ABSTRACT

"There is a saying: "This time it's different". But financial history teaches us that this time is never different. The financial system may change shape, innovation may run rampant, but the fundamental risks — excessive leverage, lack of liquidity, panic — remain essentially the same. Regulation is not about stifling innovation, but about ensuring that it does not destroy the stability on which we all depend."
Christine Lagarde (President of the ECB) - ECB Annual Research Conference

The financial system is a complex infrastructure that enables households, businesses, governments and other economic agents to make payments, transfer resources and manage risks. It is an infrastructure that is subject to continuous stress from economic developments and technological innovation. Ensuring the smooth functioning of this architecture is the task of the authorities responsible for financial stability. In general, the main function of the financial system is to facilitate the transfer of resources from savers ("surplus units") to those in need of funds ("deficit units"). In a well-designed financial system, resources are allocated efficiently (i.e. resources are directed to the most productive and innovative companies with the best growth prospects).

The financial system plays a central role in the production and dissemination of information. In fact, intermediaries do not merely move resources around, but also contribute to the evaluation of projects, companies and Countries. In this regard, they synthesise expectations about growth, inflation and solvency through stock and bond prices, sovereign spreads and risk premiums. In this way, they provide signals that guide investment decisions and project selection. Finance therefore performs a service of aggregating information (dispersed among many operators) and monitoring. On a global scale, these signals influence international capital flows and, therefore, the ability of countries to finance investment and public spending at sustainable costs. At the same time, the quality of information and transparency becomes a determinant of the confidence and attractiveness of national markets.

A second aspect concerns liquidity and maturity transformation, i.e. the possibility of financing long-term activities with shorter-term and more liquid liabilities. This function is essential for the real economy because many socially desirable investments - research and development, energy transition - have long time horizons. Consequently, without adequate financial instruments, the gap between the time of saving and the time of investment would make such projects rarer and more expensive. On the other hand, the production of liquidity exposes the economy to systemic vulnerabilities (bank runs, stress on money markets), which justify the existence of safety nets and prudential regulation. In other words, liquidity is a fundamental but fragile economic asset. In this

sense, it requires reliable infrastructure, risk management and a stabilising role for the authorities to prevent temporary shocks from becoming solvency crises through illiquidity dynamics.

At the macroeconomic level, the financial system is crucial for the credit channel and for the transmission of monetary and financial conditions to the real economy. When banks and markets function smoothly, changes in interest rates and expectations are reflected in loans, investment and consumption in a predictable manner. When financial fragility increases, however, shocks are amplified. Indeed, credit crunches, financial rationing and reduced risk-taking propensity can dampen demand. In this sense, finance is not neutral but can act as a mechanism for propagating recessions and influencing the dynamics of the economic cycle.

This **Thesis** examines, both empirically and theoretically, how financial development affects entrepreneurship while taking into account the function of various bank types.

Chapter 1 addresses a series of issues that are crucial to understanding the international financial system. First, it analyses the process of building the Banking Union, which is structured around three fundamental pillars: the Single Supervisory Mechanism (SSM), the Single Resolution Mechanism (SRM) and the still unfinished European Deposit Insurance Scheme (EDIS) project. In this context, the centralisation of supervision at the European Central Bank and the creation of instruments for managing banking crises have been decisive steps towards financial stability. However, the absence of a common deposit guarantee scheme continues to be a vulnerability that fuels fragmentation and weakens savers' confidence.

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Based on these premises**, Chapter 2** is based on a heterogeneous and unbalanced international dataset, which includes observations from 51 countries (both developed and developing) over the period 2006–2020[1]. The dataset combines economic, banking, and entrepreneurial data, with an emphasis on the role of two main categories of financial intermediaries: commercial banks and cooperative and credit union banks. Key indicators include entrepreneurship, measured by the number of new business registrations per 1000 working-age inhabitants (15–64 years), and the level of financial development, represented by the number of branches of commercial, cooperative and credit union banks per 100,000 inhabitants and per 1000 km^2. In addition, macroeconomic control variables such as GDP, trade openness, education level, population density, and government spending are included to capture structural differences between countries.

Finally, **Chapter 3** proposes a theoretical model about the impact of financial development on entrepreneurship. Comparing the equilibrium level of loans granted by the two types of banks, we can assert that cooperative banks contribute more to the expansion of local entrepreneurship for certain levels of members and borrowers. Moreover, higher is the competition the more cooperative banks must behave like *borrower-oriented banks* to contribute more to the growth of local firms. Finally, **Chapter 3** concludes by empirically validating the theoretical model's predictions using data from a global, balanced sample of 10 developing countries between 2006 and 2021, considering information on two important categories of financial intermediaries: commercial and cooperative.

[1] Chapter 2 is drawn from previously published work (Barra & D'Aniello, 2025: Does banking diversity matter on the financial development-entrepreneurship nexus? Evidence from developed and developing countries. *Journal of Evolutionary Economics,* 35(2), 281-308).