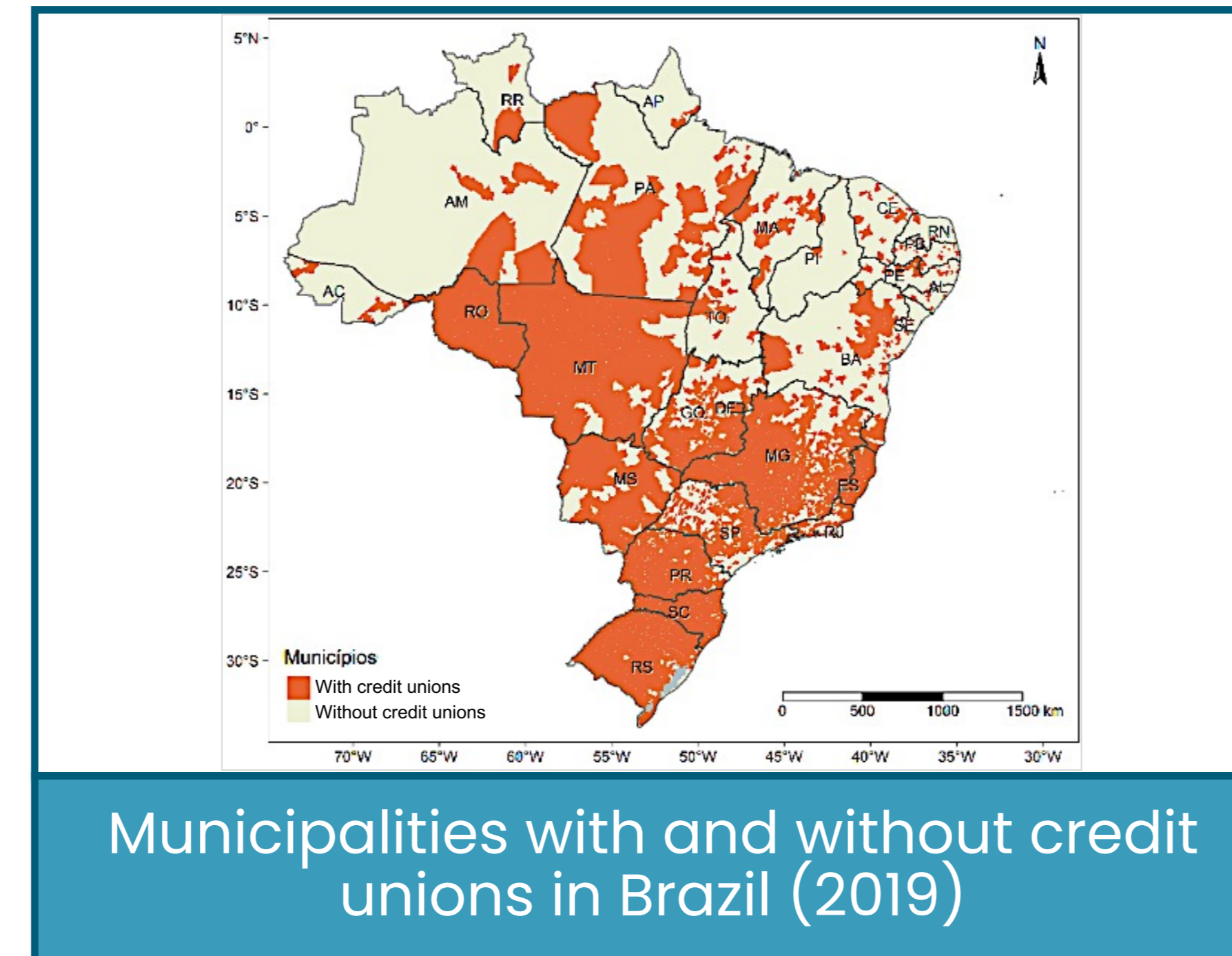
- The **objective** of this paper is to measure the impact of credit unions on the local development of Brazilian municipalities, from 2016 to 2019.
- We used the "Índice Sebrae de Desenvolvimento Econômico Local" (Sebrae Local Economic Development Index) – ISDEL as a measure of local development (SEBRAE, 2023).
 - ISDEL ranges from 0 (worst local development) to 1 (greatest local development).

Methods

- Treatment:** presence of a credit union in the city. For the execution of the **PSM**, we only considered small towns (with up to 50,000 inhabitants).
- Only in municipalities of this size was possible to locate territories to constitute the **control group (without financial institutions)**.
 - We account for several **control variables**: municipality wage bills, number of workers, number of bank accounts, distances from the municipality to the state capital and regional centers, population and municipal Gini, and spatial controls.

Results & Discussion

- Territories with credit unions shown ISDEL around **1 percentage point higher** than the control group in 2017.
- In 2019, the ISDEL was almost **2.5 percentage points higher** for municipalities with credit unions.
- Credit unions can provide citizens access to the financial system and increase local development through financial inclusion.



By enabling access to financial services for their members, credit unions act as local development agents for Brazilian small towns.

Table 1 Average treatment effect (credit unions) on treated. PSM – Brazil

| Year | 2016 | 2017 | 2018 | 2019 |
|--------------|--------|--------|--------|--------|
| ATT | 0,523 | 0,905 | 1,796 | 2,501 |
| T-stat | 1,034 | 2,038 | 3,196 | 3,142 |
| Significance | ns | ** | *** | *** |
| # Treated | 580 | 648 | 701 | 694 |
| # Control | 1368 | 1442 | 1497 | 1490 |
| AIC | 1633 | 1737 | 1789 | 1745 |
| BIC | 1711 | 1816 | 1868 | 1824 |
| Sensibility | 64,830 | 64,350 | 67,330 | 68,440 |
| Especificity | 87,720 | 87,450 | 86,840 | 87,180 |
| Corrected | | | | |
| Prob. | 80,900 | 80,290 | 80,620 | 81,230 |
| LROC | 0,865 | 0,871 | 0,879 | 0,884 |

Note: *** p<0,01; ** p<0,05; * p<0,10; ns non-significant.
Source: Own elaboration.

References

Serviço Brasileiro de Apoio às Micro e Pequenas Empresas – SEBRAE (2023). Índice Sebrae de Desenvolvimento Econômico Local – ISDEL. Available online <https://www.isdel-sebrae.com> (Accessed in Jan. 2023).

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