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Go with Floans? How solidarity-based loans can help to address the global organic crisis

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**Go with Floans? How solidarity-
based loans can help to address
the global organic crisis**

Bachelorarbeit bei
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Abstract

As indicated by a widening gap in climate finance, the international monetary system (IMS) fails to address today's existential threats to people and the planet. This perpetuates a situation critical scholar Stephen Gill describes as a 'global organic crisis'. Through the lens of a critical perspective in international relations (IR), my paper seeks to explore how the IMS can effectively be reformed to address the global organic crisis. I find out that an effective reform approach can be creating scalable, solidarity-based investment ecosystems that enable interest-free credit in the private credit sector. A feasible concept for implementing such reform can be the 'Floan' – a flexible loan for impact projects. This result is underpinned by empirical evidence collected through a rare combination of two qualitative methods: guided interviews of various impact investors and social bankers, complemented by thought experiments that I conducted with them.

Keywords

Global organic crisis – climate change – international monetary system – climate finance gap – system reform – private credit sector – interest-free loans – Floan – global health

Personal note

“Get it done”:

While these words on a sticker next to my screen were certainly motivating to get this complex but enjoyable piece of work done, alongside countless cups of spicy tea, nothing helped me more than the amazing support of my friends and colleagues. A big, heartfelt thank you to each and every one of you.

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Introduction

*Things fall apart; the centre cannot hold;
Mere anarchy is loosed upon the world,
The blood-dimmed tide is loosed, and everywhere
The ceremony of innocence is drowned;
The best lack all conviction, while the worst
Are full of passionate intensity.*

These lines were written by the poet W.B. Yeats in 1919, as if he could foresee the troubles of our present time (quoted by McWilliams in TED 2023). Climate change and conflict intensify, yet global decision-makers seem incapable of taking effective action. Symptoms manifest clearer and clearer: world society is stumbling into a threat that leading critical scholar Stephen Gill warningly calls a ‘global organic crisis’ (see Gill 2020). *Things fall apart; the centre cannot hold.*

This observation reflects on a situation where growing conflict and authoritarianism threaten the very foundations of society, including human rights and the health of our biosphere. In 2023, from Central Europe to Central Asia, democracy declined in 11 out of 29 countries, and global freedom deteriorated for the 17th consecutive year (cf. Freedom House 2023). Global conflicts have surged by 5% over the past 15 years (cf. IEP 2023), accompanied by an annual rise in military expenditure since 2015, reaching a growth rate of 3.7% in 2022 (cf. SIPRI 2023). Amidst a fracturing international community, the climate crisis intensifies, crossing the global warming level of 1.5°C within the next two decades (cf. IPCC 2021). *The worst are full of passionate intensity.*

In the face of these challenges, global policy makers and progressive reform initiatives are constrained by the limitations of the international monetary system (IMS) that essentially fails to address world society’s existential threats (‘why’ and ‘how’ in my analysis later). To secure basic means of livelihood and a healthy life for future generations, it is essential to limit global warming below 2°C, if not even 1.5°C, as world’s nations agreed upon in the Paris Agreement of 2015. Given the severity of this task, the necessity of channeling sufficient funding toward the 1.5°C target seems to be self-evident. No money, no change. However, reality presents a different image: there exists an alarming lack of climate finance, amounting to nothing less than \$3-6 trillion every year if not addressed (cf. Climate Policy Initiative 2021). We

are far off the right track. Climate finance – a term referring to local, national, or transnational financing that seeks to support mitigation and adaptation actions addressing the climate crisis (cf. UN 2023b) – needs to be unlocked immediately and on a vast scale.

The climate finance gap is indicative of *system failure*, perpetuating the global organic crisis. Consequently, one of the most significant steps toward mitigating the crisis is an effective reform of the IMS. The reform should aim to close the climate finance gap while fostering a political economy for *global health*. This vision requires an intact biosphere, thus intertwines with efforts to protect our planet and to overcome the climate crisis. The development of such alternatives must happen urgently. Given ongoing poverty, social conflicts, instability, and fragmentation where conventional problem-solving approaches have failed so far, a new and critical perspective to produce possible solutions is highly relevant to improve the well-being of millions. Therefore, my paper seeks to answer the question: how can the IMS be effectively reformed to address the global organic crisis?

Given my constraints as a sole researcher with limited time and resources, aiming for immediate system-wide change seems unrealistic. Hence, to answer my research question, I propose concentrating on gradual, consistent steps instead. It is akin to collecting raindrops until they form a whole transformative stream, powering down on the road of history and nurturing regenerative change within real economy and society. The effective reform explored in this paper represents one of these rain drops.

So, how can such initial rain drop look like? The paper's main argument is that to initiate an effective IMS reform, one should prioritize loan reform, with a particular focus on reducing interest rate burdens of private credit. This strategic approach has the potential to remove access barriers to private capital, re-allocate accessible money for a positive impact and catalyze a significant change in mindset towards the prioritization of global health, thereby facilitating broader system reforms in the future.

I developed my main argument out of a careful literature review. Several IMS problems such as financial instability, hierarchy and injustices, or a widening climate finance gap are widely acknowledged in the literature (see Cox 1987; IMF 2010; Eichengreen 2011; Sierra 2011; Smallridge et al. 2012; Bielenberg 2016; Torvanger et al. 2016; Clark et al. 2018; Lima & Morris 2022; Rahman 2022; BCG & KfW 2023). However, these problems are often analysed as isolated from one another rather than as interconnected components of a broader picture. My contribution to the literature discussion aims to establish a more holistic analytical

framework, linking the IMS dysfunctionalities to Gill’s concept of global organic crisis. In the literature about bridging the climate finance gap by private sector activation (see Sierra 2011; Smallridge et al. 2012; Bielenberg 2016; Torvanger et al. 2016; Clark et al. 2018; Asian Development Bank 2023; BCG & KfW 2023), the IMS crisis remains inadequately addressed. None of the existing reform ideas aim for broader system transformation by creating a progressive risk- and cost-sharing mechanism and fostering an “investment ecosystem” (BCG & KfW 2023) based on solidarity – both critical components to tackle the malfunction of the IMS in my view.

The paper proceeds with four steps: In *Part I*, I analyse the roots of the IMS crisis. In *Part II*, I show how they manifest in the private credit sector and why this sector would be the most reasonable field to start a reform. In *Part III*, I establish four criteria for effective system reform and explore the most promising approach in the private sector; namely, establishing a solidarity-based loan product without classical interest. In *Part IV*, building on the four criteria, I assess the accuracy of my main argument with a concrete reform idea named ‘Floan’, developed in 2023 by a group of social bankers called “Not Interested”. The data will allow to reassess my argument about the reform’s potential to meet the criteria and will further enable me to answer my research question about effective reform approaches.

In terms of methodology, I identify the IMS crisis and present my argument for the most promising reform approach through the means of analytical description, a working format that systematically disassembles an issue in its individual parts so that something hidden about it is revealed. Additionally, I assess the accuracy of my main argument by using a combination of two qualitative methods: guided interviews and thought experiments. My interview partners were three impact investors and three board members of social banks, selected based on targeted diversity in terms of scope, country, and investment specialization. I chose to only interview impact-oriented stakeholders as they would be the key stakeholders of the Floan ecosystem; hence, their reaction and perception of the Floan crucially influences the idea’s success or failure in the real world. If they already predict the idea’s failure, then it will be even less likely to implement it with others.

What are the revealed results? One criteria was affirmed by four interviewed stakeholders (66.7%); the other criteria three by five or even all (83.3% or 100%). While critically acknowledging the limitations of my analysis, I argue that this outcome sufficiently qualifies the Floan as effective reform approach and underpins my main argument (more explanation in *Part*

IV). The aim of easing interest burdens is indeed a powerful starting point and key lever for broader system reform. To effectively reform the IMS and overcome the global organic crisis, one should start by creating solidarity-based investment ecosystems that enable interest-free loans in the private credit sector, as included in the Floan concept. Most crucially, this would allow to re-allocate money for a higher goal, a new ‘common sense’: the prioritization of sustainability and societal well-being – of global health.

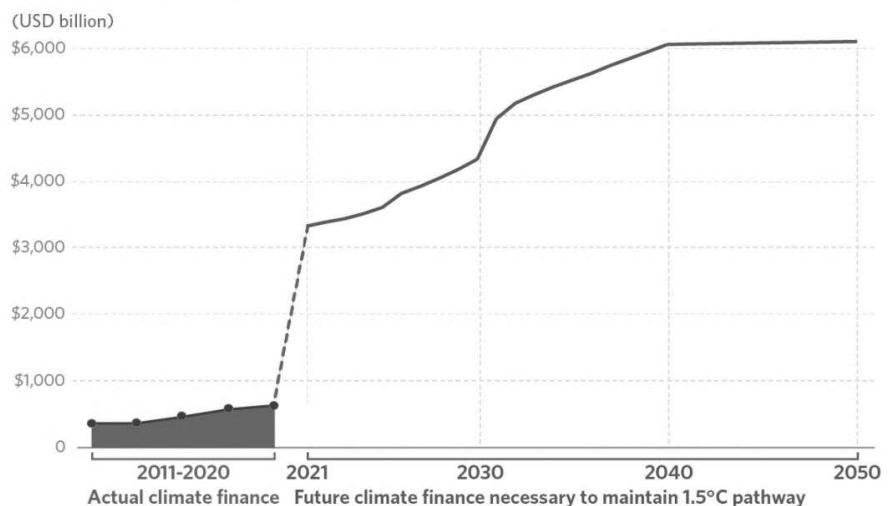
Lastly, before diving into the main body of my thesis, it is important to be transparent about the theoretical perspective and ‘subjectivity’ which shape my point of view in this paper. My analytical description is undertaken through the lens of a critical perspective in international relations (IR). A critical perspective in IR “puts the questions of power, ethics, justice and transformation, and the historical contingency of world orders, at the centre of its analysis” (Gill 2022, p. 1/2). As such, I follow the approach of critical theory, a theory that demystifies power and social orders but is also “concerned with [...] the development of alternative frameworks to expand human potentials and possibilities” (Gill 2022, p. 1/2).

I. Understanding the IMS crisis as part of a ‘global organic crisis’

1. Literature review

Most publications about problems of the IMS tend to focus on increasing asymmetries and instabilities caused by maintaining the US dollar as the global key currency (see Cox 1987; IMF 2010; Eichengreen 2011; Lima & Morris 2022; Rahman 2022). Another body of literature concerns itself with a vast finance shortfall we are facing (see Sierra 2011; Smallridge et al. 2012; Bielenberg 2016; Torvanger et al. 2016; Clark et al. 2018; BCG & KfW 2023), a finance

Figure 1: The annual gap in climate investment. Source: CPI 2021.



gap hindering global efforts against one of the greatest threats to civilization in this century: climate change. Experts are alarmed by the widening climate finance gap, which now amounts to a spending deficit of \$3-6 trillion every year if not addressed (cf. Climate Policy Initiative 2021) – an amount equivalent to the amount of money covering all Congress members’ salaries for the next 32,226 years (cf. McCormally 2011). Many countries are fiscally constrained and find themselves overwhelmed by the task of providing the vast financial resources. UN Secretary-General Antonio Guterres criticized the financial system as “short-sighted, crisis-prone, and bear(ing) no relation to the economic reality of today”, incapable of addressing the scale of the climate crisis (UN 2023a).

These are all signs that the IMS is not working as it is supposed to. However, they are often analysed as isolated from one another rather than as interconnected components of a broader picture. Therefore, my contribution to the literature discussion in *Part I* aims to establish such connections, aligning with Gill’s diagnosis of a global organic crisis that should form the cornerstone of any discussion about successful system reforms. The interdisciplinary approach I adopt is innovative and enhances scientific analysis, holding the potential to significantly advance social sciences and society. Connections between studies of banking, finance and political science are rare, resulting in incomplete analyses in those domains. Yet it is crucial to understand their interrelation: financial systems and instruments can function as tools to address problems identified through the lens of critical concepts in political science.

With Gill, our point of departure is an attempt to analyze the situation of the IMS as it currently is; not as an isolated entity, but in its broader social and political context. The IMS shapes and is shaped by a world order; a world order that has slipped into the precarious state of a ‘global organic crisis’ (see Gill 2020). An organic crisis, first mentioned by Antonio Gramsci in the early 20th century, is a crisis of leadership. It is a situation of growing domination and authoritarianism, threatening the fundamentals of society such as human rights, equality, and freedom. It is deep-seated and structural, and an ongoing process rather than particular event (cf. *ibid.*, p. 202). What makes it global? Nowadays, as Gill points out, the organic crisis we face threatens not only societal order but also our biosphere. It poses risk to livelihoods on a global scale. The lethality of the crisis lies in the lack of foreseeable improvement, it is a stuck situation: “the old order is in decay but the new is yet to emerge“ (*ibid.*, p. 202).

How did we arrive at this mess? Gill’s critical perspective in IR allows us to link the global organic crisis to a geopolitical order that “sustains a global plutocracy supported by a

governing class that principally rules on behalf of capital” (ibid., p. 203). We live in a system that operates in unsustainable growth patterns and in a highly hierarchical way, benefitting a privileged minority and forcing 3.5 billion people to live in conditions of precarity, dispossessed by basic means of livelihood (cf. ibid.). Social inequality remains at a high level: eight of the wealthiest men owned as much as the poorest half of world’s population in 2017 (cf. Oxfam 2017). While wealth is accumulating to new heights in certain hands, others face overwhelming indebtedness. Developing countries struggle to pay their accumulated debts to foreign banks (cf. Gill 2020), with at least ten of them on the brink of debt default in October 2023 (see Reuters 2023). The expansion of indebtedness has caused a remarkable shift in power, clearly tilting it towards bondholders and creditors (cf. Gill 2020, p. 211).

2. The IMS crisis as part of a ‘global organic crisis’

The looming debt crisis, impoverishment of billions, and exploitation of planetary resources that parallels the growth of wealth and power of the few shed light on problematic structures in the IMS. It is more and more revealed that the IMS itself is in a state of a deep structural crisis. What constitutes the crisis of the IMS, and how does it intertwine with the global organic crisis?

The crisis manifests in two ways. First, when we look at how the IMS produces certain *access barriers* to capital – most crucially, in climate finance, as evidenced by the finance gap of \$3-6 trillion per year (cf. Climate Policy Initiative 2021). The roots of these access barriers run deep. They can only be understood by tracing them back to the very core of the IMS and see how that sets today’s financial problems in motion. It begins with the post-WWII establishment of the US dollar as the only *key currency*. This arrangement pegs all other national currencies to the dollar; thus, the dollar determines the exchange rates of all other national currencies (cf. Bordo, 2017). The privileged position of the US dollar ensures a significant geopolitical advantage of the US, yet with fatal consequences for the well-being of populations in economically weaker nations. Even today, every country must rely on the US dollar for international trade, reinforcing its economic supremacy. This necessity comes from the fact that access to USD as strong, ‘hard’ currency grants access to expensive goods and services primarily produced in and exported by West nations. All countries except the US must purchase dollars using their own currency (cf. ibid.). When a country struggles with debts, they can turn to US-dominated international monetary institutions like the World Bank or IMF for loans – in US dollars.

Establishing the US dollar as only key currency makes economically weak countries ‘double-dependent’: at once forced to buy US dollars for international payments and also to take out loans in US dollars in the case of payment deficits. In addition, many developing countries in regions such as Latin America or on the African continent were forced to seek emergency loans from the IMF in the past (see Stiglitz 2002). While these governments received ‘help’, they had to accept the so-called ‘conditionality’ of the IMF. The conditions entailed certain ‘neoliberal’ reforms, like tariff removal, reductions in government spending, and opening up national economies to foreign investments (see *ibid.*). The measures worsened the monetary dependence and instability of many borrowing countries in the long run (see *ibid.*). Currently, according to the UN, 52 countries are facing intense indebtedness, “home to 40 per cent of all people living in extreme poverty“ (UN 2023a). Half of them rank among the most climate-vulnerable nations in the world (cf. *ibid.*). Struggling with substantial financial deficits, inflation, and the inability to afford expenses in ‘hard’ currencies like the US dollar, they are unable to finance essential climate protection measures (cf. Aguila et al. 2022; UN 2023a).

The debt burdens of countries with ‘weak’ currencies are aggravated by high borrowing costs, creating another access barrier. In 2020, countries such as Sri Lanka, Ghana, Angola, Zambia and Kenya allocated around 30% of their government expenditure to interest payments. India and Bangladesh followed closely at around 20% (cf. Our World in Data 2020). Indonesia, Jordan, ten southern African nations, and nine Latin American countries incurred interest payment burdens ranging from approximately 10% to 15% of their GDP, ranking them third in interest payment obligations (cf. Our World in Data 2020). Ironically, interest rates soar highest for projects in regions heavily affected by climate change – precisely where access to climate finance is needed the most (cf. Brot für die Welt 2019, p. 10; UN 2023a).

In a shift away from purely material aspects, access barriers also manifest through a specific way of thinking prevalent in capital management. Among global investors, more than two-thirds see a company’s financial profitability as the second most important aspect, with innovation ranking first (cf. PwC 2022, p. 2). This profit-oriented mindset often conflicts with the local needs of climate-affected and impoverished regions. While climate adaptation projects in vulnerable areas bring broad social benefits, they lack clear and immediate financial returns for creditors and investors. Consequently, they are often perceived as too risky to fund (cf. Brandon et al. 2022). So, a profit-centred way of thinking tends to exclude certain initiatives right from the start, initiatives that could otherwise have life-saving impacts.

Second, besides access barriers, the crisis of the IMS manifests in the allocation of money that is *accessible* in other parts of the world. Alarming large portions are directed to environmentally harmful projects. For instance, the investments of 125 of the world's richest billionaires alone emit three million CO₂ tons annually, equivalent to the CO₂ emissions of an *entire nation* like France (cf. Oxfam 2022, p. 3). In response to the growing necessity of sustainability, the ESG criteria have been developed in 2006 and have been significantly advanced since then (see Atkins 2020). These criteria aim to evaluate a company's impact on environmental (E), social (S), and governance (G) issues, besides the business' financial performance. ESG criteria have been established as one of the most important frameworks for investment decisions: over 65% of global investors claim that they take ESG ratings into account (cf. Deutsche Bank Research 2021; PwC 2022). However, these criteria have been criticized for being insufficient and for providing misleading data (see e.g. Chen et al. 2021; Sipiczki 2022), thus leaving the issue of the IMS crisis unresolved in this regard.

This data underscores what any reform initiatives must consider. It is not only about removing access barriers and unlocking more capital for climate projects. It is equally crucial to address how the money is utilized. Reform approaches should aim for fundamental changes in the way the IMS is working. Several studies acknowledge this as well: "Unlocking private finance is vital to achieve global climate agendas, but broader fundamental systemic changes and policy reforms are likely required to ensure that sustainable socio-economic development occurs within planetary boundaries" (Clark et al. 2022, p. 341).

So, I conclude that the crisis of the IMS ultimately lies in its perpetuation of unequitable structures, societal exclusion, and environmental degradation that prevail in our current global order. Thereby, world's financial system not only contributes to the global organic crisis but also reinforces it. Fundamental system reform is urgently needed. This brings us to the question where reform attempts should start and how they should look like in principle. This will be the focus of the following sections.

II. Where to start a system reform: the 'rain drop approach'

1. The start: akin to a collection of 'rain drops'

The field of finance is vast. In this labyrinth, where can initiatives build up effective reform ideas? In the next step, I narrow my attention down to a specific area – an initial 'rain drop' that can be followed by many others in the long-term.

Upon my problem analysis, one might intuitively point to the US dollar as key currency that constitutes the dysfunctionalities of the IMS. Accordingly, introducing a new global currency has been proposed by numerous authors as a significant step toward a fairer, more stable, and sustainable financial system (see Alessandrini & Fratianni 2008; IMF 2010; Aguila et al. 2022; Rahman 2022). However, implementing a new global currency requires joint global efforts that need enormous time and commitment to be built up. It remains a desirable long-term goal. Hence, rather than aiming for immediate system-wide change, I suggest to focus on gradual, consistent steps toward a larger goal. Small-scale initiatives within specific sectors, strategically linked to a broader vision or 'new common sense' for the future, could cumulatively drive significant systemic changes in the long run. It is akin to collecting raindrops until they form a whole transformative stream, powering down on the road of history and nurturing regenerative change within real economy and society. The specific reform approach explored in this paper represents such an initial rain drop.

2. Where to start: the private sector

For identifying one of the key 'rain drops' in climate finance, the initial decision revolves around whether to concentrate on public or private funds. In 2021, 51% of climate finance stemmed from public sources, and 49% from private sources (cf. Climate Policy Initiative 2021). I argue that an effective reform approach should predominantly target reform potential within the private sector for several reasons. First, considering escalating geopolitical struggles among major powers like China, Russia, and the US, achieving a joint international approach to close the finance gap appears to be unlikely in the near future. Leading countries, specifically the US, prioritize safeguarding their privileged position in the global economy and resist mandatory financial contributions to multinational climate finance funds, exemplified by the recently debated Loss and Damage Fund (see Mihatsch 2023). Another example of state's current incapability to act is the broken \$100-billion promise. Developed countries promised to pay \$100 billion to developing countries per year starting from 2020, but this commitment was never fulfilled. In reality, rich countries only disbursed \$21 billion to \$24.5 billion (cf. Oxfam 2023).

Second, states are fiscally constrained by legal mechanisms that were imposed to protect global investors and their rights, an evolution termed 'new constitutionalism' (see Gill 1998). Today, more than 90 countries are using fiscal rules to constrain fiscal policy and promote fiscal discipline (cf. Eyraud et al. 2018). For instance, Germany enshrined a debt brake into its constitution to ensure fiscal stability, making the country an appealing destination for

foreign investments within a ‘low-risk environment’. Most recently, the constitutional debt brake law has even led to a severe federal budgeting crisis in Germany. In November 2023, the *Bundesverfassungsgericht* (Germany’s highest court) declared that the 2023 and 2024 federal budgets were unconstitutional due to the excess new debt surpassing the constitutional debt limit. Now, the federal government is incapable to access around €60 billion for its climate transformation fund (see Ismar 2023)! Thus far, the government has dramatically failed to find alternative sources to close the vast budget gap. A well-intended consequence of states’ fiscal constraints is the escalating influence of the private financial sector. This sector has been deregulated since the 1990s (see Abdel-khalik & Chen 2015), parallely to states’ increasing fiscal constraints. Since the mid-1990s, inward foreign direct investment (FDI) has become the main source of finance for developing nations. It is more than twice as large as official development aid (cf. OECD 2008). So, with power shifting to private actors, effective IMS reforms should target the private sector, ‘going with the flow’ but using it for social benefit.

Within the private sector realm, the next decision must be made. Several financial instruments can be used to provide climate finance. They can be summed up in two categories: investments and credits. Once more, the strategy I propose is to ‘go with the flow’ while using it for leveraging strategic advantage. As statistics show, the predominant instrument of climate finance – accounting for over half of it, totaling \$384 billion in 2019/20 – is debt (cf. Climate Policy Initiative 2021). It is evident that IMS problems, such as access barriers to capital or prioritizing profitability about societal and planetary well-being, largely stem from dominant loan origination and repayment methods. Thus, initiatives that aim at IMS improvement should start with loan reform. From the perspective of projects and communities in need, credits are also more beneficial than investments. Investors get company shares in exchange for their capital, gaining significant influence in business culture, business model, and objectives, and potentially put pressure to get a satisfying ‘return on investment’. Credits, in turn, enable debtors to maintain their power in decision-making, as they keep owning all company shares after getting the credit.

Arrived in credit business, should the focus lean towards reforming bank credits or private credits? Compared to conventional bank credits and bond markets with valuing \$128.3 trillion, private credit remains a “lesser known corner of finance” (S&P Global 2021). Nevertheless, it is an expanding corner, surging to a record high of \$1.5 trillion in 2023 (cf. Lee & Sage 2023). Notably, conventional bank credits have limitations. Banks utilize money from customer saving accounts, therefore bearing a certain responsibility of giving the money to

projects with assured loan repayment. High-risk projects, such as most entrepreneurial activities in their early stages or projects in severely climate-affected regions, cannot receive a bank loan as their likelihood for business failure and debt default is too high. Private credit, conversely, can be provided by private individuals, family offices, or investors willing to undertake greater risk as they use their own money and possess enough wealth to compensate for losses. Consequently, they offer more flexibility and are likely to be more open to experiment with innovative loan models.

Yet it is important to know that investors and banks do not operate completely isolated from one another; their relationship is intertwined, especially in the field of private credit. Investors may require loans or credit lines for various purposes, including loans for trading or real estate investments. Banks can provide these credit facilities to investors. Or investors may require commercial banks as a mediator between borrower and themselves as lender of private credit, with the bank performing several services such as risk assessment and deal structuring (setting terms, interest rates, loan servicing, etc.). In both constellations, banks are positioned as central actor as they determine the characteristics and conditions of the loan product directed toward projects in need. In the specific financing model of private credit mediated through banks, it is *banks*, together with investors, that can serve as the driving force behind loan reforms and system change. Specifically it is *social banks*, which already channel money only to projects that contribute to sustainability, humanity, and social justice, and align with the counter-paradigmatic priority of global health. In Europe, well-established examples include GLS Bank, Triodos, Banca Etica, Mercur, Ecobanken, or La Nef.

3. The manifestation of the IMS crisis in the private credit sector

Narrowed down the scope to the field of private credit, which problems need to be addressed there? Previously, I have argued that the crisis of the IMS manifests in two ways: first, in certain access barriers to climate finance where it is most needed; and second, in harmful allocation of accessible money. Now I will examine how these two problems also emerge at the private credit sector, reinforcing the IMS crisis from the ‘bottom up’.

I start with access barriers in private credit markets. One significant hurdle is created by conventional risk-assessment methods. Creditors are only willing to hand out loans if the risk of financial loss is minimal. Low risk signifies that the borrower is financially sound enough to guarantee repayment as agreed in the contract. From the creditors’ viewpoint, risk aversion is rational. Unlike investors, they do not acquire voting shares within a company when

providing capital, thus lacking decision-making authority to ensure specific business objectives such as growth and profitability are achieved. Consequently, giving money in form of loans is technically riskier for the creditor. To lower the risk, careful precautionary measures are put in place; namely the examination of creditworthiness by a bank or credit rating agency such as Moody's and S&P. The creditworthiness depends on indicators such as emergency capital reserves, annual revenue, debt levels, and the ability to navigate external threats like environmental disasters, labor movements, or legislative changes (see The World Bank Group 2019; Moody's 2023).

And here the problem starts. Small and early-stage businesses such as social start-ups and scale-ups often fail to meet these criteria. They aim to pioneer innovative, sustainable, and socially impactful solutions and diverge from the overarching priority of revenue and profit maximization. Unable to provide adequate securities for loan repayment, especially in unforeseen circumstances jeopardizing the entire project, they encounter minimal to no access to private credit. What is the key to improvement? It is not to abandon caution and driving toward destabilizing speculation. The key lies in reshaping the common practice that one player alone must shoulder all risk in a system based on the 'survival of the fittest' principle. The conventional paradigm pressures all participants to perform individually at their peak, measured by revenue and profit metrics. Yet, what value does this outcome hold when it forces other projects to die in their early stage due to insufficient funding, hindering the realization of alternative business models and maintaining the crisis-ridden status quo?

Besides conventional risk-assessment methods, another access barrier to capital persists: high borrowing costs due to interest. In nowadays' financial system widely regarded as a necessary instrument, it is common that a client has to pay interest on top of his loan repayment. The amount of interest depends on two factors. The first factor is the key interest rate determined by central banks. Initially established to ensuring currency stability and to purchase government debt for state wars, central banks have three goals: ensuring price stability, growth of real economy, and financial stability. For this purpose, their main steering instrument are interest rates. (cf. Bordo 2007). The rates set by central banks have a ripple effect throughout the system. When the central banks' key interest rate rises, borrowing money from a central bank becomes more expensive for commercial banks. To compensate, commercial banks increase the costs of the loans they offer their customers (cf. N26 2023). The second factor is a project's risk of debt default. The higher the risk of debt default and the longer the credit duration, the higher the interest rates. High interest rates make loans unaffordable and thus

inaccessible, particularly for young impact projects with limited financial reserves. In that way, charging interest creates a systemic access barrier for certain borrowers as well.

The problematic implications of interest rates reach even further. In today's context, interest rates contribute to a malfunctioned IMS and increase social inequality. Conventional banks utilize their profits generated from rising interest rates, among other things, by paying out big bonuses to shareholders (see Ungoed-Thomas 2022). For private loan sharks, interest rates are an attractive tool to maximize monetary returns. In essence, the current interest-based loan system penalizes the financially while favoring the privileged. As I mentioned earlier, with Gill, the global organic crisis can be traced back to unsustainable and unequitable structures of a global plutocracy where the richest eight men own and consume as much as the poorest half of humanity (Oxfam 2017). Obviously, as key component in the IMS and often exploited for the creditor's advantage, interest rates in the private credit sector contribute to vast social inequality and injustices across the globe.

It is important to realize at this point that commercial banks in the private sector are not obliged to raise or even charge interest rates. For them, interest rates serve to cover costs and discipline borrowers. Banks could potentially bring interest rates down to zero by establishing alternative mechanisms for offsetting costs.

Moving on to the second way the IMS crisis manifests in the private credit sector, the problematic allocation of accessible money, several figures provide horrific evidence. To quote two illustrative examples: only 3.7% (\$100 billion) of the approximately \$2.7 trillion in global investment funds is dedicated to climate impact (cf. Ananthakrishnan et al. 2023). No surprise – as 28 out of the 30 largest globally systemically important banks (G-SIBs), including institutions like Goldman Sachs, JP Morgan Chase, Bank of America, Bank of China, or Deutsche Bank, have either *weak or no* net-zero-aligned policies for oil and gas (Global Financial Stability Report 2023, p. 87).

So, what can be done to improve the situation?

III. How 'effective' private credit reform can look like

1. Existing reform ideas for the private sector and their insufficiencies

Various ideas on unlocking private capital have been discussed in literature. Most instruments aim to mitigate financial risk, with only a few focusing on cost-reduction (cf. Torvanger et al. 2016, p. 33). The proposed methods can be categorized into five instruments:

revenue support policy; direct investments; credit enhancement; insurance; and others (see *ibid.*). As I argued in *Part I*, it makes most sense to focus on reforms aiming to enhance credit.

The literature suggests two dominant approaches to enhance credit for early-stage projects addressing climate change and livelihood preservation: (a) risk-reduction for private creditors or investors through guarantees and financial assistance for revenue generation in early phases, provided by public funds or development banks (see Sierra 2011; Smallridge et al. 2012; Bielenberg 2016; BCG & KfW 2023); or (b) cost-reduction for borrowers by promoting loans with flexible and favorable conditions, known as concessional loans (see Smallridge et al. 2012; Clark et al. 2018; Asian Development Bank 2023).

While these methods are financially viable, they may not qualify as effective reforms capable of addressing the global organic crisis. The problem with (a) lies in its reliance on public funding and state cooperation, thus on institutions disciplined to maintain the status quo. The reliance makes it hard for reforms to be progressive, to be implemented fast, and to build up a new, counter-paradigmatic common sense. Moreover, the suggested financial means are not designed to unlock private capital while aiming for broader system change by sharing risks and costs. The borrower receiving the credit continues to shoulder all risks and costs on its own. The instruments fail to promote counter-paradigms of solidarity challenging current moribund principles of lone fighters and prioritization of profitability among private creditors. Hence, instruments of (a) fail to promote a change towards a mindset valuing positive community and environmental impact over monetary gains, and to effectively address current access barriers.

On the other hand, the problem with (b) is its emphasis on reducing borrowing costs without addressing broader systemic changes in the IMS. It mirrors the creditor-centric approach and isolation of players seen in approach (a): the borrower receiving the concessional credit needs to bear all risks and costs on its own and is likely to fail to do so. Concessional loans, like the Asian Development Bank's flexible loan product (see Asian Development Bank 2023), are provided for high-risk regions that are impoverished and repeatedly shaken by the catastrophic effects of climate change. Access barriers, such as being classified as too risky, and unaffordable costs persist.

2. How 'effective' system reform can look like: four criteria

Based on my analysis of private credit sector problems and gaps in existing reform ideas, I define four key characteristics that a meaningful reform of private credits should embody. I refer to such reform as *effective reform*. How can it look like?

As described in *Part I*, dominating elites, institutions and ideologies cause and perpetuate a global organic crisis as existential threat. To define the first criteria, we need to take a closer look how this threat directly affects people and planet. In many nations, a dysfunctional IMS deprives people of basic means of livelihood and social reproduction (see Bakker & Gill 2003). This endangers the well-being of each of us – particularly the most precious thing we have: health. We directly experience the effects of the global organic crisis on our *bodies*. Every year, 3.3 million people die from air pollution worldwide – “a figure that could double by 2050 if emissions continue to rise at the current rate” (Max-Planck-Gesellschaft 2015). Healthy nutrition and food security are weakened by surging costs of living around the globe (cf. Kilfoyle 2023). Another growing cause of death are non-communicable diseases – mostly cancer, heart disease, and diabetes – that increased to a share of over 80% of total deaths in the most developed regions, as policy advisors warn (cf. Deloitte 2022). Despite the alarming numbers, public health spending has declined in relation to GDP growth (cf. OECD Health Statistics 2023). Health care systems are underfinanced, particularly in low- and middle-income countries that battle high public debt burdens (cf. Mills 2014). Instead, global leaders of major powers like the United States, China, Russia, India, and Saudi Arabia continue to prioritize investing into conflict and war: global military spending increased by 19 per cent in the last decade, amounting to total \$2.2 trillion in 2022 (cf. SIPRI 2023). An amount almost big enough to cover the annual climate finance gap.

Health and well-being of people and planet are severely diminished by misled economic ideologies and decisions of where to put money. Consequently, world society urgently needs a financial system that channels funding toward projects dedicated to the objective of global health. Global health encompasses safe conditions for childbirth and raising a child; universal access to health care and medicine; clean air, energy, and technology; drinking water; and healthy nutrition (see WHO 2018, p. 14/15). The vision requires an intact biosphere, thus intertwines with efforts to protect our planet and overcome the climate crisis. These aims have been enshrined in the global agenda of the Sustainable Development Goals (SDGs). As stated by critical scholar Steven Gill and some of his colleagues, a new ‘common sense’ should be fostered, advocating a political economy for planetary health and human security (see Gill & Benatar 2019). This proposal is based on the conviction that “[...] the good health of populations is rooted in the socio-economic and political conditions and institutions that provide support, protection and nurturing for people to flourish from birth into old age“ (Gill & Benatar 2019, p. 1).

Revitalizing conditions that promote *global health* stands as a meaningful counter-paradigmatic goal against current status quo mistakes. The significance of prioritizing health in political initiatives has also been acknowledged by 124 countries during COP 28 this year, the first time in the history of COPs (see COP 28 2023). Hence, in alignment with Gill’s proposals and recent COP discussions, I argue that an effective reform of the IMS, specifically of private credits, should redirect money in a way that enables the international community to live a healthy and secure life.

So, in a first step, I define an effective reform as *(1) a reform that prioritizes sustainability and societal well-being as new ‘common sense’ for global health*. This new common sense should construct solutions addressing the core issues of the IMS. Thus, second, I define effective reforms as *(2) reforms that tackle access barriers to capital for impact projects and re-allocate money towards the goal of sustainability and societal well-being*.

The other two criteria stem from practical consideration. Reform ideas are only useful if they can be made reality with available resources (money, time, network, etc.). Therefore, I additionally define an effective reform as *(3) a reform that is considered as practically feasible by its key stakeholders and they would participate*. Last but not least, given world’s precarious state of an organic crisis demanding fast help, an effective reform should be *(4) designed for prototype implementation within a short period of time, ideally between one and three years*. The most realistic time span will be evident through practical implementation. These four aspects collectively form the key characteristics of what I refer to as an effective reform.

Figure 2: The four criteria of effective reform approach from a critical perspective in IR.

How can the IMS be effectively reformed to address the global organic crisis?	
Criteria (1)	Prioritization of sustainability and societal well-being as new ‘common sense’
Criteria (2)	Addressing the core issues of the IMS <ul style="list-style-type: none"> • tackling access barriers to capital for impact projects • re-allocating money towards the goal of sustainability and societal well-being
Criteria (3)	Key stakeholders consider the reform idea as practically feasible and would participate
Criteria (4)	Prototype implementation within a short period of time, ideally between one and three years

3. Which reform approach can fulfill the criteria and why?

As it was demonstrated in *Part I* and *II*, the IMS crisis is constituted by certain access barriers and harmful allocation of accessible capital, both resulting in social exclusion and environmental destruction that perpetuate the global organic crisis. In the private credit sector, such access barriers manifest through conventional risk-assessment methods and charge of high interest. Thus, when thinking about key levers for system change, I argue that a starting point of effective reform can be aiming for interest-free private credit for impact projects in need. This approach holds high potential to meet the four criteria.

The idea is not entirely new. Interest as a tool for profit-maximization was once widely condemned in the world's financial systems due to ethical and moral concerns. During the Middle Ages, Christian religion condemned interest and usury, and ancient Vedic law in India forbade it (cf. Mayyasi 2017). Since then – and this underscores how revolutionary an IMS reform advocating for interest-free private credit would be – there has not been any financial setup in the world coming closer to systemically reduce or avoid interest for those in need.

The reason for this lies in the enforced dominance of Western banking methods in other parts of the world, partly a result of historical periods of Western colonialization (except in China). In the past, there were three distinct financial systems that once coexisted: one in the West, another in China, and a third in the Ottoman Empire. In China, charging interest has a long tradition, with extraordinarily high rates of more than 60% for private and governmental credits before declining to 20% in 20th century (cf. Homer & Sylla 1996, pp. 615–620). In the West, usury was once condemned, but interest rates gained acceptance gradually for various reasons: the church actively supported making interest rates acceptable as both state and church required loans to fund wars; the wealthy still charged interest, albeit discreetly; and the amorality associated with interest rates became more tolerable as the economy and trade expanded, shifting from kinship-based to impersonal relationships (cf. *ibid.*). In the Islamic world, once dominated by the Ottoman Empire, *Ribā* (interest on loans) is still prohibited by Shariah law as it is regarded as unjust for the borrower (see Molyneux 2004, p. 9). Banks put alternative mechanisms in place enabling them to profit from loans while complying with Shariah law (cf. Institute of Islamic Banking and Insurance 2023). However, due to the growing dominance of Western conventional banking after the industrial revolution in the 18th century and the colonialization of Islamic countries in the 19th century, Islamic banks were pressured to operate in an institutional framework (e.g. investor protection, deregulation of capital) that favors conventional banking and is not aligned with their needs (cf. *ibid.*, p. 38).

Knowing the past and reflecting on the diversity of financial systems in world history give inspiration for system reform in present times, the inspirational spark specifically stemming from the medieval condemnation of interest in the European, Islamic, and South East Asian world. This approach marks a potential starting point for systemic reform – for several reasons.

First, aiming for zero interest would address access barriers – *criteria (2)* – by altering risk distribution. Interest-free credit provision to specific early-stage impact projects requires a risk-sharing mechanism to gain the trust of private investors. The risk can be shared in a solidarity network of creditors, early-stage borrowers, and financially robust, established members. The latter commit to supporting early-stage projects during periods of temporary debt default resulting from external factors beyond the project’s control. In doing so, they guarantee loan repayment to creditors.

Second, with zero interest for those in need, the costs of borrowing would be significantly lowered, addressing another access barrier to capital (*criteria (2)*). This would again require a system of mutual support, relying on the earlier described structures of the risk-sharing ecosystem. More profitable players voluntarily commit to repaying higher interest, thereby balancing the overall balance sheet of the ecosystem, whereas projects with less profitable business models pay a lower or no rate. Such cost-sharing mechanism would lower the cost of borrowing for less profitable impact projects, thus removing the second major access barrier to loans in climate finance.

Third, aiming for zero interest challenges the immaterial barrier to capital – the way of thinking that prioritizes profit – by introducing new principles regarding money and ‘return’. The highest goal would be doing good, e.g. repairing ecosystems or developing health solutions in local communities. This challenges prevailing financial principles that have historically caused destruction of livelihoods and the ecology. It introduces counter-paradigmatic principles, prioritizing planetary health and social well-being in the IMS and contributing to a new common sense of global health (*criteria (1)*). This is probably the most important effect. Long-lasting system change requires a substantial change in mindset — moving away from profit prioritization toward purpose and impact prioritization.

My proposed loan reform sets itself apart from other financial instruments based on collectivity or solidarity, such as crowdfunding or crowd-investing. It is distinct because it engages banks, which still manage the largest amounts of money, and because it offers guarantees

to investors. This allows for a notably higher provision of capital to projects compared to the unstructured gathering of individual investors on online platforms. Moreover, it facilitates a more stable and regular capital provision and return through the requirement of loan repayment, establishing a self-sustaining circle of capital.

As such, reforming interest rates could be a strategic lever for systemic change. It fosters a new common sense for global health and addresses the main access barriers to capital in the private credit sector, thus meeting *criteria (1) and (2)* in my theoretical considerations. It is crucial to realize at this point that the transformative potential of interest-free credits is not solely about reducing interest to zero. It is about building up a whole new investment ecosystem! In *Part IV*, I will empirically examine a concrete proposal for such an ecosystem. The data will allow me to re-assess my argument about the reform's potential to meet *criteria (1) and (2)*. Additionally, it will provide knowledge about *criteria (3) and (4)*, which are difficult for me to assess only from a theoretical standpoint.

IV. Empirical ‘test’ with the ‘Floan’ as new reform idea

Before we move on, a short recap of where we have arrived now. In *Part I and II*, I analysed the roots of the IMS crisis and how they manifest in the private credit sector as the most reasonable field to start a system reform. In *Part III*, I established four criteria for effective system reform and argued for the promising reform approach in my view; namely, the aim of establishing a loan product without interest.

Now, in *Part IV*, to ‘test’ my main argument about interest rates, I apply my analytical framework to a specific reform idea called ‘Floan’, developed in 2023 by a group of social bankers called “Not Interested”. The Floan idea was developed to specifically tackle the problem of interest burden in the private credit. It is still under development and hasn’t been implemented yet. Its key characteristics are the replacement of classical interest by a flexible fee charged and distributed among companies according to their profitability, allowing for a loan repayment with zero fees for those in need.

I selected the Floan idea to empirically ‘test’ my main argument as it proposes interest-free credit in the private sector; hence, it comes very close to my main argument about effective reform. Through the empirical evaluation of this idea, I aim to find out whether the Floan meets all four criteria and qualifies as an effective reform approach. This will further enable me to evaluate the validity of my main argument about interest burdens as a starting point for effective

system reform, and to ultimately answer my research question of how an effective IMS reform should look like.

1. The ‘Floan’ idea: a solidarity-based, flexible loan product

The initiative “Not Interested” and their Floan concept originated from a working group during the International Summer School for Social Banking 2023 (cf. Fessler 2023). The group members are affiliated with associations and social banks across various European countries (Germany, Denmark, Netherlands, Italy, and Austria). Similar to my analysis in *Part I*, the group emphasizes the urgent need to close the vast gap in climate finance. They propose a new private loan product called ‘Floan’ to address access barriers to capital (see Fessler 2023).

I explain the Floan idea with the help of a fictitious case example. My description remains close to the original wording in order to reflect the mode of operation as accurately as possible.

Thorsten is happy. He is the CEO of the recently founded company “Green Gift” – a company that aims to create sustainable gift wrappings by developing biodegradable materials. Especially during Christmas times, he hopes to make a significant environmental impact. To start his business, he needs to secure seed money. And there the problem starts. Who can give him the initial funding?

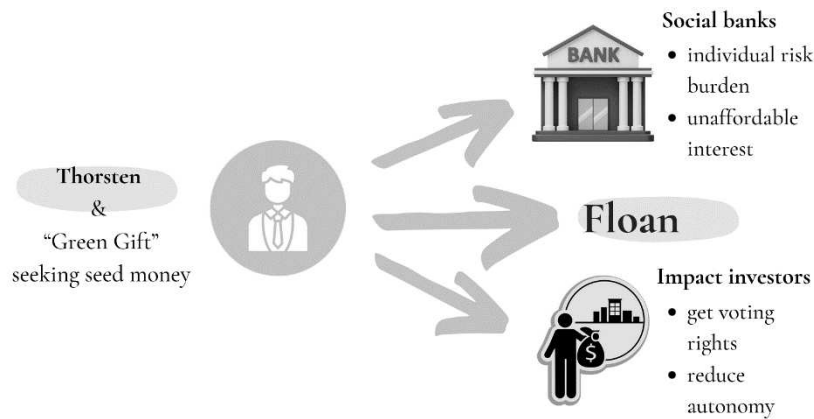
He first approaches a local bank. The bank can only offer him a high-interest loan, pricing in the risk of supporting an early-stage impact project with limited financial reserves. Otherwise, the bank would reject his request. Thorsten is unable to match the credit requirements. He continues exploring alternatives.

He considers impact investing. However, investors usually acquire voting rights in a company they support. Thorsten fears a loss of control over the company’s actual purpose. He prefers to stay autonomous. What can he do now?

On the internet, his search leads him to a solution fundamentally different from existing financial instruments: “Not Interested”, an initiative recently launched to assist impact project like his.

“Not Interested” proposes to abolish classical interest on loans and to provide Floans: a term which is created out of the two words ‘flexible’ and ‘loans’.

Figure 3: Thorsten and his problem.

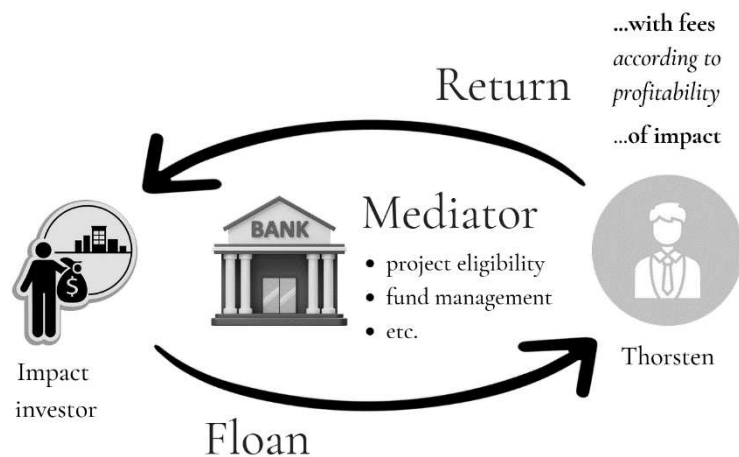


Floans are solidarity-based loans with flexible terms for impact projects. These loans are provided without interest. Instead, they only come with “cost-covering management fees” (Fessler 2023) which are distributed between all debtors based on their profitability, like in progressive tax schemes. More profitable projects contribute higher fees, balancing those with lower profits who might pay reduced or no fees (cf. Fessler 2023). So, if Thorsten’s business idea leads to high impact but low profit, he would pay less or no fees. The credit default risk is shared between the debtors.

The Floan is issued by a solidarity network – called ‘Floan ecosystem’ – comprising three “key players” (Fessler 2023): private creditors such as impact investors, family offices, or philanthropists; young and established impact projects; and social banks. Social banks play a central role by assessing the project eligibility for Floans based on their risk and environmental impact. The banks can give financial advice to projects, establish loan conditions, mediate between impact investors and the projects, and monitor the projects’ performance. Furthermore, social banks can be trusted with the task to manage a “joint fund” (Fessler 2023) for Floans’ capital.

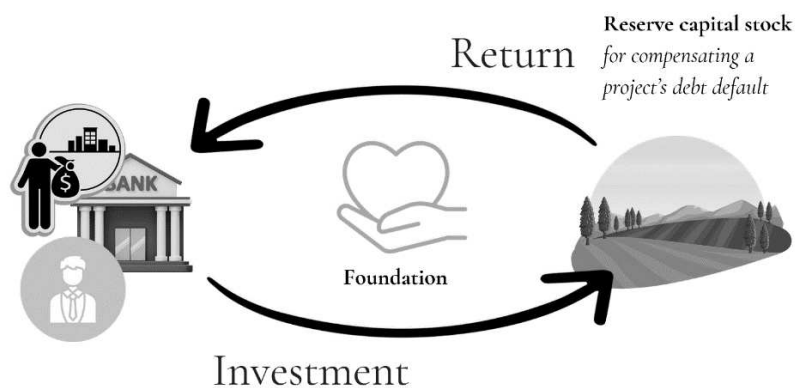
“Not Interested” aims to establish two circles of capital flows to fund Floans (cf. Fessler 2023). The first one is needed to provide capital to those in need straightaway. Private creditors, like investors or philanthropists, who agree to provide capital for Floans, can go to a social bank that is part of the Floan ecosystem. The social bank then “connects the creditor to an impact project in need of seed or growth capital” (Fessler 2023). However, this immediate capital flow is very risky for the private creditor.

Figure 4: The first circle of capital.



Here, the other circular flow of capital takes effect. Social banks connect with investors who are willing to invest in land through a foundation. The foundation is created by social banks within the Floan ecosystem. The investment yields profit in the long run, serving as a “monetary reserve” (Fessler 2023) to make up for a project’s temporary setback in meeting its debt obligations in the Floan ecosystem.

Figure 5: The second circle of capital.



Compared to the first circle, the second one requires more time and more money. If the ecosystem immediately requires security on a smaller scale, “other members of the network can also give guarantees” (Fessler 2023). Larger guarantees can be given by “state organizations and public banks or funds” (Fessler 2023). In this way, the debt default risk of impact start-ups like Thorsten’s is distributed in the Floan ecosystem. It is reduced to a safe and acceptable level.

Thorsten feels hope. If his local bank decides that he is eligible, Floans could enable him to start his business. At the same time, they allow him to stay autonomous and foster the impact-oriented purpose of his start-up. He decides to apply for a Floan and contacts “Not Interested”.

2. Method of empirical assessment

To evaluate the effectiveness of the Floan concept, I collected empirical data through a combination of two qualitative methods: guided interviews and thought experiments.

A guided interview is a structured interview. I chose the method as it allows to ask for specific information, while at the same time fostering open dialogue. The interviewer uses detailed guidelines with specific questions for the participants, guided by a theoretical framework and clear research interest (cf. Averbek-Lietz & Meyen 2016, p. 142). In my case, I used the four criteria of effective IMS reform and the theorization about the impact of interest-free private credit outlined in *Part I* and *II* as the theoretical foundation for my questions.

My interview partners were three impact investors and three high-ranked employees of different social banks, each interviewed individually as their dense schedule did not allow for a group discussion. In the summary of the results, their actual names are anonymized and represented by the letters A, B, and C. Impact investors and social banks are distinct from conventional investors and banks as they make their investments “with the intent of generating benefits for society, alongside a financial return” (Damodaran 2023). I selected them with a focus on diversity in terms of scope, country, and investment specialization. I chose to only interview impact-oriented stakeholders as they would be the key stakeholders of the Floan ecosystem; hence, their reaction and perception of the Floan crucially influences the idea’s success or failure in the real world. If they already predict the idea’s failure, then it will be even less likely to work with others. To find out their actual motivation for societal and environmental impact, I started the interview with open questions about the participants’ main motivation for capital management and the specific impact they aim to create.

The interviews incorporated a thought experiment, “[...] a mental activity involving imagination and theoretical thinking addressing real objects“ (Galili 2009, p. 3). Though uncommon in social sciences, thought experiments, famously used in fields like physics by Einstein, serve to develop, critique, and clarify theories (cf. *ibid.*, p. 20) and “[...] can result in meaningful theory advancements“ (Aguinis et al. 2023, p. 556). They can be classified into four types, according to their stage of theory development (early/late) and purpose (theory confirmation/disconfirmation) (see *ibid.*). In my case, I employed a thought experiment at an early stage of theory development to evaluate the validity of my considerations from *Part III*. I presented the Floan idea exactly as described in *Part IV. 1*, with presentation slides as visual support. After that, I asked the impact investors and social bankers to imagine the Floan ecosystem’s real existence and to suppose that “Not Interested” had just reached out to them as new private capital providers and capital managers for the Floan ecosystem, followed by the question: “[h]ow would you react/decide?”

After the thought experiment, I asked the participants for their opinions on specific components of the Floan to further assess its greatest strength and weakness, feasibility, implementation timeline, and biggest obstacles. Thereby, I examine *criteria (2) addressing the core issues of the IMS; (3) key stakeholders consider the reform idea as practically feasible and would participate; and (4) prototype implementation is possible within a short period of time (one to three years)*.

3. Results

The interview results about the Floan concept indicate how an effective reform approach can look like and what else can be done.

The participants’ answers about their main motivation behind capital management showed that impact investors and social bankers are the right partners for reform initiatives like “Not Interested”. Their underlying ‘ideology’, guiding their investment and banking activities, aligns with *criteria (1) prioritizing sustainability and societal well-being as new ‘common sense’*. Among the six participants, two investors and one social banker explicitly mentioned the holistic goal of fostering sustainability and health: “For us it’s all regarding resources, resource consumption, and also all the fields about people. [...] [M]ostly health and education on this side and basically everything related to clean tech on the other side” (impact investor C). Social bankers A and B expressed their main motivation similarly, but in a more general way: “[...] the money flow goes towards initiatives and projects and companies that have as

their purpose that they bring positive impact to society. Money is a powerful tool and if used for good it can change a lot or it can move a lot of things“ (social banker B). As key stakeholders in the Floan ecosystem, they would shape the reform idea in a way that it contributes to the well-being of people and planet as ultimate goal.

Regarding *criteria (2) addressing the core issues of the IMS*, the perspectives varied. Two out of three investors did not view the acquisition of voting rights as a problem to solve; rather, they perceived it as a lever to ensure and increase a project’s impact (impact investor A and C). On the issue of addressing access barriers to climate finance, impact investor A argued that existing financial instruments are sufficient and saw no need for reform ideas like the Floan. Conversely, all three social bankers recognized the Floan as a solution to overcome the barriers to private capital as the Floan’s costs and risks are shared: “There [in the Floan concept] is a solution for the guarantee problem and the interest problem” (social banker A). The same was recognized by impact investor C: “Yeah, I could imagine that for those cases this could be helpful because I would guess that most of the standard VC investments would not do this [...]”. Hence, my main argument about the impact of interest-free credit systems in *Part II* is affirmed by four out of six stakeholders. Apparently, perceptions about the Floan’s capability to address crucial IMS problems depend on the perspective; the more the system works in the player’s interest, the less likely they seem to perceive a problem or crisis that needs to be solved.

Criteria (3) key stakeholders consider the reform idea as practically feasible and would participate is largely met. Two impact investors and all three social bankers expressed willingness to provide funding and to participate with their organization in the Floan ecosystem – but only if the ecosystem meets certain preconditions. They wanted the ecosystem to generate a stable monetary return for financial viability, covering management fees, and demanded that the debt default risk must be distributed among multiple trustworthy finance partners and companies (impact investor B, C; social banker A, B and C). They collectively perceived the ecosystem’s financial risk and instability, stemming from the focus on young projects and inclusion of less profitable businesses that will pay back small or no Floan fees, as the greatest weakness of the reform idea. On the investor side, smaller investors showed more interest compared to larger venture capitals as their portfolio is smaller and they need to manage higher investment risks. Consequently, they find investment opportunities like the Floan appealing as it assists them in reducing such risks, as expressed by investor B: “I think it's very feasible and very interesting particularly to someone like me that is in that space, because it [...] basically hedges the risks and it has the potential to give me a continuous stable return on impact projects”. The

impact investors emphasized the risk-sharing mechanism as the concept's greatest strength (whereas the social bankers mentioned the flexible fee charging based on profitability). The same five stakeholders regarded the Floan as practically feasible. Impact investor C, however, was more skeptical than the others, warning that the complexity and large number of players in the Floan ecosystem could make it "rather difficult to get this working" (impact investor C). The sixth interviewed stakeholder, impact investor A, said that he needs more information.

Regarding *criteria (4) prototype implementation is possible within a short period of time (one to three years)*, all investors and social bankers confirmed the short implementation time. The estimated duration spans ranged between two to six months (social banker A, B and C) and two to three years (impact investor A, B and C). The difference in time spans is maybe reflecting the social bankers' consideration of a prototype on a smaller scale versus the investors' view of a larger, more developed ecosystem. Impact investor C considered implementing a prototype on a small scale as unfeasible. According to him, the limitations of initial funding either lead to a portfolio that is insufficiently diversified, or they lead to a portfolio that is diversified enough but selected companies would be too small to create a significant impact.

With the last point, impact investor C highlighted the biggest obstacle to implementation, shared by four of the six interview participants. All investors and social banker B identified raising initial funding as the most significant hurdle. More looking at non-financial aspects, social banker A highlighted resistance to change as biggest obstacle, while social banker C pointed out the challenge of providing enough data and transparency about the selected projects and their impact.

What can "Not Interested" do to successfully overcome the hurdles to implementation? Several recommendations were proposed by the interview participants. These suggestions can serve as starting point for further research and practical guidance for reform movements. I summarize the most significant ones, addressing the biggest obstacle: financial viability and sufficient (initial) funding. Impact investor A stressed the need of flexible fees without a cap for highly profitable projects: "[...] if [...] there's a ceiling to what you can actually get back, then it doesn't work out." Impact investor B recommended building high trust and reputation to attract more investors and secure funding. This could involve gaining public support from "iconic people". Impact investor C had the idea "to really convince one big shot in the beginning. They are called 'white knights', so those people with a lot of money that are doing business angel investments [...]". Social banker B emphasized the need for "gift money to have a

buffer” in the beginning. Social banker A focused on understanding the fears of financial partners and addressing them psychologically: “[I]f it is a real fear, maybe you have to change something in the device.” Social banker C recommended to ensure the Floans’ compliance with regulations and legislations and to really focus on creating guarantee funds, based on the experiences and similar financial instruments established in her country and bank.

The insights from the interviews shed light on areas of further investigation and practical challenges that “Not Interested” might encounter if they proceed with making the Floan a reality. They can potentially do that, as most interviewed stakeholders confirmed that the idea is practically feasible, albeit with some difficulties. It could be worth taking the effort, as the Floan largely fulfills the four criteria. Therefore, within the limitations of this paper, the concept qualifies as an effective reform approach.

Figure 6: Results of my interviews with impact investors and social bankers about the Floan idea.

Is the Floan idea an effective reform approach?						
Criteria	<i>Impact investor A</i>	<i>Impact investor B</i>	<i>Impact investor C</i>	<i>Social banker A</i>	<i>Social banker B</i>	<i>Social banker C</i>
<i>Criteria (1): Prioritization of sustainability and societal well-being as new 'common sense'</i>	Yes	No	Yes	Yes	Yes	Yes
<i>Criteria (2): The Floan ecosystem addresses the core issues of the IMS</i>	No	Yes	No	Yes	Yes (long-term)	Yes (partially)
<i>Criteria (3): Key stakeholders consider the Floan ecosystem as practically feasible and would participate</i>	No	Yes	Yes (but skeptical)	Yes	Yes	Yes
<i>Criteria (4): Prototype implementation within a short period of time (1-3 years)</i>	Yes (1-1.5 years)	Yes (2-3 years)	Yes (2-3 years)	Yes (2-3 months)	Yes (a few months)	Yes (6 months)

<p><i>Greatest strength and weakness of the Floan product</i></p>	<p>Weakness: not compensating the investment risk</p> <p>Weakness: reliant on predictions - high uncertainty about actual investment impact and risk</p>	<p>Strength: risk-sharing among participants</p> <p>Weakness: financially instable if projects with high impact and low profit are selected only</p>	<p>Strength: risk-spreading among many participants</p> <p>Weakness: solidarity approach of helping less profitable projects conflicts with the ecosystem's need of low risk and financial stability</p>	<p>Strength: flexibility of the fees according to profitability; collaboration of different partners</p> <p>Weakness: not compensating for the bank's management costs if only low fees are charged</p>	<p>Strength: flexibility of the term and fees according to profitability</p> <p>Weakness: success dependent on young projects that could give up and leave the system without paying back the loan</p>	<p>Strength: out-of-the-box idea making impossible things possible</p> <p>Weakness: wording interest-free that is likely to conflict with legislation</p>
<p><i>Main obstacles to implementation</i></p>	<p>Raise funding from investors</p>	<p>Raise funding from investors</p> <p>Other: regulations; impact verification; reputation</p>	<p>Raise the initial funding</p>	<p>Resistance to change</p>	<p>Raise the initial funding</p> <p>Project management</p>	<p>Knowledge/transparency about selected projects and their impact</p>
<p><i>Recommendations</i></p>	<p>Fee flexibility: unlimited fees for highly profitable projects</p>	<p>Enhance trust through iconic people</p>	<p>Start and attract other investors by convincing a super-rich individual to participate</p>	<p>Identify and address fears of stakeholders</p>	<p>Collect gift money as initial funding and buffer</p> <p>Establish a paying forward mechanism</p> <p>Integrate digital solutions such as crowd-funding platforms to be most cost-effective</p>	<p>Make sure the Floan aligns with regulations</p> <p>Team up with others who help removing obstacles, share motivation</p> <p>Create guarantee funds</p>

4. Discussion

The Floan largely meets the four criteria. Thus, I argue that it can be classified as effective reform approach, proving that tackling interest rates is a meaningful strategic starting point for broader system reform.

Nevertheless, my conclusion is limited due to scope and method of this paper. Therefore, I encourage to critical discussion and further investigation. First, insights from the interviews showed the need for further improvement of the concept and highlighted the challenges of its implementation. It will need hard work to convince investors to take the risk and provide the funding for the Floan ecosystem's experimental start phase.

Second, it is important to be aware of the fact that the empirical 'testing' results are constrained by the chosen methods. The participants engaged in a thought experiment, considering a hypothetical scenario rather than reality itself. While it was designed as close as possible to a situation in the real world, important simplifications had to be made. Financial legislations and regulations were excluded, for example – but state organizations definitely need to be considered in the future, when the concept progresses to a stage where it needs to be scaled up with public funding.

Third, limited time and resources permitted only six qualitative interviews. They were enough to indicate a certain trend in answers. However, to ensure broader representation of key stakeholders in the private sector, the number of respondents and amount of empirical data needs to be expanded. A combination with quantitative methods would broaden the scope of this pioneering field study.

Furthermore, interviewing only six stakeholders, all similarly motivated by an impact-oriented approach to the use of money, bears the danger of cultivating a certain bias. To incorporate a more critical point of view, one should also conduct interviews with conventional investors. Exploring non-Western viewpoints from global investors in other parts of the world would be interesting as well, especially from developing countries that are disadvantaged by the hierarchy and instability of the US-centred IMS and in need of climate finance ever more urgently. In addition, the similarity of the participants' impact-favoring perspectives prevented an examination of the Floans' potential to transform mindsets.

Conclusion

In *Part I* and *II*, I linked current IMS issues to political scientist Stephen Gill's concept of a 'global organic crisis', adding to existing literature discussions with a more holistic approach. It became evident that symptoms of an IMS crisis have manifested themselves in an increasing lack of climate finance, among other problems. This urges for fundamental system transformation. The complex IMS landscape can be narrowed down to a concrete area for initiating reform: the private credit market. Here, it was revealed that interest rates significantly perpetuate the global organic crisis.

In *Part III*, based on my problem analysis and practical considerations, I developed four criteria for effective private credit reform: (1) *prioritization of sustainability and societal well-being as new 'common sense'*; (2) *addressing the core issues of the IMS*; (3) *key stakeholders consider the reform idea as practically feasible and would participate*; and (4) *prototype implementation is possible within a short period of time (one to three years)*. Following this, I explored the impact of private credit without traditional interest, arguing that replacing the classical interest model with another cost-covering approach can effectively address barriers and induce broader system reform.

In *Part IV*, I examined the accuracy of my main argument with a concrete reform idea in the real world called 'Floan'. A Floan is a flexible loan tackling access barriers to private credit and closing the climate finance gap by offering interest-free loans to those in need. Through qualitative interviews of six key stakeholders and experts in the private capital market, I empirically assessed whether the Floan aligned with all four reform criteria. The results indicated that the Floan mostly met the criteria, with the greatest resonance observed regarding *criteria (1) prioritization of sustainability and societal well-being* and *criteria (4) short duration of prototype implementation (1-3 years)*. However, room for discussion remained regarding *criteria (2)* where two of the six participants denied that the Floan addresses the core IMS issues. *Criteria (3)* about the practical feasibility was only partly confirmed as well, as one impact investor considered the Floan idea as rather difficult and complex, and another investor said he needs more information and time to think. Nevertheless, at least four interviewed stakeholders affirmed all four criteria – the majority. While acknowledging the limitations of my method and empirical data, I argue that this is sufficient to validate my main argument: easing interest burdens is a powerful starting point and key lever for broader system reform.

So, the answer to my research question – how to effectively reform the IMS to address the global organic crisis – can lie in a beginning with scalable, solidarity-based investment ecosystems that enable interest-free credit in the private credit sector. They can be one of the initial raindrops that sum up to a transformative stream later on. Those ecosystems, involving impact investors, social banks, and impact projects, can contribute to closing the climate finance gap and removing problematic access barriers through promoting cost- and risk-sharing approaches. Most crucially, they promote to re-allocate money for a higher goal, a new ‘common sense’: the prioritization of sustainability and societal well-being – of *global health*.

As first outlook: where should the discovery journey on the complex and dynamic terrain of global politics and the IMS be continued in the future? In my view, it will be essential to find out how reform movements can scale up the impact of solidarity investment ecosystems such as the Floan concept. While the Floan reform approach serves as an effective starting point, it is of course insufficient to ‘revolutionize’ the system. It presents only a single raindrop in the transformative stream that needs to be joined by many other raindrops for a system-changing effect in the long run, eventually leading to a new global currency and more equitable IMS as long-term goal. Patience, continuous work, and a concrete, motivating, uniting vision of change will be the key.

As another outlook, what can be done to lever the impact of solidarity ecosystems in the IMS? Though factored out in this paper due to slowness, fiscal constraints, and critical linkage to status quo forces, I suggest to definitely involve policy makers and governments’ monetary resources later in the process. Legislations and regulations mark a crucial factor in a reform’s success, and public funding makes up the other half (51%) of total climate funding. Governments and state institutions such as national development banks can meaningfully contribute by setting up large guarantee funds, for example, to reduce risks and costs of private sector lending for impact projects on a systemic scale. Another interesting step to explore is the duplication of national Floan ecosystems around the globe, adapted to local needs, cultures, and resources, to leverage its impact on a global scale. It needs to be examined how both approaches can be realized, and which obstacles reform movements need to overcome later. This is a fascinating and widely unexplored field for future research – in which political science can contribute to advancing world society.

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Appendix

The Appendix presents additional information on the data and methods used in this paper. It starts with the interview guidelines and presentation slides that visually support the thought experiment (Section A 1) before it turns to the interview transcriptions (Section A 2). As it is very comprehensive and trees also want to stay alive, I am making it available in a separate, digital form (upon request).