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RESEARCH PAPER ON THE INFLUENCE OF BANK IN THE ECONOMY ALL OVER THE WORLD

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Abstract

The banking sector is a major segment of the U.S. and world economies. While some might define it more broadly, the U.S. Department of Commerce considers it a subsector of the larger financial services industry, which also includes subsectors focusing on asset management, insurance, venture capital, and private equity.

The U.S. banking system alone had $23.60 trillion in assets and a net income of $263 billion at the end of 2022.The principal economic functions of the banking sector are to take deposits and make loans.

At the most basic level, a bank takes deposits from individuals or businesses, with the promise that the money can be withdrawn when the depositor wants it (though sometimes with a penalty for early withdrawal). Depending on the type of account, the bank also may pay interest on the depositor's money.

The bank then lends the money it has on deposit to other individuals and businesses and receives interest payments from the borrower in return. Banks make a profit on the difference between the interest rate that they pay depositors for the use of their money and the higher interest rate that they charge borrowers.

CHAPTER 1

INTRODUCTION

The Influence Of Bank In The Economy All Over The World

How the Banking Sector Impacts Our Economy ?

Banks also play a central role in the transmission of monetary policy, one of the government's most important tools for achieving economic growth without inflation.

The central bank controls the money supply at the national level, while banks facilitate the flow of money in the markets within which they operate. At the national level, central banks can shrink or expand the money supply by raising or lowering banks' reserve requirements and by buying and selling securities on the open market with banks as key counterparties in the transactions. Banks can shrink the money supply by putting away more deposits as reserves at the central bank or by increasing their holdings of other forms of liquid assets—those that can be easily converted to cash with little impact on their price. A sharp increase in bank reserves or liquid assets—for any reason—can lead to a "credit crunch" by reducing the amount of money banks have to lend, which can lead to higher borrowing costs as customers pay more for scarcer bank funds. A credit crunch can hurt economic growth.

Banks can fail, just like other firms. But their failure can have broader ramifications— hurting customers, other banks, the community, and the market as a whole. Customer deposits can be frozen, loan relationships can break down, and lines of credit that businesses draw on to make payrolls or pay suppliers may not be renewed. In addition, one bank failure can lead to other bank failures.

Banks' vulnerabilities arise primarily from three sources:

a high proportion of short-term funding such as checking accounts and repos to total deposits. Most deposits are used to finance longer-term loans, which are hard to convert into cash quickl a low ratio of cash to assets; and

a low ratio of capital (assets minus liabilities) to assets.

Depositors and other creditors can demand payment on checking accounts and repos almost immediately. When a bank is perceived—rightly or wrongly—to have problems, customers, fearing that they could lose their deposits, may withdraw their funds so fast that the small portion of liquid assets a bank holds becomes quickly exhausted. During such a "run on deposits" a bank may have to sell other longer-term and less liquid assets, often at a loss, to meet the withdrawal demands. If losses are sufficiently large, they may exceed the capital a bank maintains and drive it into insolvency.

Essentially, banking is about confidence or trust—the belief that the bank has the money to honor its obligations. Any crack in that confidence can trigger a run and potentially a bank failure, even bringing down solvent institutions. Many countries insure deposits in case of bank failure, and the recent crisis showed that banks' greater use of market sources of funding has made them more vulnerable to runs driven by investor sentiment than to depositor runs.

The need for regulation

Bank safety and soundness are a major public policy concern, and government policies have been designed to limit bank failures and the panic they can ignite. In most countries, banks need a charter to carry out banking activities and to be eligible for government backstop facilities—such as emergency loans from the central bank and explicit guarantees to insure bank deposits up to a certain amount. Banks are regulated by the laws of their home country and are typically subject to regular supervision. If banks are active abroad, they may also be regulated by the host country. Regulators have broad powers to intervene in troubled banks to minimize disruptions.

Regulations are generally designed to limit banks' exposures to credit, market, and liquidity risks and to overall solvency risk. Banks are now required to hold more and higher-quality equity—for example, in the form of retained earnings and paid-in capital—to buffer losses than they were before the financial crisis. Large global banks must hold even more capital to account for the potential impact of their failure on the stability of the global financial system (also known as systemic risk). Regulations also stipulate minimum levels of liquid assets for banks and prescribe stable, longer-term funding sources.

Regulators are reviewing the growing importance of institutions that provide bank-like functions but that are not regulated in the same fashion as banks—so-called shadow banks— and looking at options for regulating them. The recent financial crisis exposed the systemic importance of these institutions, which include finance companies, investment banks, and money market mutual funds.

Getting to Know the World Bank

The World Bank is an international development organization owned by 187 countries. Its role is to reduce poverty by lending money to the governments of its poorer members to improve their economies and to improve the standard of living of their people.

The Bank is also one of the world's largest research centers in development. It has specialized departments that use this knowledge to advise countries in areas like health, education, nutrition, finance, justice, law and the environment.

Another part of the Bank, the World Bank Institute, offers training to government and other officials in the world through local research and teaching institutions.

A Board of Governors represents the Bank's government shareholders. Generally, these governors are country ministers, such as Ministers of Finance or Ministers of Development.

The governors are the ultimate policymakers in the World Bank. They meet once a year at the Bank's Annual Meetings.

How the World Bank was established

The World Bank was established in 1944 to help rebuild Europe and Japan after World War II. Its official name was the International Bank for Reconstruction and Development (IBRD).

When it first began operations in 1946, it had 38 members. Today, most of the countries in the world are members.

How the World Bank is organized

The World Bank has created new organizations within itself that specialize in different

activities. All these organizations together are called the World Bank Group. It consists of:

- **IBRD** lends to low- and middle-income countries;
- **International Development Association (IDA)** lends to low-income countries;
- **International Finance Corporation (IFC)** lends to the private sector;
- **Multilateral Investment Guarantee Agency (MIGA)** encourages private companies to invest in foreign countries; and
- **International Centre for Settlement of Investment Disputes (ICSID)** helps private investors and foreign countries work out differences when they don't agree.

How decisions are made

The Bank is run like a giant cooperative, where its members are shareholders and is operated for the benefit of those using its services. The number of shares a country has is based roughly on the size of its economy. The United States is the largest single shareholder, followed by Japan, Germany, the United Kingdom, and France. The rest of the shares are divided among the other member countries.

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At the Annual Meetings, all of the Bank's and International Monetary Fund 's (IMF) governors decide how best to address global development issues and decide what the world should focus on in the upcoming year (and near future) to help reduce poverty in the world.

Since the governors meet only once a year, they give specific duties to their Executive Directors, who work on-site at the Bank. Every member government is represented by an Executive Director. The five largest shareholders (France, Germany, Japan, the United Kingdom and the United States) appoint an executive director each, while other member countries are represented by 19 Executive Directors.

The Bank's 24 Executive Directors oversee the Bank's business, including approving loans and guarantees, new policies, the administrative budget, country assistance strategies, and borrowing and financial decisions.

Source of money

The Bank borrows the money it lends. It has good credit because it has large, well-managed financial reserves. This means it can borrow money at low interest rates from capital markets all over the world to then lend money to developing countries on very favorable term The Bank's financial reserves come from several sources - from funds raised in the financial markets, from earnings on its investments, from fees paid in by member countries, from contributions made by members (particularly the wealthier ones) and from borrowing countries themselves when they pay back their loans.

The Bank lends only a portion of the money needed for a project. The borrowing country must get the rest from other sources or use its own funds. Eventually, since the country has to pay back its loans, it ends up paying for most, if not all, of the project itself

World Bank loans help countries:

• Supply safe drinking water
• Build schools and train teachers
• Increase agricultural productivity
• Manage forests and other natural resources
• Build and maintain roads, railways, and ports
• Extend telecommunications networks
• Generate and distribute energy
• Expand health care
• Modernize

The Bank also tries to encourage investment and lending by countries, companies, and private investors. It also lends money to hire industry experts to help countries to reshape their economies to make them more efficient and productive.

Money isn't the only type of support that the Bank provides. Often, it is the advice and experience the Bank's staff brings to a project or the environmental and social standards it applies that are also important.

How do banking systems influence regional wealth and inequality?

Queen Katharina of Württemberg already suspected the positive influence banks can have.

For this reason, after the famine of 1817, not only did she found our University of Hohenheim the following year, but also the „Württembergische Spar-Casse" (a predecessor of the LBBW) to encourage savings.

For our project we combine banking and economic data of five EU countries. We do not consider aggregated information at national level, but we compare data at the level of NUTS 2 regions within Germany, France, Italy, Spain and Austria. We analyse how characteristics of regional banking systems affect the local economy. Characteristics of such banking systems can be the corporate forms (private banks, cooperative banks, savings banks) or the business activity (e.g. commission or lending business). Our results show that local savings banks and credit unions have a positive influence on regional wealth. A regional banking system with, on average, smaller banks that focus mainly on interest business contributes to a reduction of Inequality How do regional banking systems influence local businesses and especially small and medium- sized companies?

From a theoretical perspective, there are many arguments in favour of regional banks and their positive influence on local businesses. However, there are also economic arguments against the thesis that a diverse banking system with local banks makes sense. For example, it can be discussed whether a few large centralised banks operate more efficiently.

From a business management perspective, the research project analyses how regional banking systems relate to the local business enterprises at the level of the administrative districts. As a basis, we take the banking data set of the project "How do banking systems influence regional inequality and local prosperity?" and combine it with the information from almost 850,000 companies in Germany, France, Italy, Spain and Austria.

Our results show that regional banking systems with smaller banks on average lead to better profitability of enterprises in the respective region Our results show that regional banking systems with smaller banks on average lead to better profitability of enterprises in the respective region. This also applies if banks in a region have higher average net interest income. The results apply to small and medium-sized enterprises in particular.

Banks play a central role in the global economy by facilitating payments, monetary policy, and other functions:

Payments system: Banks process payments, from personal checks to electronic payments between banks.

Monetary policy: Banks help money flow through the markets where they operate. Safeguarding assets: Banks keep depositors' assets safe.

Loans: Banks provide loans to individuals and businesses.

Capital formation: Banks encourage savings and investment, which can help eliminate capital shortages.

Credit creation: Bank deposits increase the money in circulation, which can help industries create productive assets.

Trading functions: Banks can act as market makers for corporate, government, and municipal bonds.

International capital mobility: Foreign capital inflows can increase financial resources, reduce financial constraints, and boost domestic inve stment.

CHAPTER 2

REVIEW OF LITERATURE

The World Bank Group's Role in Global Development Since its founding in 1944, the World Bank has evolved from a lender focused on European reconstruction to the preeminent international institution for economic development and poverty reduction.

The World Bank Group's Role in Global Development

Backgrounder

The World Bank Group's Role in Global Development Since its founding in 1944, the World Bank has evolved from a lender focused on European reconstruction to the preeminent international institution for economic development and poverty reduction.

Students use a converted prayer space as a classroom in Niger.

Students use a converted prayer space as a classroom in Niger. Stephan Gladieu /World Bank WRITTEN BY

Jonathan Masters, Noah Berman, and Andrew Chatzky

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Summary

The World Bank is a group of five multilateral institutions that aim to eradicate global poverty.

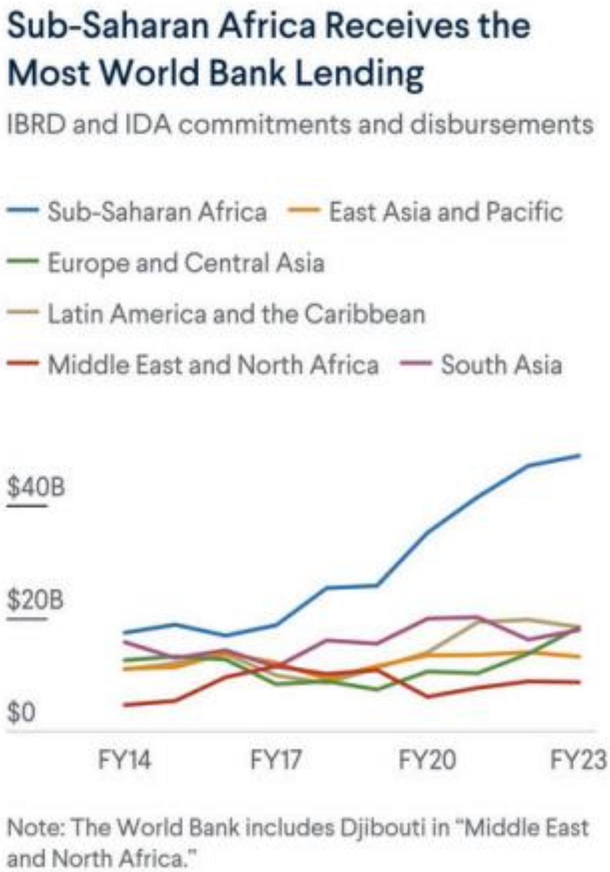
Recent challenges, including climate change, the COVID-19 pandemic, and the Russian invasion of Ukraine, have renewed debate about the bank's role in international development.

As rival institutions grow in popularity, some experts say the World Bank cannot deliver on its goals without overarching reform.

The World Bank Group is a family of five multilateral institutions focused on economic development whose overarching mission is global poverty reduction. Established by Western powers in 1944, the World Bank was originally tasked with rebuilding the economies of postwar Europe. Almost eighty years later, it has funded more than twelve thousand projects and expanded its reach into nearly all of the world's developing countries.

Since June 2023, the bank has been led by former Mastercard CEO Ajay Banga, the first Indian American to lead the institution. But the long-standing tradition of U.S. leadership of the World Bank has led some observers to argue that the bank is too dominated by the West, particularly given the bank's primary focus on the developing world and the rise of alternative institutions. Others suggest the bank has outlived its usefulness altogether, citing the increase in private capital flows available to developing countries. Supporters of the bank contend that it contributes to global economic development as an arbiter of best practices.

In recent decades, the bank's primary focus has shifted from partnering with middle-income nations on growth-related programs and trade liberalization toward global poverty alleviation. These efforts take place in the world's poorest countries—particularly those in Africa—and in middle-income countries, such as China and India, where the majority of the world's poor reside.



What do critics say about the World Bank?

The bank's perceived shortcomings have come under scrutiny for decades, including from former bank officials. "The plan to end world poverty shows all the pretensions of utopian social engineering," former World Bank economist William Easterly wrote in 2006. And since resigning from the World Bank in 1999, former Chief Economist Joseph Stiglitz has argued that the economic reforms the IMF and World Bank frequently require as conditions for their lending have often been counterproductive for recipient economies and devastating for those countries' populations.

The economic consequences of the COVID-19 pandemic and the war in Ukraine have battered many developing economies, reinvigorating criticism of the bank and other Western lenders. Some experts say the global nature of these crises has laid bare the bank's limitations and its "obsolete" rules. While rich countries issued stimulus packages to fight deteriorating economic conditions during the pandemic, low- income countries had to borrow vast sums of money to stay afloat. Yet even with historic levels of lending from the World Bank, low-income countries could afford to mobilize just a small fraction of their economies toward pandemic response, compared to over a quarter of GDP in the United States.

And after the war in Ukraine sparked skyrocketing inflation, poverty and hunger increased around the world. Global education and health outcomes also suffered. In 2023, the World Bank warned of a "lost decade," projecting average global economic output through 2030 would fall to a thirty-year low.

Still other critics argue that geopolitical considerations have made development finance more challenging. After Russia invaded Ukraine in 2022, the World Bank cut ties with both Russia and its ally Belarus, pausing all programs in the two countries. Meanwhile, rival investment programs, such as those affiliated with China's Belt and Road Initiative, have gained popularity as a way of financing infrastructure projects.

Are there alternatives?

Some economists have argued that the increasingly global nature of private capital flows and the ascendance of large emerging economies such as the BRICS—Brazil, Russia, India, China, and South Africa—diminish the World Bank's influence. These dynamics have led some to recommend that the bank narrow its focus to countries that lack access to private markets. "If the World Bank wants to have a significant role on the lending side, it's going to have to be in the poorest of the poor countries or war-torn countries where the private sector has been effectively scared off," CFR's Benn Steil said.

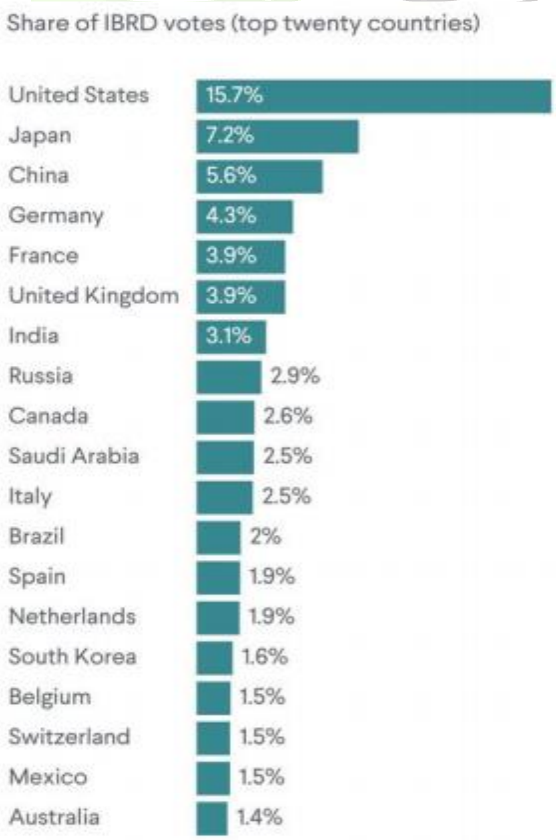
The BRICS's New Development Bank and the China-led Asian Infrastructure Investment Bank (AIIB) have presented developing countries with alternatives to the Bretton Woods institutions. Rebecca Liao, a China analyst, writes that the AIIB was born from developing- world grievances with what poor countries see as the bank's onerous terms.

Emerging markets—including China, which the World Bank classifies as an upper-middle- income country even though it is the world's second-largest economy—have also been frustrated with their relative lack of influence at the World Bank and the IMF. But giving China in particular a greater voice in the Bretton Woods institutions is not without risks. "China is not seen any more in Congress as being a responsible player in the international financial community," Steil said at a CFR media briefing. The last thing U.S. officials want to see, he argued, is the World Bank "turned into a global Belt and Road, pursuing China's geostrategic gain."

Skeptics question whether there is still a niche for the World Bank in the modern architecture of global finance, particularly given the availability of private lending and the growth of emerging economies over the past two decades.

Which Countries Have the Most Votes at the World Bank?

To this point, some experts say the bank should reform its voting structure to be more competitive, including for its presidential elections. The United States has double the voting share of Japan, the country with the next most votes. "Having an American at the helm of the bank partly served to reassure Wall Street, originally the main supplier of the bank's capital," CFR's Thomas J. Bolly Ky wrote in 2012. With the globalization of capital markets, this justification . . . is long outdated." He recommends a voting system that requires leaders to win over a majority of countries, not simply the primary shareholders.



CHAPTER 3

MANAGEMENT/HOW BANK OPERATES

Although banks do many things, their primary role is to take in funds—called deposits—from those with money, pool them, and lend them to those who need funds. Banks are intermediaries between depositors (who lend money to the bank) and borrowers (to whom the bank lends money). The amount banks pay for deposits and the income they receive on their loans are both called interest.

Depositors can be individuals and households, financial and nonfinancial firms, or national and local governments. Borrowers are, well, the same. Deposits can be available on demand (a checking account, for example) or with some restrictions (such as savings and time deposits).

Making loans

While at any given moment some depositors need their money, most do not. That enables banks to use shorter-term deposits to make longer-term loans. The process involves maturity transformation—converting short-term liabilities (deposits) to long-term assets (loans). Banks pay depositors less than they receive from borrowers, and that difference accounts for the bulk of banks' income in most countries.

Banks can complement traditional deposits as a source of funding by directly borrowing in the money and capital markets. They can issue securities such as commercial paper or bonds; or they can temporarily lend securities they already own to other institutions for cash—a transaction often called a repurchase agreement (repo). Banks can also package the loans they have on their books into a security and sell this to the market (a process called liquidity transformation and securitization) to obtain funds they can relend.

A bank's most important role may be matching up creditors and borrowers, but banks are also essential to the domestic and international payments system—and they create money.

Not only do individuals, businesses, and governments need somewhere to deposit and borrow money, they need to move funds around—for example, from buyers to sellers or employers to employees or taxpayers to governments. Here too banks play a central role. They process payments, from the tiniest of personal checks to large-value electronic payments between banks. The payments system is a complex network of local, national, and international banks and often involves government central banks and private clearing facilities that match up what banks owe each other. In many cases payments are processed nearly instantaneously.

The payments system also includes credit and debit cards. A well-operating payments system is a prerequisite for an efficiently performing economy, and breakdowns in the payments system are likely to disrupt trade—and, therefore, economic growth—significantly.

Creating money

Banks also create money. They do this because they must hold on reserve, and not lend out, some portion of their deposits—either in cash or in securities that can be quickly converted to cash. The amount of those reserves depends both on the bank's assessment of its depositors' need for cash and on the requirements of bank regulators, typically the central bank—a government institution that is at the center of a country's monetary and banking system. Banks keep those required reserves on deposit with central banks, such as the U.S. Federal Reserve, the Bank of Japan, and the European Central Bank.

This money can be used to purchase goods and services and can find its way back into the banking system as a deposit in another bank, which then can lend a fraction of it.

The process of relending can repeat itself a number of times in a phenomenon called the multiplier effect. The size of the multiplier—the amount of money created from an initial deposit—depends on the amount of money banks must keep on reserve.

Banks also lend and recycle excess money within the financial system and create, distribute, and trade securities.

Banks have several ways of making money besides pocketing the difference (or spread) between the interest they pay on deposits and borrowed money and the interest they collect from borrowers or securities they hold. They can earn money from:

income from securities they trade; and fees for customer services, such as checking accounts, financial and investment banking, loan servicing, and the origination, distribution, and sale of other financial products, such as

insurance and mutual funds.

Banks earn on average between 1 and 2 percent of their assets (loans and securities). This is commonly referred to as a bank's return on assets.

Transmitting monetary policy

Banks also play a central role in the transmission of monetary policy, one of the government's most important tools for achieving economic growth without inflation. The central bank

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What Are the Different Types of Banks?

The common types of banks include central banks, commercial banks, and investment

banks. Central banks are government institutions, like the U.S. Federal Reserve, whose role is to regulate their nation's money supply. Commercial banks are what most of us think of as banks, taking in deposits and issuing loans. Investment banks generally work with companies to help them issue stock or find financing. Large banks often have divisions for both commercial and investment banking.

How Banks and the Banking Industry Work

Banks, whether brick-and-mortar institutions or online, manage the flow of money between people and businesses. More specifically, banks offer deposit accounts that are secure places for people to keep their money. Banks use the money in deposit accounts to make loans to other people or businesses.

In return, the bank receives interest payments on those loans from borrowers. Part of that interest is then returned to the original deposit account holder in the form of interest—

generally on a savings account, money market account or CD account. Banks primarily make money from the interest on loans and the fees they charge their customers.

These fees can be tied to specific products, such as bank accounts or related to financial

services. For example, an investment bank that offers portfolio management to investors can charge a fee for that service. Or, a bank may collect an origination fee when granting a mortgage loan to a homebuyer.

Banking is a highly regulated industry. The Reserve Bank of India (RBI) oversees banks and other financial institutions and coordinates with state regulatory agencies to help
ensure banks follow the proper guidelines.

Credit Union vs. Bank

Banks and credit unions both serve the same general purpose: Helping consumers and small businesses to manage their money. They also tend to offer similar banking products, such as:

- Checking accounts
- Savings accounts
- Certificates of deposit (CDs)
- Money market accounts (MMAs)
- Home loans
- Car loans
- Personal loans and lines of credit
- Credit cards
- Business bank accounts

Where they differ lies largely with how they operate. As mentioned above, banks tend to operate on a for-profit basis while credit unions do not. Credit unions may charge fewer fees to their customers or offer lower interest rates on loans.

Banks and credit unions offer the same level of protection in the event of failure. There's usually no membership requirement with banks to open an account the way there are with credit unions.

Credit Unions	Banks
• Operate on a nonprofit basis	• Operate for profit
• Membership requirements must be met to join	• No membership requirements to open an account
• Owned by its members	• Owned by shareholders
	• DICGC-insured
• May have fewer branches or ATMs	• May offer more branches or ATMs
• May charge fewer fees or lower interest rates on loans	• May charge higher fees or interest rates on loans

CHAPTER 4

RESEARCH MITHOLOGY

Highlights

•We test the effects of banking sector development on industry-level sector development and growth.

•The effect of banking sector development on agricultural sector development is conditional on levels of banking sector development.

•Banking sector development has no effect on industrial sector development.

•There is evidence for a unidirectional effect running from industry-level sector development to banking sector development.

•Agricultural sector growth and industrial sector growth promote banking sector development.

Globalization and Banking

Since the global financial crisis of 2007, international banking has attracted heightened interest from policy makers, researchers, and other financial sector stakeholders.

Perhaps no sector of the economy better illustrates the potential benefits—but also the perils—of deeper integration than banking. Before the crisis, international banks (banks that do business outside of the country they are headquartered in) were

generally considered to be an important contributor to financial development as well as economic growth. This belief coincided with a significant increase in financial globalization in the decade prior to the crisis, particularly for banking institutions.

In the wake of the crisis, however, many blamed global banks for the transmission of shocks across countries and started questioning their benefits. The Financial Stability Board (FSB), the G-20, and policy makers around the world have all voiced concerns about the effects of international banking. Global systemically important banks (G-SIBs) have been one of the prime targets of criticism since they are seen as both too big and too interconnected to fail.

Research shows international banking may contribute to faster growth and stability in two important ways: first, by making available much needed capital, expertise, and new technologies which make domestic financial systems more competitive; and second, by enabling risk-sharing and diversification, thereby smoothing out the effects of domestic shocks.

But international banking is not without risks and there are some long-standing policy concerns. For example: to what extent should developing countries trust international banks with the provision of their local financial services, especially when international banks may face pressures from their home countries to retrench resulting in an erosion of local skills and services?

Should developing country authorities be especially cautious in their approach to admitting international banks from other developing countries? Is lack of experience or insufficient home-country prudential regulation and supervision a concern, or is it offset by the region- specific knowledge that gives these banks better potential to provide banking services in developing countries? Does allowing foreign banks to have a larger market share run the risk of simultaneously reducing access to and increasing the price of banking services for small and medium enterprises (SMEs) and lower-income households?

Finally, how is technology—especially in the form ofFintech firms that work globally and across borders through digital products—likely to influence international banking?

These are some of the questions we will be addressing in our 2017/18 Global Financial Development Report on International Banking. We aim to synthesize all the research evidence, look at emerging trends after the crisis, and provide policy guidance on a range of issues that developing countries face.

New platform leverages power of guarantees to boost private financing

Developing countries will need an average of $2.4 trillion each year between now and 2030 to address the global challenges of climate change, conflict, and pandemics. Without it, children will attend substandard schools, families will go without quality health care, and communities will struggle to cope with the effects of climate change.

Bilateral donors and multilateral development banks alone don't have the resources to match this need. It's critical to mobilize private capital to join this effort. Yet it's increasingly difficult for low- and middle-income countries to attract the private capital they need—and lay the foundation for accelerated economic growth. The risk-return ratio for investing in emerging economies is still not sufficient.

The private sector can't step up without improved funding structures, new ways to balance and allocate risks, and reimagined partnerships.

The World Bank Group's Private Sector Investment Lab, instituted by President Ajay Banga, recognized this challenge. One of the solutions it proposed was to ramp up our organization's guarantees work. That's why we've launched a groundbreaking new platform to catalyze private sector capital and accelerate sustainable development on a livable planet. The new World Bank Group Guarantees platform is designed to boost our guarantee volume to $20 billion by 2030.

While the World Bank Group still lends significantly to developing countries, we are pivoting from primarily being a lending institution to also being a leveraging one. The guarantee platform, housed at the World Bank Group's Multilateral Investment Guarantee Agency (MIGA), will be a one-stop shop for all the institution's guarantee business. The platform has three product families: credit guarantees (for loans to the public or private sector); political risk insurance (for private sector projects or public-private partnerships); and trade finance guarantees for public sector risk.

We have seen the power of guarantees to boost private finance to tackle the toughest development challenges. With the World Bank's lead on country and sector dialogue and the International Finance Corporation's (IFC) financing and technical assistance, guarantees can be the final missing piece to unlock private capital in many lower-income countries in dire need of sustainable infrastructure.

For example, political risk guarantees were deployed to support the construction of Africa's largest mini-grid in the Democratic Republic of Congo (DRC) as part of the World Bank Group's engagement with the country, together with IFC's support to the private sector.

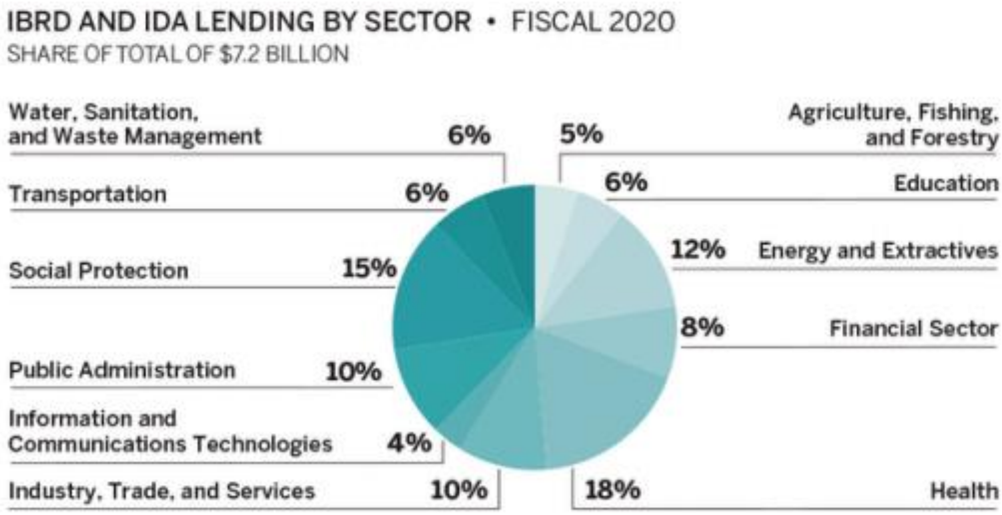
The mini-grid provides affordable and sustainable electricity to over 28,000 households and businesses in the DRC. This is just one example, among countless others, of how guarantees can contribute to the World Bank Group's goal to increase energy access to at least 300 million people in Africa.

MIGA's guarantees, built upon financing from the World Bank and advisory from IFC, facilitated foreign direct investment to support Senegal 's first electric bus rapid transit system. The 18.3-kilometer route will transport 300,000 passengers daily, and the project is expected to lead to 59,000 tons of carbon dioxide equivalent savings annually.

But better utilizing the potential of guarantees is just the beginning. History has shown us that turning to innovation to meet the needs of our country and private sector clients will have the greatest impact, and so innovation is also at the heart of our new platform.

have an impressive track record of facilitating cross-border investments using our guarantee instruments. In fiscal year 2024, the World Bank Group issued approximately $10.3 billion in new guarantees using products that will be part of the platform: $8.2 billion from MIGA, $1.4 billion from IFC, and nearly $700 million from the World Bank. Guarantees can be an efficient use of capital as well. For every dollar of operating capital MIGA deploys, for instance, it can mobilize $15 of private capital — a very efficient use of shareholder capital.

We stand at an inflection point where guarantees are emerging as a powerful tool in international development financing. Leveraging the World Bank Group's collective expertise over 80 years of engagement with governments, the guarantee platform is ready to support private sector investments in developing countries to drive much-needed, impactful solutions.



CHAPTER 5
SUMMRAY

give advice to governments."

China's new role as a financier of first resort for many low-income and middle-income countries has also raised fundamental questions about the raison d'être of multilateral development banks, such as the World Bank (see examples here, here, and here). Nobel Prize winner Michael Kremer and the Center for Global Development's Michael Clemens make the case that the principal value of the World Bank does not lie in its lending activities for stand- alone public investment projects. Instead, they argue that the "Bank's principal impact arises through its influence on national policies, and that economic theory suggests such influence is often best exerted multilaterally. "

Large-n empirical evidence suggests that the World Bank does indeed have outsized policy influence with public sector decision makers in the developing world. In 2014, AidData fielded a survey of nearly 7,000 development policymakers and practitioners in 126 low-income and middle-income countries that made it possible to benchmark the policy influence of bilateral and multilateral institutions. The results of the survey demonstrated that the World Bank has substantially greater influence over the direction, design, and implementation of government policies than most of its bilateral and multilateral peers. This finding was corroborated by a follow-up survey of development policymakers and practitioners that AidData conducted in 2017

However, there is still relatively little evidence that speaks to the question of why—and—how the World Bank achieves such high levels of influence with governing authorities in the global south. Some have proposed that the World Bank is influential because of its use of development policy loans (DPLs), which do not support stand-alone projects but instead provide budget support in exchange for policy reform. A key feature of the DPL program is the fact that financial disbursements are linked to the adoption of specific policy conditions, so the World Bank's ability to withhold disbursements from borrower governments could be the underlying source of its influence..

Do we need a World Bank?

Without a place like the World Bank from which to borrow money, the world's poorest countries would have few, if any, ways to finance much-needed development projects. The projects are essential to helping people become educated, live healthy lives, get jobs, and contribute as active citizens.

How the World Bank is organized

The World Bank has created new organizations within itself that specialize in different activities. All these organizations together are called the World Bank Group.

How decisions are made

The Bank is run like a giant cooperative, where its members are shareholders and is operated for the benefit of those using its services. The number of shares a country has is based roughly on the size of its economy. The United States is the largest single shareholder, followed by Japan, Germany, the United Kingdom, and France. The rest of the shares are divided among the other member countries.

A Board of Governors represents the Bank's government shareholders. Generally, these governors are country ministers, such as Ministers of Finance or Ministers of Development. The governors are the ultimate policymakers in the World Bank. They meet once a year at the Bank's Annual Meetings.

At the Annual Meetings, all of the Bank's and International Monetary Fund 's (IMF) governors decide how best to address global development issues and decide what the world should focus on in the upcoming year (and near future) to help reduce poverty in the world.
Since the governors meet only once a year, they give specific duties to their Executive Directors, who work on-site at the Bank. Every member government is represented by an Executive Director.

The five largest shareholders (France, Germany, Japan, the United Kingdom and the United States) appoint an executive director each, while other member countries are represented by 19 Executive Directors.

The Bank's 24 Executive Directors oversee the Bank's business, including approving loans and guarantees, new policies, the administrative budget, country assistance strategies, and

borrowing and financial decisions.

Loans and the World Bank

The Bank lends money to middle-income countries at interest rates lower than the rates on loans from commercial banks. In addition, the Bank lends money at no interest to the poorest developing countries, those that often cannot find other sources of loans. Countries that borrow from the Bank also have a much longer period to repay their loans than commercial banks allow and don't have to start repaying for several years.

Source of money

The Bank borrows the money it lends. It has good credit because it has large, well-managed financial reserves. This means it can borrow money at low interest rates from capital markets all over the world to then lend money to developing countries on very favorable terms.

The Bank's financial reserves come from several sources - from funds raised in the financial markets, from earnings on its investments, from fees paid in by member countries, from contributions made by members (particularly the wealthier ones) and from borrowing countries themselves when they pay back their loans.

The Bank lends only a portion of the money needed for a project. The borrowing country must get the rest from other sources or use its own funds. Eventually, since the country has to pay back its loans, it ends up paying for most, if not all, of the project itself

The need for regulation Bank safety and soundness are a major public policy concern, and government policies have been designed to limit bank failures and the panic they can ignite. In most countries, banks need a charter to carry out banking activities and to be eligible for government backstop facilities—such as emergency loans from the central bank and explicit guarantees to insure bank deposits up to a certain amount. Banks are regulated by the laws of their home country and are typically subject to regular supervision. If banks are active abroad, they may also be regulated by the host country. Regulators have broad powers to intervene in troubled banks to minimize disruptions.

Regulations are generally designed to limit banks' exposures to credit, market, and liquidity risks and to overall solvency risk.

Creating money

Banks also create money. They do this because they must hold on reserve, and not lend out, some portion of their deposits—either in cash or in securities that can be quickly converted to cash. The amount of those reserves depends both on the bank's assessment of its depositors' need for cash and on the requirements of bank regulators, typically the central bank—a government institution that is at the center of a country's monetary and banking system. Banks keep those required reserves on deposit with central banks, such as the U.S.

Federal Reserve, the Bank of Japan, and the European Central Bank. Banks create money when they lend the rest of the money depositors give them. This money can be used to purchase goods and services and can find its way back into the banking system as a deposit in another bank, which then can lend a fraction of it.

The process of relending can repeat itself a number of times in a phenomenon called the multiplier effect. The size of the multiplier—the amount of money created from an initial deposit—depends on the amount of money banks must keep on reserve.

How Do Banks Drive the Economy?

The banking sector is crucial to the modern economy. As the primary supplier of credit, it provides money for people to buy cars and homes and for businesses to buy equipment, expand their operations, and meet their payrolls.

Banks also provide depositors with a safe place to keep their money (particularly since the advent of the Federal Deposit Insurance Corp. (FDIC), which insures many accounts up to certain limits) as well as to earn some interest on it.

The credit cards, debit cards, and checking accounts that banks make available facilitate all kinds of everyday transactions. They also help drive ecommerce, where cash is of little use.

How Banks Are Regulated

Because of the vital role that banks play in the economy, governments around the world have laws in place to try to prevent them from engaging in excessively risky behavior. In the United States, for example, banks are regulated by an assortment of federal and state agencies, depending on the type of bank. The sector also self-regulates through actions of organizations such as the Financial Services Forum and the Financial Services

Roundtable Banks range dramatically in size, from the small-town corner bank to international behemoths, sometimes referred to "global systemically important banks" or banks considered "too big to fail" because of the havoc that their failure could supposedly cause to the world economy.
Major Companies in the Banking Sector.

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